CMS 康哲药业
CHINA MEDICAL SYSTEM

2020 ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

康哲®

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

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

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

Remuneration Committee Members

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

Nomination Committee Members

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

Environmental, Social and Governance Committee Members

Ms. CHEN Yanling (Chairman)
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Auditors

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank, Shenzhen Branch
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (China) 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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North Point
Hong Kong

Principal Contact Address in the PRC

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Nanshan District
Shenzhen 518052
Guangdong Province
The PRC

Branch Share Registrar in Hong Kong

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

Stock Code

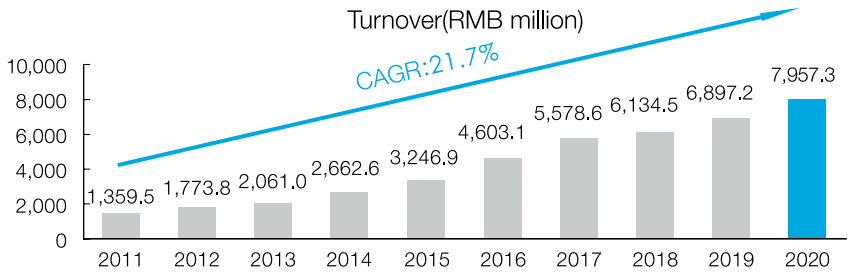
867

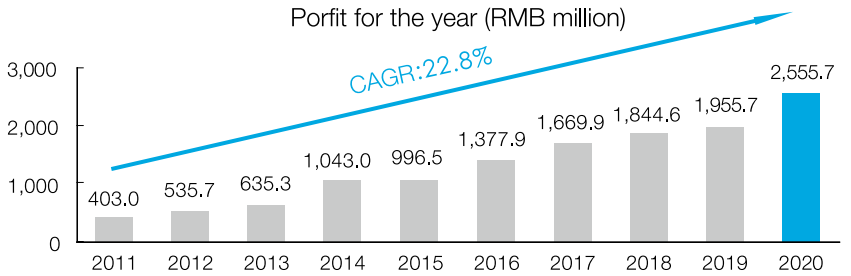
Company's Website

www.cms.net.cn

- Turnover up 14.4% to RMB6,946.0 million (2019: RMB6,073.6 million); excluding the effect of the "two-invoice system", turnover up 15.4% to RMB7,957.3 million (2019: RMB6,897.2 million)
- Gross profit up 12.9% to RMB5,134.2 million (2019: RMB4,546.3 million); excluding the effect of the "two-invoice system", gross profit up 16.0% to RMB4,842.7 million (2019: RMB4,173.3 million)
- Profit for the year up 30.7% to RMB2,555.7 million (2019: RMB1,955.7 million); normalized profit for the year* up 18.4% to RMB2,696.1 million (2019: RMB2,277.1 million)
- Basic earnings per share up 29.5% to RMB1.0237 (2019: RMB0.7905)
- As at 31 December 2020, the Group's bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million
- Proposed final dividend of RMB0.2033 per share, bringing the total dividend for the year ended 31 December 2020 to RMB0.4138 per share, representing an increase of 31.2% over last year (2019: final dividend of RMB0.1271 and total dividend of RMB0.3154 per share)

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





* Normalized profit for the year excluding an income tax provision arising from a change in income tax policy applicable to a subsidiary of the Group for the year of 2019, and excluding a provision on impairment for goodwill and intangible assets and a reversal of overprovision on income tax aforesaid for the Reporting Period, respectively.

Consolidated Statement of Financial Position Highlights

	As at 31 December				
	2016	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	9,791,593	10,148,843	10,506,452	11,170,976	12,701,067
Total liabilities	3,523,769	2,820,586	2,102,377	1,654,844	1,598,352
Net assets	6,267,824	7,328,257	8,404,075	9,516,132	11,102,715

BUSINESS HIGHLIGHTS

During the Reporting Period, while achieving a sound growth, the Group has made significant progress in the expansion of the innovative pipeline, the clinical development of innovative products and the deployment of the healthcare business, which are summarized as follows:

The Innovative Pipeline Continued to Expand

- Acquired the exclusive license of Methylene Blue MMX in Mainland China, HK SAR, Macao SAR and TWN. The product is an oral methylene blue modified-release formulation that enhances diagnosis sensitivity in detecting the cancerous/precancerous lesions during colonoscopy for the screening of colorectal cancer.
- Acquired the exclusive license of Methotrexate Pre-filled Syringe/Pen in Mainland China, HK SAR, Macao SAR and TWN. The product is expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China.
- Acquired the exclusive license of BCG for Intravesical Instillation in Mainland China, HK SAR and Macao SAR. The product is the only BCG therapy available in many countries.
- Acquired the exclusive license of PLENITY® in Mainland China, HK SAR, Macao SAR, TWN, Singapore and the U.A.E. The product is a U.S. FDA-cleared, safe and effective orally-administered weight management product made from naturally derived materials.
- Acquired the exclusive license of Desidustat Tablets in Mainland China, HK SAR, Macao SAR and TWN. The product is a patented new molecular entity and an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI), used for the treatment of anemia in patients with chronic kidney disease.

The Clinical Development of Innovative Products in China Progressed Rapidly

- Completed dosing and blood sample collection of all subjects in the registration trial of Diazepam Nasal Spray, which is an innovative drug targeting acute repetitive seizures in people 6 years of age and older that is convenient to use outside the medical setting with a very rapid onset of action.
- Completed the first subject dosing in the registration trial of Cyclosporine Eye Drops 0.09%, which is a preservative-free innovative ophthalmic formulation using globally patented nanotechnology.
- Completed the first subject dosing in the registration trial of Tildrakizumab, which is a monoclonal antibody specifically targeting IL-23.
- The clinical trial application of Desidustat Tablets (Category 1 new drug) has been accepted by China NMPA.

The Healthcare Cross-border E-commerce Business Officially Launched

- "CMS Health Overseas Flagship Stores" have been officially launched on JD Worldwide and Youzan Mall. As at 31 December 2020, 18 quality products of 4 well-known European healthcare brands have been put on the cross-border e-commerce stores.

Dear shareholders and partners,

The unexpected opening of 2020 made the year an extraordinary one that will certainly be recorded in human history. 2020 is also the 10th Anniversary of Listing of China Medical System Holdings Limited (the "Company") on the Main Board of the Stock Exchange of Hong Kong Limited ("SEHK" or "Stock Exchange"). At this important historical point of time, we have created excellence with diligence and forged ahead with innovation and breakthrough, achieving a record high performance under the joint effort of all staff. On behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board"), I would like to sincerely thank all our staff, shareholders and partners, and take pleasure in presenting you the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2020 (the "Reporting Period").

Jointly Fighting against the Pandemic and Embracing a Brighter Tomorrow

As the pandemic had already been severe when it was widely reported in mass media, the Group promptly initiated projects to support the frontline against the pandemic on Chinese New Year's Eve. The Group made a cash donation of RMB1 million to Wuhan Charity Federation right away and urgently purchased pandemic prevention materials leveraging its overseas resources accumulated for over two decades as well as its mature global supply chain system. Being on 24-hour standby, our overseas and domestic staff responded fast, collaborated remotely, and raced against time to rapidly deliver multiple batches of N95 masks, protective clothing and other prevention materials to the hands of frontline medical workers, bringing them the warmest regards and protection. Influenced by the inculcation received in medical or pharmaceutical schools and the professional ethics required during work, the management team has always felt empathy for doctors and patients, and fully understood the patients' trust of their lives in doctors and the importance of doctors' mission in such a crisis. Committed to "creating value for customers and taking responsibility for society", we have always spared no effort.

New CMS, the Rising CMS

In recent years, the reform of the entire China pharmaceutical industry delivered initial results that have brought more benefits to people's lives. To adapt itself to the new environment, CMS proactively sought changes and initiated the innovation-driven transformation since 2017. In the last four years, we constantly challenged ourselves and made a number of achievements, laying a solid foundation for the future and re-establishing our confidence to win.

Committed to being a corporate citizen who bears society responsibilities, CMS develops drugs that can meet severe unmet clinical needs with good quality and low price. Through global strategic collaborations or equity investments, the Group selects innovative products that are global first-in-class or products with innovative formulations or drug delivery systems. As at 31 December 2020, the Group has acquired more than 20 innovative products with high innovation level, good market potential and competitive differentiation advantages. We will capitalize on our extensive expert networks and mature promotion team of the academic promotion system to accelerate the clinical development of innovative drugs in China, and facilitate those products to launch in China as soon as possible, so as to bring more effective, safer, more convenient, or more cost-effective innovative treatment options for Chinese patients and doctors.

We put forward the concept of digital marketing in 2017 and developed the "5+1" online promotion tools in 2018. In 2020, we took the opportunity brought by the unexpected pandemic to boost the application of digital marketing as well as the novel academic promotion. During the Reporting Period, the number of online promotion conferences and client coverage increased significantly compared with the total number of online and offline conferences in 2019, which has greatly improved the promotion and operation efficiency. The innovative academic promotion model has already become the brand and pride of CMS's academic promotion. While enhancing the legality and compliance of the innovative academic promotion, we have reshaped the comprehensive, macro and sustainable business planning capabilities, and established a well-planned, objective-measurable internal evaluation system, building a more initiative, effective and professional promotion system to reinforce the strong commercialization capability as well as the compliant and professional academic promotion ability of the Group.

During the post-pandemic period, people's awareness of health and consciousness of protection has been greatly improved, and their demands for consumption upgrade and high quality were continuously increasing as well. Meanwhile, the pandemic has massively accelerated the growth of e-commerce. Capitalizing on its overseas resources accumulated for over two decades, as well as the good market reputation, the mature product introduction and evaluation system, and the efficient global supply chain system, the Group seized this opportunity and rapidly made deployment of overseas healthcare products with brand awareness, academic value and high quality, and supplied the products to Mainland China through cross-border e-commerce platforms. On 1 November 2020, "CMS Health Overseas Flagship Stores", our one-stop cross-border e-commerce shopping platform, were officially launched on JD Worldwide and Youzan Mall. We will continue to expand the portfolio of healthcare products with good branding and recognized mechanism to meet consumers' comprehensive health needs in the full life cycle from childhood to old age and of the entire body from head to toe, and utilize the customer resource from the sales and promotion channels to offer professional health guidance and services, safeguarding consumers' health.

In February 2021, the Group acquired all the issued and outstanding shares of Luqa Ventures Co., Ltd, a dermatology specialty company, through which the Group acquired several prescription drugs and medical devices of dermatology lines and entered the professional medical aesthetic field. We will continuously utilize our overseas channel resources to deploy global cutting-edge technologies and innovative products in skin management, medical aesthetic solutions and related fields. In the meantime, we will leverage our expert resources in the dermatology line and integrate hospital, medical institution, retail and internet channels to build a leading skin management and high-end medical aesthetic brand in China with first-rate competitiveness, and fulfill the increasingly diverse needs for skin management and beauty of Chinese consumers.

In the future, we will continue to invest in and develop innovative drugs with differentiation advantages and that can meet clinical needs, introduce healthcare products with brand awareness and mechanisms, and invest in high-end medical aesthetic solutions. We will also utilize the digital tools and the refined management system to integrate the channel resources such as hospital, medical institutions, retail and internet, while accelerating the talent recruitment and team building and optimizing the reward mechanism. While maintaining the sustained growth of the existing business, we will enhance the development of new businesses. The road ahead is long and difficult, and those who embark on the journey will attain the goals. With all these efforts made and empowered by the new products, new businesses and the strong commercialization system, we firmly believe that we will create more commercial and social values and make more contributions to the development of the medical and healthcare industry in China.

Chairman
Lam Kong
Hong Kong, China
16 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

CMS is a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China. We concentrate on deploying innovative products that are global first-in-class, or with the best efficacy, safety or cost-effectiveness in the class due to their innovative formulations or drug delivery systems, and have established an innovative pipeline with relatively high innovation level, good market potential and competitive differentiation advantages. We have more than two decades of proven and successful experience in drug promotion, with many existing products being in leading market positions. Jointly driven by the strong product competence, the powerful sales and promotion capability, and the professional, efficient and refined internal management system, the Company has become one of the most efficient companies in China's pharmaceutical industry.

Business Review

In 2020, with the implementation of various policies such as the normalized National Volume-based Procurement ("VBP"), National Reimbursement Drug List negotiation, Registration Regulation on Pharmaceutical Representatives and anti-corruption related policies, the reform of China's pharmaceutical industry has delivered initial results. Facing the new business formats and competitive landscape of the pharmaceutical industry, the Group has constantly innovated and changed, accelerating the clinical development of innovative drugs in China while continuously reinforcing the investment and deployment of innovative drugs. In the meantime, keeping abreast of the consumption upgrade and internet trends, the Group capitalized on its overseas resources accumulated for over two decades to enter the healthcare field, aiming to inject new impetus for future development and performance growth.

During the Reporting Period, the Group utilized innovative digital marketing tools on a large scale and strengthened the refined management and the iterative training system. Jointly driven by the product competence, the sales and promotion capability and the efficient management system, the Group has achieved sound growth for the year.

I. Pharmaceutical Business

1.Innovative Pipeline

As at 31 December 2020, the Group had more than 20 innovative products with high innovation level, good market potential and competitive differentiation advantages. Among them, 9 products had been approved for marketing in the United States (U.S.) and/or Europe and 3 were under registration trials in China.

Launched Overseas or Under Marketing Approval Review

Product	Indication	Innovativeness	Clinical Trial Approval	Clinical Trial for Registration	Marketing Approval Application	Marketed	Marketed Country/ Region
Diazepam Nasal Spray	Seizure clusters or acute pepetitive seizures in patients with epilepsy 6 years of age and older	Proprietary technology for special dosage form					The U.S.
							China
Cyclosporine Eye Drops 0.09%	Increasing tear production in patients with keratoconjunctivitis sicca (dry eye)	Global nanotechnology patent					The U.S.,Australia
							China
Tildrakizumab (Biological Agent)	Moderate-to-severe plaque psoriasis	Innovative biological agent; substance and formulation patents					The U.S.,Europe, Australia,Japan
							China
PLENITY	Aid for weight management in adults with a BMI of 25-40 kg/m^2 when used in conjunction with diet and exercise	Formulation/use and preparation method patents					The U.S.
Methotrexate Pre-filled Syringe/Pen	Rheumatoid arthritis and other autoimmune diseases	Use, formulation and method patents in The U.S. and Europe					The U.S.,Europe
BCG for Intravesical Instillation (Biological Agent)	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence	High barriers of live strain cultivation technology and industrialized supply					Europe
Methylene Blue MMX	An oral diagnostic drug, enhancing visualisation of colorectal lesions in screening or surveillance colonoscopy	Formulation patent					Europe
Latanoprost Eye Drops*	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension	Innovative technology platform to dissolve ophthalmic drugs with limited water absorbability					The U.S.
							China
Levetiracetam XR Tablet	Adjunctive therapy for the treatment of partial-onset seizures	Specialty formulation technology					The U.S.
Paclitaxel Injection Concentrate for Suspension	Metastatic breast cancer, locally advanced/ metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas	Formulation patents					The U.S.
PoNS	Chronic balance deficit due to mild-to-moderate traumatic brain injury	Innovative medical device					Canada
							The U.S.

Under Clinical Stages

Product	Indication	Innovativeness	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Approval Application	Marketed	Country/ Region for Clinical Trials
SDN-037	Eye pain and inflammation after cataract surgery	Proprietary nano-sized micelle drug delivery system							Overseas
Desidustat Tablets**	Anemia in patients with chronic kidney disease	New molecular entity; substance patent							Overseas
									China
PDP-716	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension	Resin microparticle-complexed drug technology							Overseas
CF101	Psoriasis	New lead compound							Overseas
CF102	Hepatocellular carcinoma	New lead compound							Overseas
	Non-alcoholic fatty liver disease/non-alcoholic steatohepatitis								Overseas
XF-73	Prevention of post-surgical staphylococcal infections	New lead compound; compound patent and use patent							Overseas
BB2603	Onychomycosis and tinea pedis	Formulation patents							Overseas
ACT017 (Biological Agent)	Acute phase of ischemic stroke	Innovative biological agent; substance patent							Overseas
VXM01 (Biological Agent)	Recurrent glioblastoma	Innovative biological agent; production process patent and use patent							Overseas

* In January 2021, the clinical trial application of Latanoprost Eye Drops has been accepted by National Medical Products Administration ("NMPA") of China.

** In January 2021, the clinical trial application of Desidustat Tablets has been approved by China NMPA.

During the second half of 2020, the Group terminated the extended Phase III clinical trial of Tyroserleutide (CMS024).

1.1 Continuous Expansion of the Innovative Pipeline

Strategically collaborated with Cosmo and acquired the innovative product Methylene Blue MMX - an oral methylene blue modified-release formulation that enhances diagnosis sensitivity in detecting the cancerous/precancerous lesions during colonoscopy for the screening of colorectal cancer

In December 2020, the Group signed a license, collaboration and distribution agreement with Cosmo Technologies Ltd. ("Cosmo") for Methylthioninium Chloride Cosmo (Methylene Blue MMX) and any line extension thereof, and gained an exclusive license to develop and commercialize the product and use the product mark in association with the commercialization of the product in Mainland China, the Hong Kong Special Administrative Region ("HK SAR"), the Macao Special Administrative Region ("Macao SAR") and Taiwan ("TWN").

Formulated by Cosmo's proprietary technology, Methylene Blue MMX is a novel oral formulation of the existing liquid colon staining dye methylene blues. The product has been approved by the European Medicines Agency ("EMA") to be commercialized in Europe under the trade name Lumeblue™ for the detection of lesions during colonoscopy in August 2020.

Colorectal cancer is one of the most common malignant tumours in the digestive system. In China, there were 376,000 new cases and 191,000 deaths reported each year, according to the 2018 China Cancer Statistics Report. The detection and removal of the lesions, such as adenomas, is critical, as survival is significantly better when colorectal cancer is diagnosed early before it spreads and advances, thus population-based screening for colorectal cancer is widely recommended globally. Colonoscopy is regarded as the gold standard in screening for colorectal cancer, and Methylene Blue MMX is clinically approved to improve the detection of all lesions, including precancerous lesions, such as adenoma, in the colon during endoscopy. The potential benefits of adding Methylene Blue MMX to routine colonoscopy screening procedures are clear.

Strategically collaborated with medac and acquired the innovative products Methotrexate Pre-filled Syringe/Pen and BCG for Intravesical Instillation

In September 2020, the Group signed a distribution, supply and license agreement with medac Gesellschaft für klinische Spezialpräparate m.b.H ("medac") for the standard-care products including Methotrexate Pre-filled Syringe/Pen and BCG for Intravesical Instillation, which have been marketed in Europe and/or in the U.S. The Group gained an exclusive license to use all relevant intellectual property and intellectual property rights owned or controlled by medac or its affiliates for the development, registration and commercialization of the products in Mainland China, HK SAR, Macao SAR and TWN (TWN is not applicable to the product BCG for Intravesical Instillation).

Methotrexate Pre-filled Syringe/Pen - expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China

Methotrexate Pre-filled Syringe/Pen is Methotrexate (MTX) injectables of multiple low-dose formulations in a small volume, allowing self-administration subcutaneously by patients. The products have been approved by European Heads of Medicine Agencies ("HMA") or/and the U.S. Food and Drug Administration ("FDA") for the treatment of rheumatoid arthritis (RA) and other autoimmune diseases.

RA is one of the major autoimmune diseases, as stated by the *Chinese Rheumatoid Arthritis Diagnosis and Treatment Guidelines 2018*, the incidence of RA in Mainland China is 0.42%, with around 5 million patients. MTX is internationally well accepted as the first-line gold standard medicine for the systemic treatment for RA. Compared with the oral application of MTX, subcutaneous administration route can achieve better bioavailability, significant improvement of clinical efficacious response and favorable adverse effect profile for patients as well as convenience of dosage management in practice. As neither pre-filled MTX injection products nor MTX injectables for the treatment of RA is marketed in China, Methotrexate Pre-filled Syringe/Pen is expected to become better alternatives for RA patients.

BCG for Intravesical Instillation - launched in Europe for many years, and is the only BCG therapy available in many countries

BCG for Intravesical Instillation is the lyophilised powder of live Bacillus Calmette-Guérin (BCG) bacteria derived from *Mycobacterium bovis*, strain RIVM. It has been approved as a biologics by European HMA for the treatment of non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence of urothelial carcinoma limited to mucosa (Ta G1-G2 if multifocal and/or recurrent tumour; Ta G3), urothelial carcinoma in lamina propria but not the muscular of the bladder (T1) and carcinoma in situ. The product has been launched in many countries in Europe and beyond, including Germany, France, Ireland and Italy since 2001.

According to the *Analysis of the Incidence and Death of Bladder Cancer in China in 2014*, there were approximately 78,100 new cases of bladder cancer nationwide in 2014, with an incidence of 5.71 per 100,000, among which non-muscular invasive bladder cancer (NMIBC) accounts for nearly 80% of all initial diagnoses. Approximate 63.4% of those patients, about 40,000 per year, with NMIBC are at intermediate or high risk. For the high-risk and some intermediate-risk NMIBC patients, postoperative intravesical BCG is recommended to prevent recurrence and disease progression, based on both international and Chinese domestic treatment guidelines. The treatment is a well-established immunotherapy for bladder cancers. However, there has been a worldwide BCG shortage, including in China, in recent years. The introduction of BCG for Intravesical Instillation will greatly improve the availability of BCG for bladder cancer patients.

Made equity investment in Gelesis and acquired the innovative product PLENITY® - a safe and effective orally-administered weight management product made from naturally derived materials

In June 2020, the Group made an equity investment in Gelesis, Inc. ("Gelesis") (As at 31 December 2020, the Group held 5.62% ownership of Gelesis) and signed a license, collaboration and supply agreement with Gelesis for PLENITY®, gaining an exclusive license under Gelesis intellectual property and applicable regulatory approvals to develop, import, register, make and have made, manufacture and commercialize the product in Mainland China, HK SAR, Macao SAR, TWN, Singapore and the United Arab Emirates (U.A.E.).

PLENITY® is a non-systemic, non-stimulant, safe and effective orally-administered weight management product made from naturally derived materials. It was cleared by the U.S. FDA in April 2019 as an aid for weight management in adults with a Body Mass Index (BMI) of 25–40 kg/m2 when used in conjunction with diet and exercise. In addition, PLENITY® also received a CE mark.

Statistics show that in 2015, overweight and obesity accounted for 23% and 5% of the adult population, respectively, in China. Currently, the commonly used weight loss and weight maintenance drugs have different degrees of adverse reactions; whilst, most products in the healthcare market have not been fully validated by evidence-based medicine in terms of effectiveness and safety. The pivotal clinical trial supporting the U.S. FDA clearance showed that after six months of treatment with PLENITY®, nearly 60% of patients achieved at least 5% weight loss (an average of 10% weight loss, or 10 kg) and 26% achieved at least 10% (an average of 14% weight loss, or 13 kg). Meanwhile, PLENITY® demonstrated a highly favorable safety profile: no difference in the overall incidence of adverse events compared with placebo. The introduction of PLENITY® would meet the market demand and provide patients with an effective and safe treatment option.

Strategically collaborated with Zydus and acquired the innovative product Desidustat Tablets - an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor

In January 2020, the Group signed a license agreement with Cadila Healthcare Limited ("Zydus") for Desidustat Tablets and gained a royalty-bearing, exclusive, sub-licensable license under the licensed technology and Zydus data to develop, register and to manufacture, use and commercialize the product in Mainland China, HK SAR, Macao SAR and TWN. The manufacturing of the product preparations will be localized by the Group in China with technology transfer from Zydus.

Desidustat Tablets, which is under two Phase III clinical trials overseas, is a novel oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) for treating anemia in chronic kidney disease (CKD) patients. During the Reporting Period, the Group has completed the manufacturing of preparations used for clinical trials through technology transfer and submitted the Category 1 new drug's clinical trial application, which has been approved by the NMPA of China in January 2021. The Group is currently actively preparing for the relevant clinical trials.

It has been reported that more than 120 million people are estimated to be living with CKD in China, and anemia is one of the frequent complications of CKD. A survey in China showed that the prevalence of anemia in patients at CKD stage 1 to 5 were 22.0%, 37.0%, 45.4%, 85.1%, and 98.2%, respectively. However, the target-achieving rate was only 8.2% for anemia patients in non-dialysis CKD and 35.2% for hemodialysis CKD. As a HIF-PHI, Desidustat Tablets is administrated orally and has good efficacy, safety and treatment compliance, expected to meet this unmet treatment need.

1.2 Clinical Development Progress of the Innovative Pipeline

Diazepam Nasal Spray - an innovative drug targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action

Diazepam Nasal Spray is a proprietary formulation of diazepam and was approved for marketing in January 2020 by the U.S. FDA under the VALTOCO® brand name for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older.

According to the clinical trial notice issued by China NMPA, the Group has been carrying out a comparative pharmacokinetics (PK) study in Chinese subjects and will submit a post-marketing study plan to further verify the efficacy and safety at the same time of submitting New Drug Application. As at 31 December 2020, the Group has completed the dosing and blood sample collection of all subjects of the comparative PK study.

According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China and about 0.4 million new cases reported each year. In patients with epilepsy who have received regular treatment (about 2 million), 20%-30% are still out of effective control and are at risk of repetitive seizures. Diazepam Nasal Spray's formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which help it to obtain unparalleled absorption, tolerability, and reliability. The clinical trials supporting the U.S. FDA clearance showed that compared with intravenous diazepam, PK studies in the product in healthy subjects demonstrated 96% absolute bioavailability and comparable bioavailability to rectal diazepam gel with significantly less variability. Diazepam Nasal Spray will effectively fulfill the market gap and become a long-term prepared medicine that is easy to use outside the medical setting and has a very rapid onset of action for patients with acute repetitive seizures.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology

Cyclosporine Eye Drops 0.09% is a novel, twice-a-day, preservative-free, clear ophthalmic solution using a globally patented nanotechnology. The product has been approved for marketing in the U.S. under the brand name of CEQUA™ for increasing tear production in patients with keratoconjunctivitis sicca (dry eye), and has also been approved for commercialization in Australia.

The Group received the clinical trial notice issued by China NMPA in June 2020, which agreed to carry out a randomized, double-blind, placebo-controlled, multi-center Phase III clinical study on the safety and effectiveness of Cyclosporine Eye Drops 0.09% for the treatment of dry eye. As at 31 December 2020, the Group has completed the first subject dosing of this registration trial.

The incidence of dry eye in China is 21%-30%, of which moderate-to-severe patients account for 40% or about 118-168 million patients. Although various symptom alleviating agents such as artificial tears are available in the market, there are few satisfactory options in practice. In addition, in terms of ophthalmic cyclosporine, relevant treatment options are still limited due to the historic challenge of making an optic formulation of this agent at a relatively higher concentration without increasing side effects. Based on patented nanotechnology, Cyclosporine Eye Drops 0.09% uses a unique tiny structure called "micelles" as the vehicle to allow for greater tissue penetration with gentle side effect profile even in a high concentration, and is expected to provide patients with dry eye a safe and effective treatment option.

Tildrakizumab - a monoclonal antibody specifically targeting IL-23

Tildrakizumab is a humanized lgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23(IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. The product has been approved for marketing in the U.S. under the brand name of ILUMYA™ for the treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy or phototherapy, and it has also been approved for commercialization in Europe, Australia and Japan.

The Group received the clinical trial notice issued by China NMPA in August 2020, which agreed to carry out a randomized, double-blind, placebo-controlled, multi-center Phase III clinical trial on the effectiveness and safety of Tildrakizumab for the treatment of patients among the Chinese population with moderate-to-severe plaque psoriasis. As at 31 December 2020, the Group has completed the first subject dosing of this registration trial.

There are more than 6.5 million people suffering from psoriasis in China. About 30% of patients are with moderate-to-severe psoriasis; among them, nearly 62% are dissatisfied with existing treatment options. The pivotal Phase III clinical trials supporting the U.S. FDA clearance showed that an average of 63% of patients receiving Tildrakizumab achieved 75% of skin clearance by week 12, and 77% of patients achieved 75% of skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. Once marketed in China, Tildrakizumab is expected to be a safe, effective and the most cost-effective innovative monoclonal antibody targeting IL-23, benefiting more patients and their families in China.

1.3 List of Equity-invested R&D Companies

The Group acquires asset rights (including intellectual property rights) or obtains exclusive licensing rights (collectively, the "Product Rights") of innovative products through equity investment and strategic cooperation. For equity investments in overseas product projects under clinical stages, to reduce risks assumed and capital spending by the Group, Mr. Lam Kong, the chairman of the Board of Directors, an executive director and a controlling shareholder (as defined in the Listing Rules of the SEHK (the "Listing Rules")) of the Company, will typically through his privately-owned company make equity investments together with the Group on a 50:50 basis, to assist the Group in securing 100% of the Product Rights of innovative products in the relevant territories from potential R&D companies. As at 31 December 2020, the Group and/or Mr. Lam Kong (through his privately-owned company) have made equity investments in certain R&D companies, which are summarized as follows:

Overseas R&D Companies	Ownership* Held by the Group	Ownership* Held by Mr. Lam Kong#	Main Products in Respect of Which the Group Acquired the Product Rights
Destiny Pharma plc.	5.77%	5.77%	XF-73
Acticor Biotech	9.32%	9.32%	ACT017
Blueberry Therapeutics Limited	14.06%	14.06%	BB2603
Neurelis, Inc.	8.01%	12.35%	Diazepam Nasal Spray
Vaximm AG	4.74%	4.74%	VXM01
Midatech Pharma PLC	8.24%	8.24%	MTX110
Gelesis, Inc.	5.62%	-	PLENITY®

*The above ownership percentages were calculated based on the shares issued by the overseas R&D companies as at 31 December 2020

The interest is held by Mr. Lam Kong through his privately-owned company

With the continuous expansion of the business, the Group's risk resistance ability is gradually enhanced. The Board of Directors has approved that, starting from 1 January 2021, the equity investments related to overseas products under clinical stages will be solely made by the Group, and Mr. Lam Kong will no longer through his privately-owned company make equity investments together with the Group on a 50:50 basis.

2.Competitive Generics

As at 31 December 2020, the Group had exclusive licenses of 1 complex generic and 10 competitive generics in Mainland China and/or HK SAR, Macao SAR and TWN. Among them, 10 generics including the complex generic have been approved for marketing in the U.S. or Europe.

Complex generics are with high technical barriers and can enhance the accessibility of medicines for patients, while competitive generics are expected to contribute additional growth for the Group via participating in the National VBP. According to 2020 IQVIA data, the total sales of drugs with the same active pharmaceutical ingredients ("API") of the Group's generics in Mainland China were more than RMB20 billion.

During the Reporting Period, the Group constantly worked on registration of the generics in China and made the following progress:

Product	Indication	Registration Progress in China	2020 IQVIA Data of Products with the Same API
Tacrolimus Capsules	Liver or kidney transplant rejection	ANDA Under Review	~RMB4.3 billion
Oxcarbazepine Tablets	Epilepsy	ANDA Under Review	~RMB0.6 billion
Etoricoxib Tablets	Osteoarthritis, acute gouty arthritis, primary dysmenorrhea	ANDA Under Review	~RMB0.4 billion
Paliperidone Sustained -release Tablets	Schizophrenia	ANDA Under Review	~RMB0.3 billion
Tetrabenazine Tablets	Huntington's disease	IND Approved	No Relevant Data

3.Existing Products

The Group's existing products mainly cover four fields, including cardio-cerebrovascular, digestion, ophthalmology and dermatology. During the Reporting Period, revenues by the product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB3,150.8 million, an increase of 18.9% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue of products under cardio-cerebrovascular line would increase by 16.8% to RMB4,441.0 million compared with the same period last year, accounting for 55.8% of the Group's revenue excluding the effect of the "two-invoice system".
- The revenue of products under digestion line increased by 18.5% to RMB2,589.2 million compared with the same period last year, accounting for 32.5% of the Group of revenue excluding the effect of the "two-invoice system".
- The revenue of the product under ophthalmology line increased by 16.3% to RMB299.7 million, compared with the same period last year, accounting for 3.8% of the Group's revenue excluding the effect of the "two-invoice system".
- The revenue of products under dermatology line increased by 20.3% to RMB219.5 million compared with the same period last year, accounting for 2.8% of the Group's revenue excluding the effect of the "two-invoice system".
- Other products recorded revenue of RMB686.8 million, a decrease of 14.1% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue would decrease by 12.9% to RMB408.0 million compared with the same period last year, accounting for 5.1% of the Group's revenue excluding the effect of the "two-invoice system".

The Group's major existing products are as follows:

Product Line	Product	Indication	Product Advantage
Cardio-cerebro vascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) drug suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) drug available in China's market as at 31 December 2020
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant drugs in China according to 2020 IQVIA data
Digestion Line	Ursofalk (Ursodeoxycholic Acid Capsules)	Cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis	Stably ranking the first in sales among products in the Chinese cholagogue market according to 2020 IQVIA data
	Salofalk (Mesalazine)	Ulcerative colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease	Ranking the first in the market share of inflammatory bowel disorder drugs in China according to 2020 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 evidence-based medical evidence and high-level recommendations from authoritative Chinese and overseas guidelines
	Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency
Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macula degeneration and all forms of asthenopia	The representative drug for the treatment of asthenopia and the only eye drops in China market for the treatment of macula degeneration as at 31 December 2020
Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions

4.Sales and Promotion Network

The public health event in early 2020 affected everyone's life and working habits, which also facilitated the rapid application of the Group's digital marketing tools (online promotional activities). During the Reporting Period, the number of innovative online promotion conferences and client coverage increased significantly compared with the total number of online and offline conferences as well as the client coverage of the same period last year. Being normalized and diversified, the digital marketing model has further enhanced the operation efficiency of the promotion system. While widely utilizing the digital promotion, the Group also strengthened the refined management, adopted a monthly output feedback mode, and built a new management model that is based on goal generation, management and achievement, to promote the efficient implementation of product promotion strategies. At the same time, leveraging its well-developed organizational structure and clear departmental positioning, combined with the intelligent cloud platform, the Group continuously enhanced the compliance management of the promotion system. As at 31 December 2020, the Group's academic promotion system had around 3,300 professional marketing and promotion related personnel; and the promotion network covered around 57,000 hospitals and medical institutions in China. In addition, the Group put more efforts into the retail market during the Reporting Period, continuing to expand and penetrate the coverage of retail chains and terminal drugstores and strengthening promotion at the terminal market, which helped to increase the retail market share.

During the Reporting Period, the Group has upgraded the training system of the academic promotion network to cultivate innovative, academic, compliant and all-round talents for the effective undertaking of the innovative product development strategy. The comprehensive and multi-dimensional training system with different "Navigation" training plans has been built for different groups, such as the "On-boarding Training", "Specialty Training", "Management Training", "Leadership Development", "Customized Training" and "CMS Internal Trainer". With the implementation and continuous improvement of the "Navigation" training plans, the Group's academic promotion team has further boosted its competitiveness.

5.Product Manufacturing

The Group has over two decades of experience in pharmaceutical manufacturing, and has established a strict production quality management system to ensure the standardization and safety of the production. The Group's manufacturing sites compliant with Good Manufacturing Practice ("GMP") are located in Hunan, Hebei and Shenzhen, occupying a total area of more than 110,000 square meters. The Group has Pharmaceutical Production Licenses for various dosage forms such as powder, oral solution, small-volume injections, tablets, hard capsules, etc., and Production Permits for imported drugs (tablets, powders) sub-packaging. During the Reporting Period, while completing the production of the existing domestic produced products, the Group also completed the three batches of preparations production of the innovative drug Desidustat Tablets for clinical trial purpose through technology transfer, laying the foundation for the completion of the Category 1 new drug's clinical trial application and the future localized preparation manufacturing of the product in China.

II. Healthcare Business

In 2020, driven by various factors such as the growing demand for health, supporting policies and internet technologies, and catalyzed by the COVID-19, China's healthcare industry has ushered in a golden period for development. Capitalizing on its strengths of abundant overseas channel resources, good reputation, mature product evaluation system, responsive global supply chain system and strong promotion network, the Group has established the cross-border e-commerce business of healthcare products, injecting new impetus for future development.

Based on cross-border e-commerce platforms, the Group selects global healthcare products according to medical concept and high standards to build the new brand "CMS Health". The Group has formed a systematic product screening mechanism with stringent product selection criteria, under which quality health product brands with an established history, reputation and brand image in Europe and the U.S. while not yet available in China will be chosen. Healthcare products, such as OTC drugs, devices, dietary supplements and foods for special medical purposes that meet certain health needs, with unique ingredients, academic value and recognized mechanism, and require professional guidance, will be rigorously selected. The Group has cooperated with e-commerce platforms and launched "CMS Health Overseas Flagship Stores", creating the one-stop shopping platform for quality overseas healthcare products. On 1 November 2020, "CMS Health Overseas Flagship Stores" have been officially launched on JD Worldwide and Youzan Mall. 18 products from 4 well-known European brands have been put on the market as at 31 December 2020. The Group will continuously introduce more healthcare products, so as to bring consumers a full range of health protection and create a more comfortable, better lifestyle.

As at 31 December 2020, the products available on "CMS Health Overseas Flagship Stores" have covered categories such as nourishment, sexual health, household medicine, nutritional supplement, hair care and beauty. Specific product information is available at "CMS Health Overseas Flagship Store" (JD Worldwide) https://mall.jd.hk/index-10213730.html and "CMS Health Overseas Flagship Store" (Youzan Mall) https://shop90929054.youzan.com.

Subsequent Events

Acquisition of a Dermatology Specialty Company Luqa Ventures Co., Limited

After the Reporting Period, on 1 February 2021, the Group through a wholly-owned subsidiary of the Company acquired all the issued and outstanding shares of Luqa Ventures Co., Limited (the "Target Company"), a dermatology specialty company, from certain third-party sellers (the "Sellers") (the "Acquisition"). The Target Company has an extensive product portfolio of prescription medicines, medical devices, medical aesthetic solutions and skin care products, that meets the diversified needs of consumers and provides the market with safe and effective solutions for a broad range of skin conditions. As at the date of this Annual Report, the Acquisition has been completed. The Target Company became a wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the Target Company will be consolidated into the accounts of the Group.

The Target Company's product portfolio will be complementary to the Group's existing dermatology line products, and together, they will strengthen and bolster the Group's medical aesthetic and skin care product portfolio, providing a significant development opportunity for the Group to advance into the field of medical aesthetic solutions and skin care. The Group plans to build a comprehensive skin health product matrix consisting of prescription medicines, medical devices and medical aesthetic solutions and skin care products based on which the Group will develop its market in the field of skin health. Meanwhile, the Group will leverage on its advantage in its commercialization capabilities in the Chinese market, a team of experienced professionals and a professional and efficient academic promotion system to fully exploit the opportunities presented by hospitals, professional medical institutions, online and offline retail channels to further penetrate the Chinese market, and to raise the market awareness of the products as well as their brands. Looking forward, the Group will continue to introduce global high-quality products, promote innovative research on skin lines, explore investment opportunities, develop and build a China's leading skin health and high-end medical aesthetic solutions line with first-rate competitiveness, and continue its growth to meet Chinese consumers' increasingly diverse health and beauty needs.

Impacts of COVID-19

In 2020, the unexpected COVID-19 pandemic has severely affected people's lives as well as the social economy. In early 2020, the Group promptly made a cash donation to Wuhan Charity Federation, and, leveraging the extensive overseas channel resources and the fast responsive international supply chain system, urgently purchased protection and pandemic prevention materials globally and donated them to the frontline medical workers, an endeavor in contributing to the fight against the pandemic. In terms of the business operation, although sales volume of some of the Group's products, such as Augentropfen Stulln Mono Eye Drops and Bioflor, have seen negative growth due to the decline of hospital patient traffic and other factors in the first quarter of 2020; with the gradual control of the pandemic by the Chinese government, and benefited from the brand and academic advantages of the products, as well as the wide application of digital marketing tools, Augentropfen Stulln Mono Eye Drops and other products have turned positive growth in their annual revenue, Bioflor has narrowed its revenue decline for the year, and the Group has achieved sound growth during the Reporting Period. Meanwhile, reflecting a decrease in the Group's offline academic promotion activities as well as the wide application of digital marketing tools (online promotional activities) due to the impact of the pandemic, excluding the effect of the "two-invoice system", the Group's selling expenses as a percentage of turnover decreased by 0.6 percentage point to 22.1% for the Reporting Period from 22.7% for the same period last year. Meanwhile, the Group also had a healthy and stable operating cash flow, and there was no shortage of cash or working capital due to the pandemic during the Reporting Period, as detailed in "Liquidity and Financial Resources" of "Financial Review".

If the pandemic continues or gets worse which lead to substantial decline of hospital patient traffic, some of the Group's products, such as Augentropfen Stulln Mono Eye Drops and Bioflor, may again experience negative sales growth. If the pandemic continues or gets worse globally which lead issues such as shutdown of production or international shipping, there could be delays in the products supply or products shortage for the Group, which may cause negative growth of the Group's performance.

The Group will continue to pay close attention to the development of the pandemic, assess the possible impacts, and deploy measurement in advance to ensure the steady progress of various works.

Impacts of Significant Policies with Respect to Pharmaceutical Industry

In 2020, a number of reform policies were frequently issued in China pharmaceutical industry, and the National Volume Based Procurement ("VBP") remained the most influential one for the operation of pharmaceutical companies. With the normalization of the National VBP, the policy will further promote the industrial structure adjustment, creating better development opportunities for innovative products. As at 31 December 2020, none of the chemical names of major products sold by the Group was included in the National VBP catalog, thus the policy has not negatively affected the operation and profitability of the Group during the Reporting Period. In the future, the Group will watch closely the number of generics competitors of the Group's existing products passing the consistency evaluation, and the time those generics competitors passing the evaluation, etc. If the Group's major products are included in the national VBP in the future, there will be a negative impact on the revenue of the products, the extent of which will depend on detailed rules of the policy at the time of implementation. Meanwhile, the Group will accelerate the clinical development and commercialization of innovative products in China, and comprehensively develop new businesses that are immune to the National VBP, such as the healthcare business and the medical aesthetic business, so as to offset the potential risk of the Group's original products that may be included into the VBP catalog in the future.

Future Development

Adhering to the mission of "offering competitive products and services to meet China's unmet medical needs" and empowered by new products and new businesses, the Group will continue to take the product competence and the promotion capability as core driving forces to achieve sustainable and rapid growth.

- **Continuously Making Investment and Deployment of the Innovative Pipeline**

The Group will continue to invest in innovative products with competitive differentiation advantages and good market potential based on the actual needs of China's market to ensure the Group's sustainable supplies of commercialized innovative products in China in the short, medium and long term.

- **Rapidly Promoting the Clinical Development of Innovative Products and Accelerating the Launching Process of Blockbuster Products in China**

While cooperating with CROs, the Group will further expand its clinical development team, integrate the sales and promotion network resources, accelerate patient recruitment and enhance the coordination and control of clinical projects while ensuring clinical quality, to achieve efficient progress and completion of all the clinical development projects.

- **Constantly Optimizing and Upgrading the Promotion Network to Pave the Way for the Commercialization of Innovative Products**

The Group will continue to improve its digital promotion work, refined management and talent training system to further boost the competitiveness of the Group's sales and promotion capabilities while ensuring the stable growth of the existing products. Meanwhile, the Group will integrate the channel resources such as hospitals, medical institutions, retail and internet to achieve rapid market access and high-speed sales growth of the innovative products and promote the rapid development of the new businesses such as the healthcare business.

- **Comprehensively Advancing the Deployment of New Businesses Extended from the Group's Strengths to Achieve Diverse Growth**

The Group will continue to expand and refine the team of healthcare business, and enrich and broaden the healthcare product portfolio to achieve the overall expansion of the healthcare business, which will provide new momentum for the performance growth. Meanwhile, the Group will focus on integrating the resources of the dermatology and medical aesthetic line and further develop the complete product matrix of prescription drugs, medical devices, medical aesthetic solutions and skin care products, so at to promote the Group's in-depth development in the dermatology and medical aesthetic field.

Financial Review

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

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

Turnover

Turnover increased by 14.4% from RMB6,073.6 million for the year ended 31 December 2019 to RMB6,946.0 million for the year ended 31 December 2020. Excluding the effect of the "two-invoice system", turnover increased by 15.4% to RMB7,957.3 million for the year ended 31 December 2020 from RMB6,897.2 million for the year ended 31 December 2019, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.9% from RMB4,546.3 million for the year ended 31 December 2019 to RMB5,134.2 million for the year ended 31 December 2020; excluding the effect of the "two-invoice system", gross profit increased by 16.0% to RMB4,842.7 million for the year ended 31 December 2020 from RMB4,173.3 million for the year ended 31 December 2019, primarily reflecting an increase in turnover. Gross profit margin decreased by 1.0 percentage point to 73.9% for the year ended 31 December 2020 from 74.9% for the year ended 31 December 2019; excluding the effect of the "two-invoice system", gross profit margin increased by 0.4 percentage point to 60.9% for the year ended 31 December 2020 from 60.5% for the year ended 31 December 2019, mainly due to a change in sales weight of products.

Selling Expenses

Selling expenses increased by 5.9% from RMB1,939.2 million for the year ended 31 December 2019 to RMB2,053.2 million for the year ended 31 December 2020; selling expenses as a percentage of turnover decreased by 2.3 percentage points to 29.6% for the year ended 31 December 2020 from 31.9% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover decreased by 0.6 percentage point to 22.1% for the year ended 31 December 2020 from 22.7% for the year ended 31 December 2019, primarily reflecting a decrease in the group's academic promotion activities through offline mode during the outbreak of epidemic disease.

Administrative Expenses

Administrative expenses increased by 21.8% from RMB206.2 million for the year ended 31 December 2019 to RMB251.2 million for the year ended 31 December 2020; administrative expenses as a percentage of turnover increased by 0.2 percentage point to 3.6% for the year ended 31 December 2020 from 3.4% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover increased by 0.2 percentage point to 3.2% for the year ended 31 December 2020 from 3.0% for the year ended 31 December 2019, primarily reflecting an increase in the Group's maintenance expenses.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of product pipelines, expenditures on development, clinical trial and registration 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 35.0% from RMB390.5 million for the year ended 31 December 2019 to RMB527.3 million for the year ended 31 December 2020. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2020 was 7.6%, representing an increase of 1.2 percentage points from 6.4% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", total research and development expenditures as a percentage of turnover increased by 0.9 percentage point to 6.6% for the year ended 31 December 2020 from 5.7% for the year ended 31 December 2019, primarily reflecting an expansion of product pipelines and an increase in development activities on clinical trial.

Research and development expenses increased by 47.6% from RMB45.1 million for the year ended 31 December 2019 to RMB66.5 million for the year ended 31 December 2020. Research and development expenses as a percentage of turnover for the year ended 31 December 2020 was 1.0%, representing an increase of 0.3 percentage point from 0.7% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", research and development expenses as a percentage of turnover increased by 0.1 percentage point to 0.8% for the year ended 31 December 2020 from 0.7% for the year ended 31 December 2019.

Payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights (set out in the table below) increased by 33.4% from RMB345.4 million for the year ended 31 December 2019 to RMB460.8 million for the year ended 31 December 2020. Such capital payments as a percentage of turnover for the year ended 31 December 2020 was 6.6%, representing an increase of 0.9 percentage point from 5.7% for the year ended 31 December 2019. Excluding the effect of the "two-invoice system", such capital payments as a percentage of turnover increased by 0.8 percentage point to 5.8% for the year ended 31 December 2020 from 5.0% for the year ended 31 December 2019.

	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Payment for acquisition of equity investments in research and development companies	156,923	42,510
Payment for acquisition and development of product rights	303,863	302,927
	460,786	345,437

Other Gains and Losses

Other gains and losses decreased by 199.6% from a gain of RMB73.8 million for the year ended 31 December 2019 to a loss of RMB73.5 million for the year ended 31 December 2020, mainly reflecting impairment losses on goodwill and intangible assets.

Share of Result of Associates

Share of result of associates increased by 34.6% from RMB114.3 million for the year ended 31 December 2019 to RMB153.8 million for year ended 31 December 2020, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 51.1% from RMB56.3 million for the year ended 31 December 2019 to RMB27.5 million for the year ended 31 December 2020, mainly reflecting decreases in amount and interest rate of bank borrowings.

Income Tax Expense

Income tax expense decreased by 51.1% from RMB532.0 million for the year ended 31 December 2019 to RMB260.4 million for the year ended 31 December 2020, mainly due to the income tax of a subsidiary of the Group provided at 24% for the year ended 31 December 2019. During the year ended 31 December 2020, the Group completed the aforesaid income tax filing and its payment, and the income tax overprovision was reversed accordingly. Excluding the impact on income tax provision and reversal of overprovision, income tax expense increased by 65.0% from RMB210.6 million for the year ended 31 December 2019 to RMB347.6 million for the year ended 31 December 2020, mainly reflecting an increase in profit and the effect of the internal reorganization of the Group in 2019.

Profit for the Year

Profit for the year increased by 30.7% from RMB1,955.7 million for the year ended 31 December 2019 to RMB2,555.7 million for the year ended 31 December 2020; excluding the impact of provisions on income tax, impairment for goodwill and intangible assets, and reversal of income tax overprovision, profit for the year increased by 18.4% to RMB2,696.1 million for the year ended 31 December 2020 from RMB2,277.1 million for the year ended 31 December 2019, mainly due to the continuous growth in turnover.

Inventories

Inventories decreased by 6.3% from RMB407.1 million as at 31 December 2019 to RMB381.2 million as at 31 December 2020. Average inventory turnover days decreased from 101 days for the year ended 31 December 2019 to 79 days for the year ended 31 December 2020, mainly due to the improvement on stock management efficiency.

Trade Receivables

Trade receivables increased by 4.6% from RMB1,001.9 million as at 31 December 2019 to RMB1,047.9 million as at 31 December 2020. Average trade receivables turnover days decreased to 54 days for the year ended 31 December 2020 from 69 days for the year ended 31 December 2019, mainly due to the strengthened management on trade receivables.

Trade Payables

Trade payables increased by 206.1% from RMB44.0 million as at 31 December 2019 to RMB134.8 million as at 31 December 2020, mainly reflecting the difference in time points of purchases. Average trade payables turnover days was 18 days for the year ended 31 December 2020, same as 18 days for the year ended 31 December 2019.

Liquidity and Financial Resources

As at 31 December 2020, the Group's bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million. As at 31 December 2019, the bank balances and cash amounted to RMB1,365.0 million while readily realizable bank acceptance bills amounted to RMB414.0 million.

As at 31 December 2020, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EUR"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net cash from operating activities	2,692,027	2,555,119
Net cash used in investing activities	(353,821)	(309,386)
Net cash used in financing activities	(1,034,556)	(1,695,137)
Net increase in cash and cash equivalent	1,303,650	550,596
Cash and cash equivalent at beginning of the year	1,365,008	815,081
Effect of foreign exchange rate changes	(232)	(669)
Cash and cash equivalent at end of the year	2,668,426	1,365,008

Net cash from operating activities

For the year ended 31 December 2020, the Group's net cash generated from operating activities was RMB2,692.0 million compared with RMB2,555.1 million for the year ended 31 December 2019, an increase of 5.4% mainly due to increases in turnover and cash turnover days.

Net cash used in investing activities

For the year ended 31 December 2020, the Group's net cash used in investing activities was RMB353.8 million compared with RMB309.4 million for the year ended 31 December 2019, an increase of 14.4% mainly due to an increase in investments concerned with innovative products.

Net cash used in financing activities

For the year ended 31 December 2020, the Group's net cash used in financing activities was RMB1,034.6 million compared with RMB1,695.1 million for the year ended 31 December 2019, a decrease of 39.0% mainly due to a decrease in repayment of loans.

Net Current Assets

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Current Assets		
Inventories	381,215	407,058
Financial assets at fair value through profit or loss	3,884	2,736
Trade receivables	1,047,948	1,001,862
Other receivables and prepayments	657,658	583,862
Tax recoverable	12,082	10,801
Derivative financial instruments	49	28,192
Amount due from an associate	207,271	152,804
Bank balances and cash	2,668,426	1,365,008
	4,978,533	3,552,323
Current Liabilities		
Trade payables	134,808	44,040
Other payables	484,476	328,756
Lease liabilities	7,266	9,388
Contract liabilities	14,406	12,939
Bank borrowings	10	693,909
Derivative financial instruments	-	142
Deferred consideration payables	2,929	10,744
Tax payable	268,068	447,784
	911,963	1,547,702
Net current assets	4,066,570	2,004,621

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	
	2020	2019
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	303,863	302,927
Purchase of property, plant and equipment	37,558	37,546
Purchase of equity instruments	156,923	42,510
	498,344	382,983

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	
	2020	2019
	RMB'000	RMB'000
Interest bearing bank borrowings	587,251	693,909

The Group had bank borrowings of RMB587.3 million as at 31 December 2020 (31 December 2019: RMB693.9 million). During the year ended 31 December 2020, the Group repaid part of bank borrowings. The details of bank borrowings are set out in note 28 to the consolidated financial statements.

As said above, along with the decrease in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 1.6 percentage points to 4.6% as at 31 December 2020 from 6.2% as at 31 December 2019.

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 35 to the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. For the Group's subsidiaries in China, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2020, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk, for details please refer to note 31 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 2020, the Group had pledged property, plant and equipment and leasehold land with net book values of approximately RMB65,539,000 and RMB15,506,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2020, the Group had no material contingent liabilities.

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

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

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder of the Company (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii) ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the agent (acting on the instructions of the majority lenders under the Facility) may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2020, Mr. Lam Kong (directly and indirectly) held approximately 46.04% of the total issued ordinary share capital of the Company.

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

(ii) On 26 March 2020, Sky United (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with DBS Bank (China) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement. On 27 March 2020, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement.

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder (as defined in the Listing Rules of the SEHK) of the Company: (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii)ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the lender may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the Facility and declare that all outstanding loans together with accrued interest and all other amounts accrued under the Facility will become immediately due and payable. As at 31 December 2020, Mr. Lam Kong (directly and indirectly) holds approximately 46.04% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2020, the Group paid an interim dividend for 2020 and a final dividend for 2019 of RMB520.1 million and RMB314.0 million, respectively. For the year ended 31 December 2019, the Group paid an interim dividend for 2019 and a final dividend for 2018 of RMB467.1 million and RMB355.7 million, respectively.

Executive Directors

Mr. Lam Kong, aged 56, is the Chairman, Chief Executive and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam possesses clinical experience and has many years of extensive experience in marketing, promotion, sales and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, which was renamed 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 35 of this annual report.

Mr. Chen Hongbing, aged 54, 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 sales, marketing, human resource, product manufacturing management and supply chain management, etc. He had acquired about 4 years' public hospital doctor experience as a doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed 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 35 of this annual report.

Ms. Chen Yanling （former Chinese name as 陳艷玲）, aged 50, 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. From 2012 to 2018, Ms. Chen was awarded the "Best CFO" by the Institutional Investor Magazine for seven consecutive years. 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 35 of this annual report.

Independent Non-Executive Directors

Mr. Wu Chi Keung, aged 64, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund-raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he left in December 2008. Mr. Wu is currently a managing director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive director of Jinchuan Group International Resources Co., Ltd (a company listed on the Stock Exchange with stock code: 2362), Central Development Holdings Limited (formerly known as Zhong Fa Zhan Holdings Limited, a company listed on the Stock Exchange with stock code: 475), Huabao International Holdings Limited (a company listed on the Stock Exchange with stock code: 336), Huajin International Holdings Limited (a company listed on the Stock Exchange with stock code: 2738) and Zhou Hei Ya International Holdings Company Limited (a company listed on the Stock Exchange with stock code: 1458). Mr. Wu was an independent non-executive director of YuanShengTai Dairy Farm Limited (a company listed on the Stock Exchange with stock code: 1431) from 7 November 2013 to 28 September 2018.

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

Mr. Leung Chong Shun, aged 55, was appointed as an independent non-executive Director on 13 December 2017. Mr. Leung became a practicing lawyer since 1991 and was the chief representative of Woo Kwan Lee & Lo Beijing Office. He is currently a partner of Woo Kwan Lee & Lo. Mr. Leung is familiar with corporate finance, M&A and IPO legal services and has been involved in various listing and acquisition transactions of Chinese H-share companies and red chip companies. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC. Mr. Leung was an independent non-executive director of China Communications Construction Company Limited (a company listed on the Stock Exchange with stock code: 01800) from January 2011 to November 2017 and China National Materials Company Limited (the listing with stock code: 01893 was withdrawn on the Stock Exchange) from July 2007 to April 2018. He is currently an independent non-executive director of SSY Group Limited (a company listed on the Stock Exchange with stock code: 02005), China Coal Energy Company Limited (a company listed on the Stock Exchange with stock code: 01898) and Min Xin Holdings Limited (a company listed on the Stock Exchange with stock code: 00222).

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

Ms. Luo, Laura Ying (formerly known as Ying Luo), aged 55, was appointed as an independent non-executive Director on 31 March 2020. Ms. Luo has 25 years of investment experience. She currently works as a consultant to GL China Equity HK Management Limited and previously has worked for GL Capital Management Limited. Ms. Luo is an independent non-executive director of Central China New Life Limited (a company listed on the Stock Exchange with stock code: 9983). Ms. Luo was a managing director and head of Hong Kong China Equities at Barings Asset Management (Asia) Limited from 2013 to 2019. Her overall responsibilities included managing a team of investment managers and research analysts, as well as managing a range of Hong Kong and China equity strategies, including Barings' flagship Hong Kong China Fund, China A-share fund and some institutional mandates. Before joining Barings Asset Management (Asia) Limited, Ms. Luo worked for Schroder Investment Management (HK) Limited for over 12 years. Since 2002, Ms. Luo had been a lead manager on several Greater China equity mandates, including the Schroder International Selection Fund - China Opportunities, which she managed since its launch in 2006. Prior to Schroder Investment Management (HK) Limited, Ms. Luo had worked at SG Securities as head of China Research and Strategist, as well as at Morgan Stanley and Goldman Sachs (Asia) LLC, Hong Kong as an equity research analyst.

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

Company Secretary

Ms. Wu Sanyan, aged 39, joined the Group in 2009 and currently holds the position of Company Secretary and Director of the Legal Department of the Group. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining the Group include advising on compliance of laws and regulations applicable to the Group (including the Listing Rules). Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from Wuhan University. During the Reporting Period, Ms. Wu received professional training for no less than 15 hours to promote her skill and knowledge.

DIRECTORS' REPORT

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 2020.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 41 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2020 are set out in the consolidated statement of profit or loss and other comprehensive income on page 108.

Business Review

Business review of the Group for the year ended 31 December 2020 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 2020 are set out in the consolidated statement of changes in equity on page 111 and note 33 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2020, the Company had distributable reserves of RMB4,738.6 million available for distribution to the shareholders.

Property, Plant and Equipment

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

Share Capital

Movements in the share capital of the Company are set out in note 32 to the consolidated financial statements.

Final Dividend

The Board is pleased to recommend a final dividend of RMB0.2033 (equivalent to HK$0.243) per Share for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company after market closes on Friday, 30 April 2021. The register of members of the Company will be closed on Monday, 3 May 2021. The final dividend will be paid to shareholders on about Monday, 10 May 2021 after the shareholders' approval at the annual general meeting scheduled for Tuesday, 27 April 2021 (the "AGM").

Dividend Policy

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

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

Pre-emptive Rights

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

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

For the year ended 31 December 2020, the Company repurchased an aggregate of 9,648,000 ordinary shares with a nominal value of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$98,164,100. All of the purchased shares were cancelled on 30 March 2020. The Board believes that given the current financial resources of the Company, the share repurchase would not affect the Company's solid financial position in any material respect, and it would lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

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

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

Directors

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

Executive Directors:

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

Independent Non-Executive Directors:

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

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

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. Chen Yanling, Mr. Leung Chong Shun and Ms. Luo, Laura Ying. Details of these retiring Directors will be set out in the circular expected to be issued by the Company on 24 March 2021.

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 28 to 30 of this Annual Report.

Directors' Service Contracts

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

Management Contracts

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

Employee Benefit Scheme

During the Reporting Period, approved by the Benefit Scheme Executive Committee of the Company, there were 4 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 40 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2020, none of the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract which is significant to the business of the Group to which is the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2020, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Name of Corporations	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,137,564,000 (L) (Note 2)	46.04%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	50,225,000 (L) (Note 3)	2.03%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%

Notes:

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

Directors' Right to Acquire Shares or Debentures

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

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

Saved as disclosed, as at 31 December 2020, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interests and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Connected Transactions

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

Details of the related party transactions of the Group during the Reporting Period are set out in note 38 and 40 to the consolidated financial statements in this annual report. These related party transactions either fall outside the definitions of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules or are "connected transactions" fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Employees

As at 31 December 2020, the Group had 4,372 employees. The Group has initiated organizational reform and speeded up the cultivation and recruitment of talents by optimizing the current human resources and innovating management to enhance the development of the Group. The Group has adopted a series of measures to facilitate employees' work efficiency and regularly assesses their performance. The Group provides employees with competitive compensation packages including salaries, bonuses, insurance and benefits. Salaries and bonuses are based on employees' performance and are measured against specific objective criteria. Additionally, the Group is committed to providing equal opportunities to all employees in all respects, and has made efforts in employees' continuing education and training programs to continuously enhance their knowledge, skills and team spirit.

Directors' and Management's Emoluments

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

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

For the year ended 31 December 2020, emoluments of Company Secretary Ms. Wu Sanyan were between HK$500,000 and HK$1,000,000.

Key Relationship with Employees, Customers and Suppliers

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

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

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

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Principal Risks and Uncertainties

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

Compliance with GMP and GSP Standards

In accordance with applicable laws and regulations, certain subsidiaries of the Company are required to comply with Good Manufacturing Practice ("GMP") standards and Good Supplying Practice ("GSP") standards 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 authorities 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 ways, 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 maybe therefore incurred if our Group did not optimize its strategy to adapt to the variation of the Chinese medical system in time. Moreover, the scope and the extent of application of the government regulation and governance are continually changing, which leads to more risks and uncertainties in respect of the performance and operation of the Group.

Tender and Price Control

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

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

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

There may be other principal risks and uncertainties 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 2020, the percentage of sales to the Group's five largest customers was approximately 28.7% of the Group's total sales, and sales to the top customer accounted for approximately 8.8% of the total sales.

For the year ended 31 December 2020, the percentage of purchases from the Group's five largest suppliers was approximately 88.8% of the Group's total purchases, and purchase from the top supplier accounted for approximately 30.4% of the total purchases.

Except as disclosed in note 38 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 42 to 52 of this Annual Report.

Sufficiency of Public Float

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

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands - Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the 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 RMB18.8 million for charitable and other purposes, please refer to Community Dedication on page 94 for details.

Permitted Indemnity Provision

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

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 2020.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules from 1 January 2020 to 31 December 2020, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 42 to 52 of this Annual Report.

Competing Interests

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

Audit Committee

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

Auditors

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

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

Hong Kong, 16 March 2021

Corporate Governance Report

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

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised CG Code as set out in Appendix 14 to the Listing Rules from 1 January 2020 to 31 December 2020, except for a deviation from the Code Provision A.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

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

Directors' Securities Transactions

The Company adopted the Model Code as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2020. The Model Code also applies to other specified senior management of the Company.

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

Operation of the Board

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

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

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

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

Composition of the Board

As at the date of this Annual Report, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Leung Chong Shun and Ms. Luo, Laura Ying. Biographical details of the Directors are set out on pages 28 to 30 of this Annual Report. Save as disclosed in the section headed "Directors and Senior Management" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Board Attendances and Time Commitment

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

Name	Title	Attendance Rate	
		Board Meeting	annual general meeting
Mr. Lam Kong	Chairman and Chief Executive	7/7	1/1
Mr. Chen Hongbing	Chief Operating Officer, Vice President	7/7	1/1
Ms. Chen Yanling	Chief Financial Officer, Vice President	7/7	1/1
Mr. Cheung Kam Shing, Terry*	Independent Non- Executive Director	4/4	N/A
Mr. Wu Chi Keung	Independent Non- Executive Director	7/7	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	7/7	1/1
Ms. Luo, Laura Ying*	Independent Non- Executive Director	3/3	1/1

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

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

Independent Non-executive Directors

For the year ended 31 December 2020, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

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

Directors' Continuous Professional Development

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

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

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

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

*Note：

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

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. Wu Chi Keung, with Mr. Leung Chong Shun and Ms. Luo, Laura Ying as the committee members. During the Reporting Period, Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as a member of the Audit Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and a member of the Audit Committee of the Company.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the Company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2020 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 2020, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2019 with the external auditors, the interim results for 2020, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meetings for the Year ended 31 December 2020
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry*	1/1
Mr. Leung Chong Shun	3/3
Ms. Luo, Laura Ying*	2/2

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

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 Mr. Wu Chi Keung and Ms. Luo, Laura Ying as the committee members. During the Reporting Period, Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as a member of the Remuneration Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and a member of the Remuneration Committee of the Company.

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

For the year ended 31 December 2020, 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 2020
Mr. Leung Chong Shun	1/1
Mr. Cheung Kam Shing, Terry*	1/1
Mr. Wu Chi Keung	1/1
Ms. Luo, Laura Ying*	N/A

*Note:

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

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. Wu Chi Keung and Mr. Leung Chong Shun as the committee members. During the Reporting Period, Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director of the Company on 31 March 2020, he also resigned as the chairman of the Nomination Committee of the Company. Ms. Luo, Laura Ying was appointed as an independent non-executive Director and the chairman of the Nomination Committee of the Company.

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

For the year ended 31 December 2020, the Nomination Committee held one meeting. At the meeting, the Nomination Committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules and whether the diversity on the Board has been achieved and maintained, considered and made recommendations to the Board on the re-appointment of the retiring directors at the 2019 annual general meeting, and also assessed whether the independent non-executive Directors had spent enough time in fulfilling their duties and their independence. The committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and has diversified perspectives and views. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2020**
Mr. Cheung Kam Shing, Terry*	1/1
Mr. Lam Kong	1/1
Mr. Wu Chi Keung	1/1
Mr. Leung Chong Shun	1/1
Ms. Luo, Laura Ying*	N/A

*Note：

1. Mr. Cheung Kam Shing, Terry resigned on 31 March 2020.
2. Ms. Luo, Laura Ying was appointed on 31 March 2020.

Board Diversity Policy

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

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

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

Environmental, Social and Governance Committee

The Company established an Environmental, Social and Governance Committee at the end of the Reporting Period. The Environmental, Social and Governance Committee comprises one executive Director and two independent non-executive Directors and is currently chaired by Ms. Chen Yanling and with Mr. Wu Chi Keung and Mr. Leung Chong Shun as the committee members.

The primary duties of the Environmental, Social and Governance Committee are comprehensively formulate and review the administrative policies, strategies and structures of the Group's environmental, social and governance, review environmental, social and governance -related policies, regulations and trends, and to 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; monitor and supervise the formulation and implementation of the Group's environmental, social and governance objectives; identify external environmental, social and governance trends, risks and opportunities; and 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 are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

Corporate Governance Functions

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

Auditor's Remuneration

For the year ended 31 December 2020, 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$3.8 million and HK$1.4 million, respectively.

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 2020. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out in the independent auditor's report on page 105.

Risk Management and Internal Controls

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

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

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

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

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

Shareholders' Rights

Convening an Extraordinary General Meeting

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

Shareholders' Enquiries

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

Articles of Association

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

Communications with Shareholders and Investors

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

The active and persistent communications with the shareholders and investors have been recognized by third parties. During the Reporting Period, the Company received the "The Best Hong Kong Stock-Connect Company" Award of the Golden Hong Kong Stocks and the "Excellent Pharmaceutical Industry Award" in the selection of the eighth "Top 100 Hong Kong Listed Companies". In the previous years, the Company won the "Most Valuable Medical and Pharmaceutical Listed Company" Award of the Golden Hong Kong Stocks for three times, "The Best Investor Relations" at the first China Enterprise Excellence Awards Ceremony, the "Best Case Award" at the second China Excellence IR Awards Ceremony, as well as the "Top 10 Listed Companies with the Highest Investment Value in China Pharmaceutical Industry", "Top 100 Innovative Pharmaceutical Enterprises in China", and "Benchmarking Enterprises in Pharmaceutical Industry at the 70th Anniversary of PRC Founding" at the China Healthcare Summit of Entrepreneurs, Scientists and Investors. The Company was selected as one of "The Most Attractive Hong Kong Stock-Connect Companies for Institutional Investors", and won the Golden Wing Award of "Hong Kong Stock-Connect Company with the Most Substantial Growth Potential" held by *Securities Times*. The Company was recognized as the "Honored Company" and the "All-Asia Most Honored Company" in the healthcare and pharmaceutical industry by *Institutional Investor Magazine* ("*II Magazine*"), and awarded the "Best Investor Relations Management" of the Golden Hong Kong Listed Companies, "The Listed Company with the Best Investment Value" of BIVA twice, "The Best Listed Company" at "The 5th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong, and the "Best Investor Relations" in the healthcare industry in Greater China by *IR Magazine*. Mr. Lam Kong was named the "All-Asia Best CEO" in the healthcare and pharmaceutical industry twice by *II Magazine*. Ms. Chen Yanling was named the "All-Asia Best CFO" in the healthcare and pharmaceutical industry for seven consecutive times by *II Magazine*, and awarded the "Best CFO of Hong Kong Listed Companies" in the Gelonghui's first Best Listed Companies of Greater China Award. CMS's Investor Relations Team was named the "All-Asia Best Investor Relations" in the healthcare and pharmaceutical industry for three times and the "All-Asia Best Analyst Days" in the healthcare and pharmaceutical industry by *II Magazine*.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. About the Report

The Report is the fifth environmental, social and governance ("ESG") report of CMS, dating from 1 January 2020 to 31 December 2020. The Report is disclosed annually.

1.1 Basis of Preparation

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

The contents of the Report were formulated through systematic procedures, including: project kickoff, review and summarization of the 2019 ESG Report, on-site investigation and interview, identification of stakeholders, stakeholder questionnaire, identification and ranking of ESG material issues, discussion and determination of material issues by the Board of Directors, determination of the disclosure scope of the Report, collection of relevant information and data, review of the relevant information and data, establishment of the 2021 ESG management goals, preparation of the Report, review and final approval of the Report by the Board of Directors.

1.2 Scope of the Report

The Report discloses the ESG risks and performances of the Group conforming to the principle of "Materiality" mentioned in the *Environmental, Social and Governance Reporting Guide*. Unless otherwise indicated, the scope of the Report includes the Company, its wholly owned subsidiaries and majority owned subsidiaries (including pharmaceutical promotion and marketing business, pharmaceutical production business, and agriculture and livestock business. Among them, the pharmaceutical production business is relatively small-scale, during the Reporting Period, the sale of self-produced products only accounted for around 4% of the Group's turnover after excluding the effect of the "two-invoice system". During the Reporting Period, the products from agriculture and livestock business were only for internal consumption and did not contribute to the Group's revenue).

1.3 Data Sources and Reliability Statement

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

1.4 Obtaining the Report

The Report, as a part of the Group's 2020 Annual Report, can be accessed and downloaded from SEHK's website (www.hkexnews.hk) and the Group's website (www.cms.net.cn). For further consultation, any opinion or suggestion regarding the Report, please contact the Group via ir@cms.net.cn.

2. ESG Management

As a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China, CMS has adhered to offering competitive products and services to meet China's unmet medical needs, and fulfilled the core values of "value creation for customers, global reach for innovation, dedication and perseverance, ethics and integrity, professionalism and entrepreneurship". Practicing the concept of sustainable development, the Group's MSCI-ESG rating has been upgraded from "BB" to "AA" during the Reporting Period, regarded as a company leading its industry in managing the most significant ESG risks and opportunities.

2.1 Statement of the Board of Directors

The Board of Directors of the Group insists on fully integrating the ESG concept into corporate development strategy while ensuring the sound growth of operating performance. The Board of Directors hereby makes the following statement on ESG management during the Reporting Period:

With the sustainable development goal of "carrying out the concept of environmental protection, achieving the value of social responsibility, being committed to becoming a leading sustainable pharmaceutical enterprise in China", during the Reporting Period, the Group further improved its governance structure by establishing the Environmental, Social and Governance Committee (the "ESG Committee") at the Board of Directors level and setting the organization-wide ESG Working Group to further enhance the Group's ESG management performance.

Members of the Board of Directors have continuously paid attention to the global trends of ESG governance. Taking into account suggestions and comments from various parties, the Board of Directors have evaluated the potential ESG risks and opportunities of the Group, and provided corresponding suggestions and opinions on the ESG management of the Group from time to time to achieve dynamic supervision.

The Board of Directors of the Group has also attached great importance to the daily ESG management work. With reference to the results of stakeholder questionnaires, the Board of Directors has evaluated and prioritized ESG material issues, discussed and identified the importance of ESG issues, and fully participated in the formulation and updates of the Group's ESG management policies and strategies. Based on the approved ESG management policies and strategies, the Board of Directors has reviewed and approved the Group's ESG improvement plan, reviewed and followed up on the implementation progress of relevant departments through regular meetings, actively participated in the optimization of existing operational plans, and provided all the necessary resources, in order to integrate the Group's ESG matters into the daily operation and management. Based on the 2020 ESG management goal and achievements, the identified stakeholder concerns, business development needs and recommendations from third-party professional agents, the Board of Directors has approved the 2021 ESG management goal.

The Group has fully understood that the development, promotion and sales of pharmaceutical products are related to public health. Therefore, when setting ESG management goals, the Group has placed the high priority on product safety and service quality in processes including development, production, testing, and after-sales. At the same time, taking the unmet medical needs of the Chinese pharmaceutical market into full consideration, the Group has deployed innovative drugs that are safer and more effective, or more cost-effective, to meet the actual needs of Chinese patients and maximize the social benefits. The characteristics of the Group's business help limit the total amount of environmental pollutants generated, but the Group has fully considered the environmental impact of operational activities, so as to work together with stakeholders to facilitate a green, harmonious and sustainable development.

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

2.2 Structure and Process of ESG Governance

The Group has formed a three-tier ESG governance framework consisting of the Board of Directors, the ESG Committee and the ESG Working Group to systematically carry out ESG management from the governance level of the Board of Directors to the ESG implementation level. The ESG Committee consists of three directors, among them the Executive Director, Chief Financial Officer and Vice President of the Group, Ms. Chen Yanling is the Chairman of the Committee; The ESG Working Group comprises the heads from each department and participates in the concrete implementation and reporting of the ESG work. During the Reporting Period, the *CMS Environmental, Social and Governance Committee Terms of Reference* was published on the Group's official website for all stakeholders' reference[1].

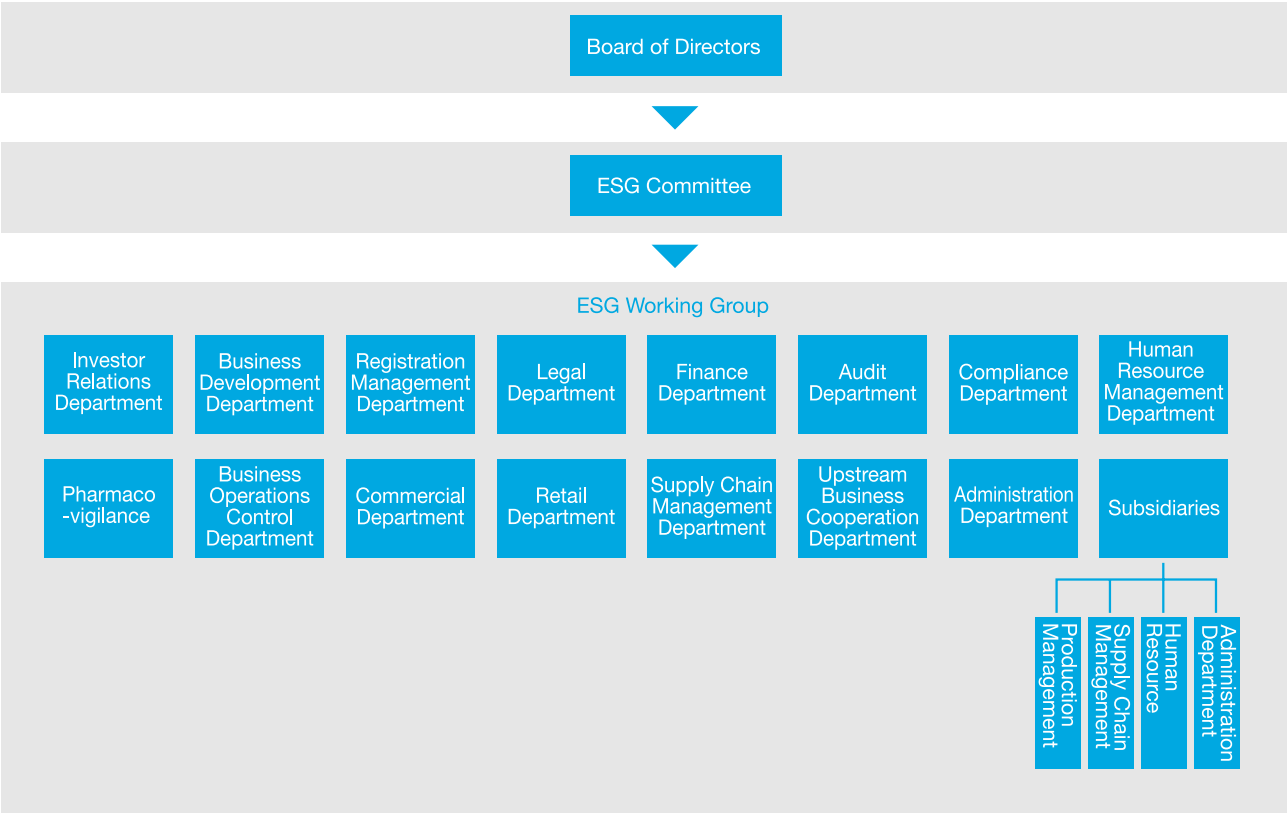


Figure 1 CMS's ESG Governance Framework

- The main responsibilities of the ESG Committee include: comprehensively formulating and reviewing the Group's ESG management policies, strategies and structures, reviewing ESG-related policies, regulations and trends; and providing decision-making advice to the Board of Directors regarding the Group's ESG strategies and operations, to ensure the compliance with requirements of applicable laws and regulations; monitoring and supervising the formulation and implementation of the Group's ESG objectives; identifying external ESG trends, risks and opportunities; and promoting a positive culture throughout the Group and actively incorporating ESG considerations into the business decision-making processes, etc.

[1] http://www.cms.net.cn/kangzhe/PicNew/ImgStocks/2020-12-22/2aa3df93-6095-4441-b8c4-e75cf8517b6b.pdf

- The responsibilities of the ESG Working Group include: formulating and implementing specific ESG work plans; regularly collecting and analyzing ESG-related key performance indicators and submitting them to the ESG Committee for review to facilitate the ESG Committee's understanding of the implementation progress of the Group's ESG management performance objectives; analyzing the relationship between ESG risks and the Group's overall risk management system, then making suggestions on risk control; and proactively delivering feedbacks from key investors and stakeholders to the ESG Committee, etc.

The Group's ESG management efforts are based on a nested closed-loop process:

- Firstly, setting the annual ESG management goals after reviewing the previous year's goals;
- Making the corresponding ESG management measures and plans based on the ESG management goal;
- Conducting daily ESG management, monitoring dynamic ESG information and drafting annual ESG report based on the measures and plans;
- Making and implementing improvement plans for issues existing in ESG management practice based on the annual ESG report preparation workflow, material issues analysis in conjunction with internal communication, internal audit and stakeholder' concerns;
- Checking the results of ESG governance at the end of the year, making adjustments and setting new goals in accordance with the Group's internal and external situation.

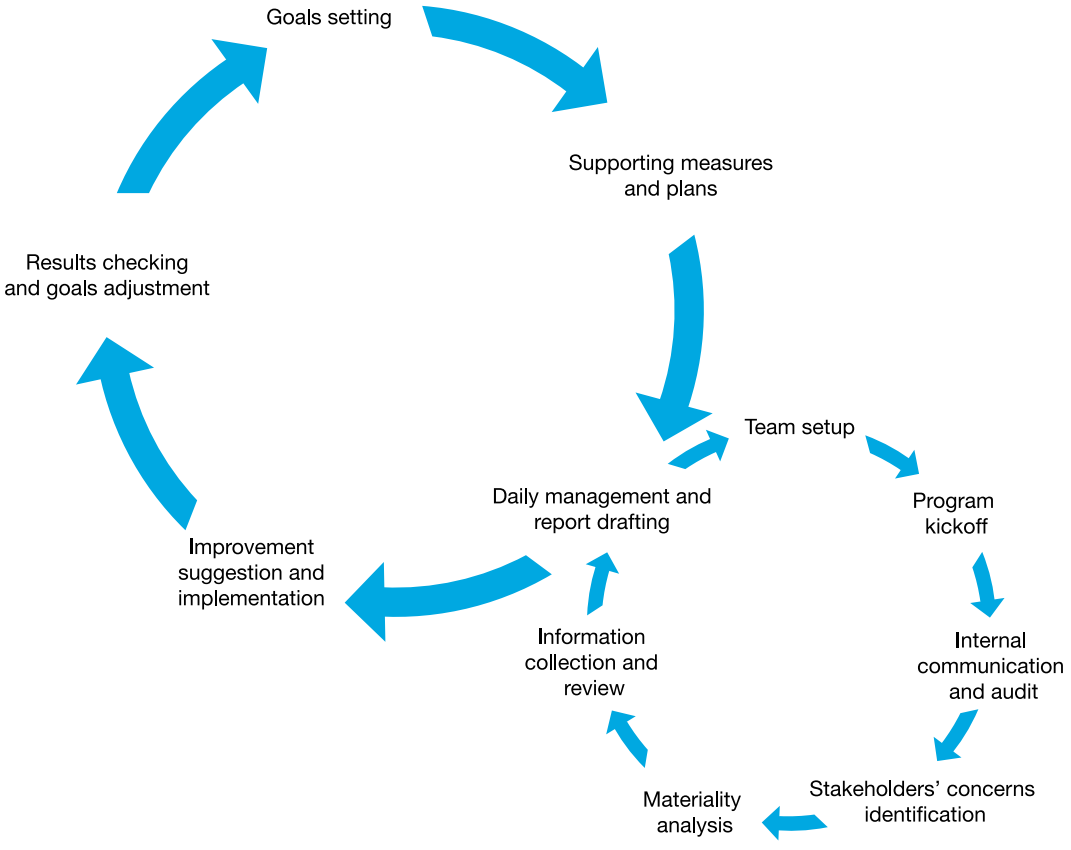


Figure 2 CMS's ESG Management Flow Diagram

2.3 ESG Goal

The Group attaches great importance to ESG goal management. The Board of Directors comprehensively reviewed the achievement of CMS's ESG goal for the Reproting Period and formulated the ESG goal for the next year. See below for CMS's 2020 ESG management condition and 2021 ESG management goal.

Table 1 CMS's 2020 ESG Management Condition and 2021 ESG Management Goal

2020 ESG Management Condition	2021 ESG Management Goal
The Board of Directors participated in and discussed the Group's ESG management in regular meetings; formed the ESG Committee, assigned the ESG Working Group and improved the governance structure	The Board of Directors continues to involve deeply in the ESG management and further improve ESG-related management systems and policies
Established relatively comprehensive anti-corruption policy system and internal control process, and fully implemented anti-corruption and compliance management through a combination of employee commitment and regulation requirement; and further regulated the protection of consumer privacy	Continuously optimizing the risk management and internal control of promotion compliance processes, upgrading digital management tools to strengthen compliance control, and continuously promoting the study of anti-corruption related regulations, in order to achieve sustainable compliant operation
Established a comprehensive product quality control system and continuously optimized the means of product quality management and risk control; promoted the construction of intellectual property protection system; expanded the innovative pipeline and pushed forward the clinical development of innovative products in China to enhance the accessibility of quality products in China	Ensuring the quality of products and services and continuously optimizing the product responsibility system; continuously promoting the launching of quality and cost-effective products with a focus on public health; and continuously promoting the construction of intellectual property protection system
Established good communication, cooperation and supervision mechanisms with suppliers, and further standardized the supplier ESG management through collecting the *Supplier Statement*	Strengthening the identification and control of ESG risks in all segments of the supply chain to jointly build a green supply chain
Provided employees with a safe and comfortable working environment, good promotion channels and a comprehensive training system, and paid attention to employee compensation and benefits	Deeply understanding the demands of employees and continuously optimizing the working environment and organizational atmosphere; improving the compensation and benefits system and the promotion mechanism; and enhancing the training system for both the management and employees
Actively participated in supporting activities in response to major public health events, paid attention to the public welfare needs of the surrounding communities and developed more comprehensive guidelines for public welfare activities	Continuously paying attention to the development of the surrounding communities and social welfare
Optimized the Group's environmental protection system and policies and promoted energy-saving and environmental protection initiatives; implemented environmental protection internal audits; and promoted the management of key environmental indicators	Continuously paying attention to the key issues of environmental protection, the total GHG emission intensity of the Group is expected to be reduced by at least 5% by the end of 2023, comparing with 2020, so as to contribute to the construction of a green China

2.4 ESG Communication

CMS has established a routine stakeholder communication system, and is committed to achieving the positive interactions with stakeholders via targeted and diverse ways of communication, making active responses to their needs and pushing forward the implementation of the Group's sustainable development. CMS has established connections with stakeholders via the following communication methods.

Table 2 CMS's Stakeholder Communication Methods

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

2.5 ESG Issues

During the Reporting Period, in order to ensure that the Group's ESG governance effectively and timely reflects the requirements of stakeholders, CMS has conducted extensive stakeholder research as an important basis for the preparation of this report and the Group's development.

The materiality assessment procedure:

- The establishment of the issues library: Based on the *Environmental, Social and Governance Reporting Guide* and with reference to the review of the *Environmental, Social and Governance Reporting Guide and Related Listing Rules* issued by SEHK in December 2019, a basic list of ESG issues has been formed. At the same time, the Group has reviewed and evaluated its ESG management related issues in the previous year, then updated the ESG management issues library in 2020 by reviewing the Group's current status, the development of the pharmaceutical industry and the concerns of stakeholders;
- Stakeholder engagement: The Group has established and implemented a stakeholder engagement plan for the year. Through communication with stakeholders and distribution of online research questionnaires, the Group has listened to stakeholders' expectations and suggestions on the Group's ESG issues, and collected a total of 297 valid questionnaires;
- Issues assessment: The Group has assessed the importance of the issues in two dimensions: "importance to the enterprise" and "importance to the stakeholders", and obtained the materiality matrix and material issues list;
- Review and confirmation: The Group's Board of Directors has reviewed the assessment procedure of the material issues and confirmed the approval of the results.

Based on the results of the research questionnaires and discussions of the ESG Committee and the Board of Directors, the Group has ranked the materiality of each issue in 2020 as follows:

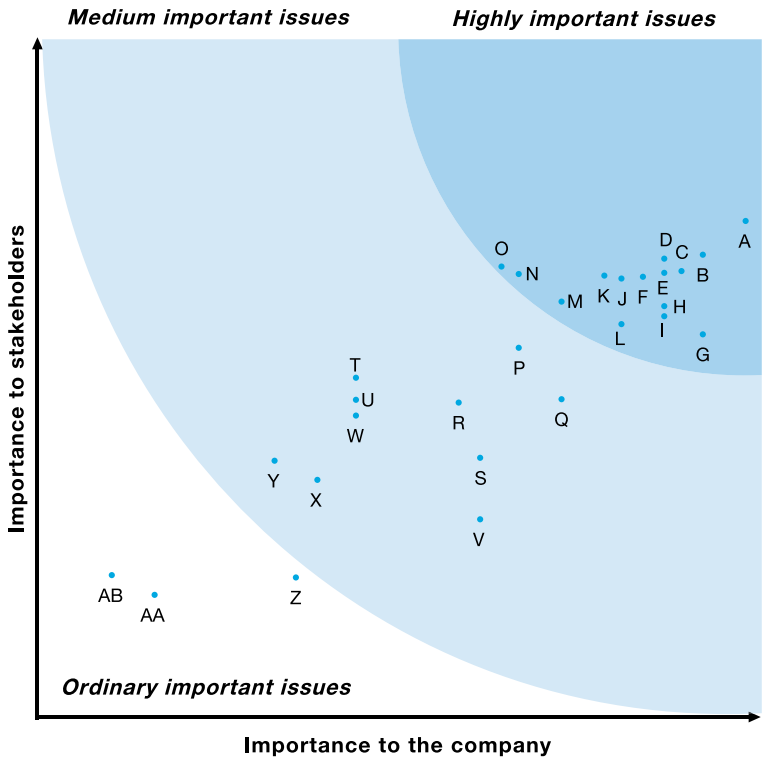


Figure 3 CMS's ESG Materiality Analysis Matrix

The materiality assessment of 2020 ESG issues for CMS found 15 highly important issues, 10 medium important issues, and 3 ordinary important issues, the details of which are listed below:

Table 3 CMS's Material Issues List

Importance of issue	Issue scope	Issue code	Issue
Highly important issue	Company governance	A	Ensuring product and service quality
	Company governance	B	Improving the pharmacovigilance and drug recall mechanism
	Company governance	C	Compliant operation
	Company governance	D	Caring about employee safety and health
	Company governance	E	Constructing a good company governance system
	Company governance	F	Protecting the intellectual properties
	Company governance	G	Providing competitive salary
	Company governance	H	Compliant employment
	Company governance	I	Employees training and development
	Company governance	J	Improving the anti-corruption and anti-bribery system
	Company governance	K	Strengthening innovative research and development
	Company governance	L	Providing a fair and transparent promotion channel
	Company governance	M	Improving the accessibility of healthcare
	Company governance	N	Protecting customer rights, interests and privacy
	Company governance	O	Strict execution of supplier admittance and inspection criteria
Medium important issue	Company governance	P	Promoting sustainable development of the supply chain (environmental protection, anti-corruption, employment, etc.)
	Environmental protection	Q	Proper disposal of solid waste
	Environmental protection	R	Making guidelines and setting goal for environmental protection work
	Environmental protection	S	Energy conservation
	Environmental protection	T	Compliance with emission standards
	Environmental protection	U	Resource investment to reduce emissions
	Environmental protection	V	Water conservation
	Social responsibility	W	Promoting the advancement of the medical progress
	Social responsibility	X	Participating in public welfare donations, disaster relief activities and others
	Social responsibility	Y	Supporting community development
Ordinary important issue	Environmental protection	Z	Reducing greenhouse gas emissions
	Environmental protection	AA	Combating climate change
	Environmental protection	AB	Reducing use of packaging materials

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

3. Compliant operation

Compliant operation is a basic requirement for market participants. The Group strictly observes the laws and regulations of the People's Republic of China and other countries and regions where it's business operation and investment are located, practices business ethics and refrains from unlawful acts such as bribery, extortion, fraud, money laundering and different forms of unfair competition.

Table 4 Compliance-related Laws and Regulations

Field	Major laws and regulations
Compliant operation	*Law of the People's Republic of China on Anti-Money Laundering, Law of the People's Republic of China Against Unfair Competition, Criminal Law of the People's Republic of China, Interim Provisions on Banning Commercial Bribery, Prevention of Bribery Ordinance, etc.*

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

During the Reporting Period, the Group required all employees to sign the *CMS Self-discipline Commitment*, expecting that through signing the voluntary commitment, employees would enhance self-requirements on moral standards and professional conduct, so as to avoid improper business practice. At the same time, the Group initiated the signing of the *Supplier Statement*, to further restrain the ethical behavior of suppliers, achieving comprehensive management and control of compliant operation.

Table 5 Abstract of the *CMS Self-discipline Commitment* and *Supplier Statement*

Field		Abstract
Business ethics	**Employee's commitment**	• Strictly adhering to the provisions related to incorruptibility and self-discipline • Properly exercising authority and not using authority to make undue benefit for oneself or a specific related party • Not embezzling or occupying the resources of the Group, or leveraging own authority to influence and interfere with the Group's business
	Supplier's commitment	• Complying with applicable laws, regulations, guidelines, etc. in everywhere they operate • Providing quality, safe and effective products and services that meet the quality standards and contractual agreements of the countries/regions in which they operate • Resolutely resisting bid rigging, bid collusion, accepting of kickbacks and other unfair competition behaviors
Anti-corruption	**Employee's commitment**	• Resolutely resisting commercial bribery, not accepting properties from any affiliated units or suppliers • Not offering bribes to or soliciting bribes from any business-related personnel
	Supplier's commitment	• Adhering to zero tolerance for any form of corruption, extortion or bribery

3.1 Compliant Marketing and Promotion

The Group focuses on compliant marketing and promotion in the pharmaceutical industry to help build a clean industry development environment. The Group's Compliance Department is responsible for promotion compliance of employee's behaviors during the progress of interaction with medical professionals and groups, which primarily related to anti-corruption and anti-bribery. The Group has developed a complete and clear compliance marketing management system, including compliance rules and regulations, compliance team, compliance training, compliance inspection, compliance communication and reporting, etc.

3.1.1 Marketing Compliance Regulations and Policies

The Group adheres to the concept of compliance marketing and sales, and undertakes pharmaceutical marketing and sales activities under strict ethical standards and professionalism. The Group has established and updated the relatively comprehensive internal compliant promotion system and standard operating procedures in accordance with the latest laws and industry regulations.

The Group's compliance policies and regulations include, but are not limited to: *CMS Anti-fraud Management Policy, CMS Employee Code of Professional Ethics, Code of Promotional Conduct, Speaker Regulations, General Specification on Marketing Activities, Code of Management for Marketing Activities*, etc., to achieve the comprehensive compliance management.

3.1.2 Marketing Compliance Promotion and Training

The Group always regards marketing compliance as one of the priorities in employees' promotion and training. The Group holds monthly compliance induction training and quiz for new employees, with the quiz results linked to their appraisals; publicizes compliance policies and interpretations on the Group's internal information platform on a monthly basis; updates the "I want to ask compliance questions" column to provide an open and smooth communication mechanism for the employees; and provides timely online and offline training and guidance after the release of a new policy.

3.1.3 Marketing Compliance Monitoring and Inspection

The Group encourages the internal monitoring of marketing compliance, any employee who has doubts about the compliance of another employee's behavior can contact the Compliance Department by phone, email, or fax, etc. Once receiving such a report, the Compliance Department and the Audit Department will initiate an investigation together to collect relevant evidence. The employee who is confirmed to be in violation will be reported to the Compliance Management Committee by the Compliance Department, then be disciplined in accordance with the Company's relevant regulations. At the same time, the Group's Compliance Department conducts regular and irregular compliance inspections, leveraging big data analyses and KPI assessments on the results of each inspection, to ensure compliance of employee behaviors.

3.1.4 Marketing Compliance Team and Communication

The Group has a Compliance Management Committee, which is chaired by Mr. Lam Kong, the Chairman, Chief Executive and President of the Group, and composed of COO, CFO and several directors of the Group and is responsible for overseeing the compliance governance and business ethics management of the Group in its operations. The reports on the overall performance of the Group's compliance work will be submitted by the Compliance Department and discussed at the Compliance Management Committee's quarterly meetings. Meanwhile, the Group has regional compliance teams and regional financial compliance specialists in all business regions to enhance the efficiency of compliance governance and communication through a dedicated staffing system.

3.2 Anti-corruption

3.2.1 Anti-corruption Management

The Group has established the *CMS Employee Code of Professional Ethics* and *CMS Anti-fraud Management Policy*, which clearly require the employees not to engage in any improper practices such as bribery, corruption, extortion, fraud and money laundering in internal communication or communication with affiliated companies' staffs and other stakeholders including the media, governments, distributors, suppliers and medical personnel. Any forms of facilitation fees are forbidden as well, to adhere to the ethical boundaries strictly.

The Group attaches great importance to the anti-corruption management of all employees. According to the relevant regulations of the Group, if any employee is found with certain improper behaviors, the promotion of the employee will be negatively affected, and warning or dismissal will be considered for serious cases. During the Reporting Period, the Group required all employees to sign the *CMS Self-discipline Commitment*, to further raise employees' awareness of commercial bribery. The Group expects to strengthen employees' ethical awareness and further enhance anti-corruption management of the Group through internal regulations and employees' voluntary commitments.

The Group has established and strictly implemented an anti-corruption training system. The anti-corruption related materials are provided to employees in the quarterly new employee training program and marketing compliance training program. During the Reporting Period, a company-wide study of the *CMS Anti-fraud Management Policy* has been conducted from director to employee level with 3,887 participants.

The Group has established a multi-departmental and multi-dimensional code of conduct management system. For example, the Finance Department has developed financial management measures based on the compliance framework and strengthened process management via digital management systems. These initiatives are installed to enhance the transparency of expenses and the compliance of promotion activities for departments engaged in sales and marketing. In addition, the Legal Department reviews all legal documents such as contracts and agreements in the process of business operation, in order to control and prevent legal risks for the Group.

The Group also regulates the suppliers' business conducts. When signing the supply contracts, the Group requires the suppliers to strictly comply with the applicable local laws and regulations, including the provisions related to business ethics. During the Reporting Period, the Group initiated the signing of *Supplier Statement*, which once again required the suppliers to commit to zero tolerance for any forms of corruption, extortion or bribery, to further build a clean supply chain. In the process of communicating and signing of the *Supplier Statement*, the Group also collected the suppliers' internal anti-corruption policies and regulations, further understood the contents, and exchanged ideas with the suppliers on social responsibilities of both parties, including anti-corruption measures.

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

3.2.2 Whistleblower Protection

The Group encourages employees to oversee and report any corruption behavior via telephone, email, etc. The reports will be discussed on a case-by-case basis and handled hierarchically by the Group in accordance with certain procedures. People involved are required to evade to ensure fairness and impartiality of the processing. Definite responses and feedback will be given to the whistleblower within three business days after the completion of the investigation.

The *CMS Anti-fraud Management Policy* of the Group clearly defines the detailed confidentiality measures to protect the whistle-blowing-related documents and the whistleblower's personal information. The Group will not disclose whistleblower's identity without obtaining his/her consent. Anyone who intends to inquire about any related information other than the whistleblower identity shall register with the Compliance Department. The Group will ensure that the employee who reports any of the above matters will not be subject to any forms of intimidation, retaliation or inappropriate punishment. Harassing or harming the whistleblower will be considered as severe misconduct and punished seriously once confirmed.

4. Product Liability

The Group always takes "offering competitive products and services to meet China's unmet medical needs" as its mission, strictly controls the quality of products and services to protect the health of Chinese people. In terms of quality, advertising, labeling, privacy, intellectual property rights and remedial measures for products and services, the Group strictly abides by relevant national laws and regulations including but not limited to the following:

Table 6 Laws and Regulations Related to Product Liability

Field	Major laws and regulations
Product and service quality	*The Drug Administration Law of the People's Republic of China, Regulations for Implementation on Drug Administration Law of the People's Republic of China, Provision for Drug Registration, Provisions for Medical Device Registration, Good Manufacture Practice of Pharmaceutical Products, Measures for the Supervision and Administration of Drugs Production, Provisions for Supervision of Drug Distribution, Good Supply Practice of Pharmaceutical Products, Administrative Measures for the Import of Drugs, Provisions for Adverse Drug Reaction Reporting and Monitoring, Law of the People's Republic of China on Safeguarding the Consumer Rights and Interests,* etc.
Standardized marketing and promotion	*The Advertising Law of the People's Republic of China, Interim Measures on the Examination and Administration of Advertisement for Drugs, Medical Devices, Health Foods and Foods for Special Medical Purposes, Provisions for Drug Insert Sheets and Labels,* etc.
Privacy protection	*The Tort Liability Law of the People's Republic of China, and the Cyber Security Law of the People's Republic of China,* etc.
Intellectual properties protection	*The Patent Law of the People's Republic of China, and the Trademark Law of the People's Republic of China,* etc.

4.1 Quality of Product and Service

In accordance with the laws and regulations and the requirements of Good Supply Practice of Pharmaceutical Products ("GSP"), Good Manufacture Practice of Pharmaceutical Products ("GMP") the Group has established the drug quality management system, including the relatively comprehensive product responsibility policy system and training system, forward-looking quality risk management system, refined quality control measures, standardized quality inspection process and digital drug tracking and pharmacovigilance system, covering the whole drug production and operation cycle and strictly controlling the potential risk to ensure the quality of product and service.

The Group attaches great importance to the construction of system and culture regarding product safety and service quality, and has established a relatively complete product liability regulations system:

Table 7 Product Liability System

Procurement and production	Outbound delivery and sale	After-sales and customer service
Regulations on Drug Procurement	*Regulations on Drug Transportation*	*Operation Procedures for Medical Information Consultation and Processing*
Regulations on Drug Reception	*Regulations on Drug Sale*	*Regulations on Quality Complaints*
Regulations on Drug Check and Acceptance	*Regulations on Quality Inquiry*	*Regulations on Drug Recall*
Regulations on Drug Storage	*Provisions for Label Control and Management*	*Operation Procedures for Drug Recall*
Regulations on Drug Maintenance	*Speakers Regulations*	*Management Regulations on Drug Adverse Reaction Reporting and Monitoring,* etc.
Regulations on Purchaser Qualification Review	*Academic Promotion Materials Regulations*	
Management Procedures for Production Planning Order	*Drug Advertisements Regulations,* etc.	
Management Procedures for Production Process		
Operation Procedures for Internal Quality Audit, etc.		

At the same time, the Group provides regular on-the-job trainings for employees involved in drug procurement, storage, production and quality inspection. The training contents include laws and regulations of drug and medical device, documents of quality management system, management of special drug, knowledge and verification of cold chain, etc.

4.1.1 Quality Safety

The finished drugs promoted and sold by the Group are mainly manufactured in countries of manufacturing origins (the suppliers) such as Germany, Denmark, the United Kingdom and France. Pharmaceutical manufacturers in Europe, the United States and other developed countries have higher quality management standards and standards to ensure product quality. A small fraction of the rest are self-produced (during the Reporting Period, self-produced products only accounted for around 4% of the Group's total sales excluding the effect of the "two-invoice system"). All drugs promoted and sold by the Group have been registered and approved by China NMPA. 100% percent of the subsidiaries with core business in pharmaceutical promotions and sales have passed GSP inspection, and 100% of the subsidiaries with core business in pharmaceutical manufacturing have passed GMP inspection.

For self-produced products, the Group has strict selection criteria for material suppliers and classifies suppliers according to the importance of materials. Class A material suppliers, which have important impact on drug quality and medication safety, are required to undergo on-site inspection and audit at least once a year. The Group carefully inspects incoming materials, including checking information, sampling and testing before putting into use. For finished products, the Group inspects each batch to ensure the integrity and safety of packaging before entering the market. For specific products, samples are taken strictly according to national standards before outbound delivery to test stability, to ensure that products quality align with national drug standards. The Group regularly checks the status of production equipments, strictly records the production parameters and the operation process, and assigns full-time personnel to monitor the entire manufacturing process. The Group has built a traceable product and material information database. In the case of unqualified raw materials or finished products, they will be handled according to the procedure on unqualified product management. At the same time, a special investigation team will be formed to do the cause investigation and correction.

For purchased finished products, the Group strictly selects quality drugs with good efficacy and sufficient evidence-based medical evidence. The Quality Management Department of the Group conducts the inspection as per GSP requirements once the products arrived, and examines the inspection reports of the same batch (such as Import Inspection Report and/or Inspection Report of Manufacturer) to ensure quality compliance with national requirements. The Quality Management Department of the Group shall timely report in writing if any product is found to be unqualified. When the products are confirmed as unqualified, the Storage and Logistics Department will transfer the products to the "unqualified zone" for the separate storage. And these products will be recalled and returned to the supplier, or applied to be discarded or destroyed if necessary. The products need to be destroyed in the "unqualified zone" will be destroyed annually.

The Group also attaches great importance to the storage and warehousing safety of drugs, and has 24 finished drug warehouses with well-equipped storage facilities. The Group has drug maintenance personnel, and has formulated the *Regulations on Drug Maintenance, Regulations on Drug Storage and Regulations on Warehouse Handling Area Working Safety Management* to standardize the drugs storage work flow. The maintenance staff constantly monitors the warehouse temperature and humidity and the storage condition of the drugs, conducts regular inspections on and maintenance of facilities and equipment, and summarizes and analyzes the product maintenance status quarterly. The Group and its subsidiaries' Quality Management Department conduct at least one internal audit per year, evaluating the status of warehouse hygiene, drug stacking and bulk goods storage and monitoring improvement progresses.

The Group has formulated the *Drug Traceability Management System*, and self-built an ERP system that complies with GSP requirements to apply effective quality control in processes of procurement, storage, sale, and transportation of drugs to ensure quality. At the same time, with the help of digital traceability tools, the Group ensures that the source of the materials, manufacturing, delivery and sales of products is traceable, so as to guarantee that the source and destination of drugs can be traced.

During the Reporting Period, the Group actively received inspections from external institutions or government departments, and none serious violation was found. As for a few rectification suggestions put forward by external inspection organizations, the Group actively completed all rectification projects in time.

4.1.2 Customer Complaint and Product Adverse Reaction

Oriented with creating value for customers, the Group has established a complete customer complaint and product adverse reaction handling system, providing customers with solutions to after-sales problems. Customers can complain or report to the Group via telephone, fax, email, etc. After receiving complaints, the Quality Management Department of the Group will timely record relevant information into the system and handle the complaints hierarchically. Through the investigation and evaluation, follow-up handling, timely feedback, subsequent tracking and archiving and filing and other processing procedures, the problems collection, effective handling and timely feedback can be realized.

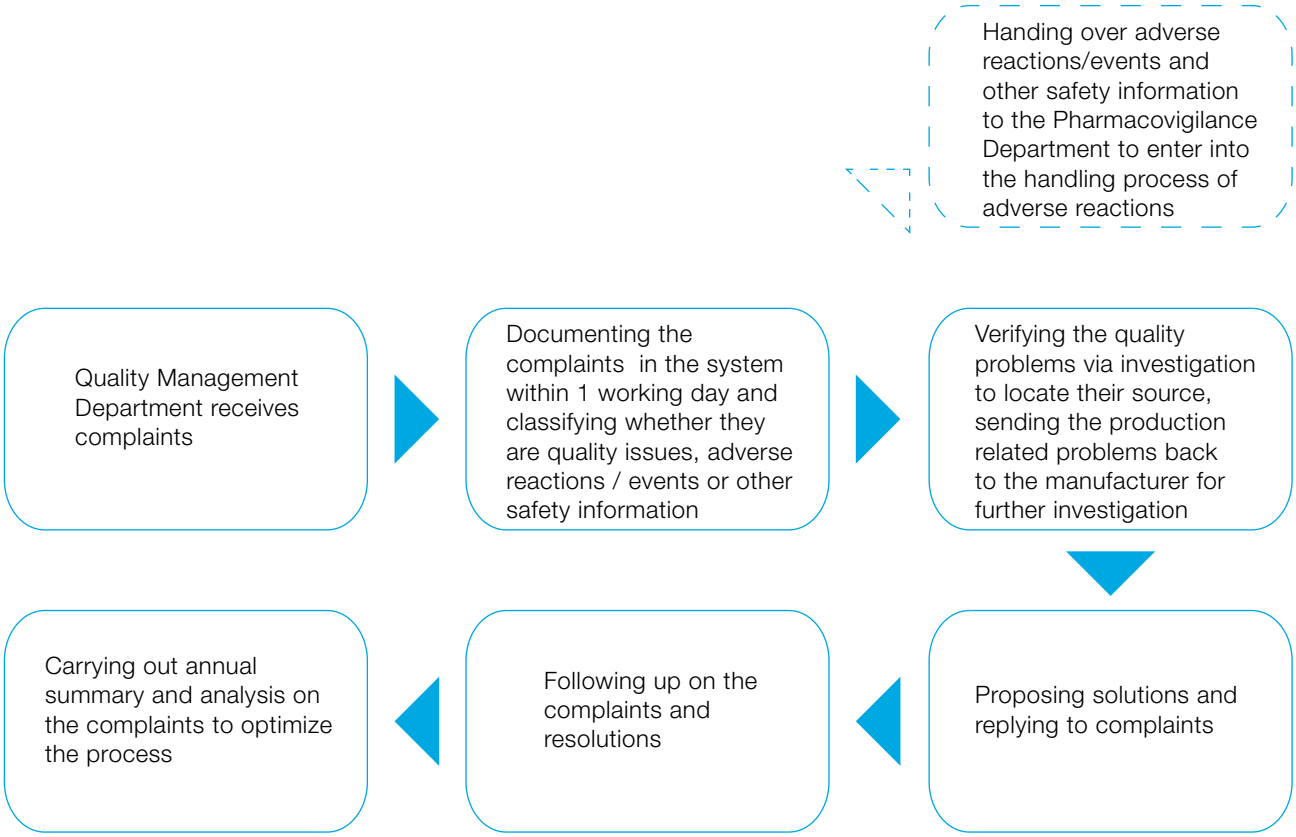


Figure 4 Customer Complaint Handling Process

During the Reporting Period, the Group received a total of 137 complaints. The Group has ensured that all complaints were effectively handled and responded and relative improvements were made in time. Therefore, the Group maintained a complaint handling rate of 100% during the year.

The Group has established a comprehensive pharmacovigilance system to implement product safety evaluation, risk identification and control for products pre-market clinical trials and post-market stages according to the laws and regulations, as well as industry guidelines. The Group complies with the *Regulations on Drug Safety Information Reporting Management, Operation Procedures for Safety Report Handling for Individual Case, Regulations on Medical Device Adverse Event Reporting and Monitoring Management, Operation Procedures for Medical Device Adverse Event Reporting and Monitoring* and other relevant standardized operation procedures to implement regulatory requirements and fulfill the obligations of domestic and overseas drug and medical device marketing authorization holders (and/or the agents designated by domestic and overseas marketing authorization holders) for pharmacovigilance / device vigilance. After being informed of the adverse reaction/event and other safety information, the Pharmacovigilance Department will follow the applicable management procedures and Standard Operating Procedures, to manage and monitor the adverse reaction/event and other safety information with the digital pharmacovigilance system. It will timely and truthfully record, investigate, analyze, assess and summarize adverse reaction/event and other safety information, then report to the regulatory authorities as required, fulfilling obligations of the security data exchange stated in the relevant agreement. The Pharmacovigilance Department of the Group regularly evaluates product risks and conducts safety management throughout the product life cycle. In accordance with the requirements of the latest regulatory laws and regulations, the Group regulates and guides the emergency plan for drug safety event according to the *Operating Procedures for the Drug Safety Event Emergency Plan*, timely monitors, evaluates and controls potential risks, and immediately takes effective measures to deal with them and prevents further damage. The Group maintains close communication with domestic and overseas drug/medical device marketing authorization holders and other related partners as well as relevant regulatory authorities to supervise the continuous compliance and improvement of the Group's pharmacovigilance quality system, ensuring the medication safety of patients.

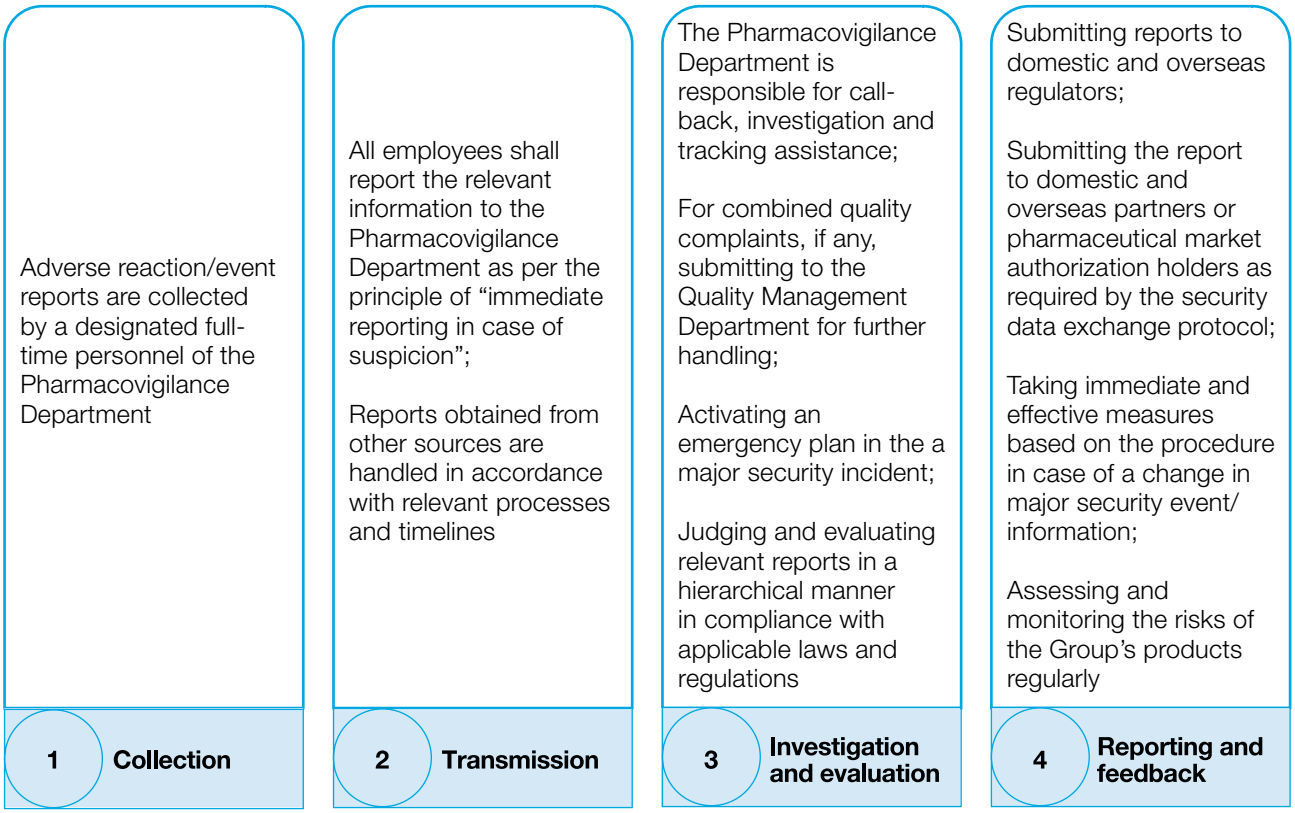


Figure 5 Adverse Reaction/Event Handling Process

4.1.3 Product Recall

The Group has formed relatively complete and mature recall mechanisms and operational procedures. If any hidden safety hazard occurs to products, the Group will immediately form a recall work team to initiate the recall process. It includes full notification, submission of the relevant documents to the regulatory authorities, transportation of the circulated products, sealing of inventory, unified and isolated storage, comprehensive inspection, full-process investigation, and written summary, etc. The relevant departments and subsidiaries of the Group regularly hold mock recall drills to ensure effective recall of defective products in the shortest time in case of an emergency, so as to protect customers' rights and interests.

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

The Group's product and service quality data in 2020 is shown below:

Table 8 Product and Service Quality Data

	Unit	Year 2020
Response and handling rate for product and service quality related complaints	%	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0

4.1.4 Product Labeling and Promotion

The Group has set the *Provisions for Label Control and Management* to ensure that drug classification and packaging labeling comply with local laws and regulations, and formulated the *Operation Procedure of Design, Review and Approval of Printing Packaging Materials* to ensure that product labeling strictly complies with registration approval requirements. The Group takes samples and checks drug labels, and uses anti-counterfeiting marks to prevent counterfeiting. The Group pays attention to marketing and promotion compliance. The internal regulations clearly stipulate that promotion materials shall be consistent with the instructions approved by the China NMPA, and can only be published in professional magazines co-designated by the National Health Commission and the NMPA of China after being reviewed by related internal departments, and being approved by the Provincial Medical Products Administration, to ensure the accuracy, professionalism and compliance of promotion materials.

4.1.5 Consumer Privacy Protection

The Group attaches great importance to privacy rights of consumers and protects the privacy information on behalf of customers and other stakeholders in accordance with related laws and regulations as well as applicable contracts.

Internally, the Group has formed the *CMS Employee Code of Professional Ethics* and *CMS Employee Manual* to regulate the employees' behavior. During the Reporting Period, the Group published the *CMS Confidentiality Regulations*, clarifying the privacy and confidentiality principle of the third parties, defining the scope of confidential information, and clearly requiring all employees to maintain the strict confidentiality of the privacy information of consumers. In addition, the Group has signed confidentiality agreements with all its employees to convey and emphasize the importance of confidentiality duties and the legal consequences of breach. The authorization mechanism of the Group's business system requires employees to inquire and maintain customer data with limited authorization. Non-authorized employees cannot use, export or copy any customer information.

Externally, the Group explicitly requires the digital pharmacovigilance system supplier and other third parties who may have access to consumers' privacy information to strictly comply with the requirements of international and Chinese regulations through contracts, to maintain information security, and protect consumers' privacy.

4.2 Protection of Intellectual Properties Rights

The Group regards intellectual property rights (such as trademarks, patents, confidential information, production know-how, etc.) as important assets, respects and protects all the intellectual property rights related to the Group's business and their owners' interests. The Group strictly abides by applicable laws and regulations. External trademarks and patents of the third parties are used for business operation in strict accordance with the applicable laws and regulations and with authorization obtained to avoid infringing others' intellectual property rights. At the same time, the Group pays attention to the comprehensive protection of its intellectual property rights and has registered trademarks for its name, logo and products have registered trademarks, which are prominently used in product packaging and advertising to deepen the impression of the public. In addition, the *CMS Code of Trademark Use* is in place to regulate the use of the Group's trademarks. The in-house developed ERP system is protected with software copyright. If any suspected infringement on intellectual property rights is found, the Legal Department of the Group will timely take corresponding measures.

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

4.3 Improvement of Healthcare Accessibility

The Group focuses on the health needs of patients and strives to improve the accessibility of medical and health products in the Chinese market. The Group's existing products cover cardio-cerebrovascular, digestion and ophthalmology, dermatology etc., all of which have sufficient evidence-based medical evidence, good reputation, relatively low daily treatment cost and high cost-effectiveness. At the same time, the Group attaches great importance to the expansion and penetration of the county-level and lower-tier markets, and the coverage of China's primary medical institutions, striving to improve the accessibility of quality medical products in the entire country. Through the unremitting efforts, the Group is looking forward to helping more Chinese patients and their families to access affordable and quality drugs.

At the same time, the Group focuses on the unmet medical needs in China and is committed to bringing new or better treatment options to patients of different ages and suffering from various diseases. With innovative research as its core strategy, the Group has deployed the innovative pipeline with differentiation advantages globally to meet the unmet medical needs in Chinese pharmaceutical market. As at 31 Dec, 2020, the Group has owned more than 20 innovative products with competitive differentiation advantages, including: the only FDA-approved Diazepam Nasal Spray for acute repetitive seizures in patients aged 6 and above. We believe that once the Diazepam Nasal Spray is approved in China, it will become a first-aid medicine that is safe and convenient to use outside the medical setting and has a very rapid onset of action for patients with acute repetitive seizures, especially for children aged 6 and older; the Group's blockbuster product, Tildrakizumab, is expected to provide the most cost-effective monoclonal antibody treatment option for patients with moderate to severe plaque psoriasis. With the increasing obese and overweigh population in China, the Group actively deployed PLENITY®, a safe and effective orally-administered weight management product made from naturally derived materials, in order to "reduce the burden" of these people. In the future, the Group will make unremitting efforts to develop more innovative drugs that are safer, more effective and more cost-effective to protect more Chinese families' healthy lives.

5. People-oriented Practice

Based on the concept of "striver-oriented", the Group regards employees as its most valuable assets. Strictly abiding by relevant national laws and regulations, the Group develops the *CMS Employee Manual* covering employment, employee health and safety, development and training, labor standards and other related contents. The Group ensures employment compliance, firmly resists child and forced labor, sets reasonable working hours and holidays, formulates recruitment, promotion, compensation and dismissal regulations according to law, establishes the multi-level career development paths and the fair and reasonable incentive mechanism, and guides the continuous improvement of employees' ability and professionalism through diversified training; at the same time, the Group adopts various means to ensure the employees' health and safety, creating a good working environment and atmosphere for all employees; the Group advocates equal opportunities and multiculturalism, and attaches importance to employee care and welfare.

During the Reporting Period, the Group strictly adhered to relevant national laws and regulations in terms of employment, occupational health and safety, and labor standards, including but not limited to those listed in the following table, and did not violate any applicable laws and regulations.

Table 9 Laws and Regulations Related to Responsibilities to Employees

Field	Major laws and regulations
Employees' rights and interests	*The Labor Contract Law of the People's Republic of China, Labor Law of the People's Republic of China, Regulations on the Implementation of the Labor Contract Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Minimum Wage Provisions, Rules of the State Council on Working Hours of Workers and Staff Members, and Special Rules on the Labor Protection of Female Employees, etc.*
Occupational health and safety	*The Work Safety Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Occupational Diseases, Regulations on Work-Related Injury Insurances, Regulations on Occupational Safety and Health, etc.*
Employment compliance	*The Special Rules on the Protection of Juvenile Workers, Provisions on the Prohibition of Child Labor, Law of the People's Republic of China on the Protection of Minors, etc.*

5.1 Employee Responsibility and Development

5.1.1 Employment, Rights and Interests

The Group always adheres to legal and compliant employee recruitment. The Group promises to sign, modify, rescind or terminate the labor contracts with employees as per the applicable national laws and regulations and its internal relevant rules and requirements. The employment relationship is based on signing the consensual and voluntary labor contract. The Group's labor contract stipulates the authenticity of candidates' personal information. In the process of recruitment procedures, the Human Resource Management Department checks the identity documents of employees twice to ensure that the employees are legally employed and to prevent child and forced labor from the origin. If any violation such as child labor or forced labor is found, the employment relationship will be determined to be invalid, the labor contract will be immediately rescinded, and the payable wages and other compensation prescribed by law will be paid.

During the Reporting Period, the Group employed no child labors or forced labors, and there was no downsizing.

The Group's employment and turnover data of employees in 2020 is shown below:

Table 10 Employment Information

	Unit	Year 2020
Total number of employees	Person	4,372
- Number of male employees	Person	2,024
- Number of female employees	Person	2,348
- Number of contracted employees	Person	4,372
- Number of dispatched employees	Person	0
- Number of employees aged under 30	Person	2,180
- Number of employees aged 30-50	Person	2,042
- Number of employees aged over 50	Person	150

Table 11 Employee Turnover Rate

	Unit	Year 2020
Turnover rate of employees	%	13.9
- Turnover rate of male employees	%	14.2
- Turnover rate of female employees	%	13.7
- Turnover rate of employees aged under 30	%	19.3
- Turnover rate of employees aged 30-50	%	7.9
- Turnover rate of employees aged over 50	%	6.8

In addition, the Group strives for a fair, respectful and diverse working environment and adheres to the principles of anti-discrimination and equal opportunity in human resources decisions such as recruitment, employment, working hours, incentive and promotion. The Group ensures that employees are not treated unfairly due to factors such as race, age, gender, religion, nationality, region, marital status, pregnancy status, disability, etc., and has established relevant complaint and punishment mechanisms for discrimination and harassment to ensure employees' rights. The Group conducts unified management on both non-regular and regular employees to ensure that all employees are treated fairly. In addition, the Group has set up the *Special Collective Contract for the Protection of the Rights and Interests of Female Employees* to protect the rights and interests of female employees. Female employees of the Group are entitled to statutory holidays during pregnancy, maternity and lactation, and are given reasonable care and consideration.

The Group encourages equal communication and supports employees to interact with the Company personally or through the labor union, to build a harmonious labor relationship. All the employees can communicate with the management through the internal ERP platform, telephone and face-to-face dialogues. In addition, the labor unions of the Group's subsidiaries have established employee reception room, management reception day and feedback box, and given replies regularly to staff suggestions. The Human Resource Management Department conducts employee satisfaction surveys from time to time to understand employees' thoughts and working satisfaction, and timely reports to the management and conducts improvement.

During the Reporting Period, all the labor unions of the Group actively carried out employee exchanges or welfare activities, protected the rights and interests of employees, and increased the channel of mutual communication between employees and the Company.

5.1.2 Recruitment, Working Hours, Compensation and Promotion

The Group develops the *Social Recruitment Process* and *Campus Recruitment Process*, recruiting new employees through multi-channels such as campus recruitment, internal recommendation, online recruitment, etc. to ensure the employment of high-quality and suitable talents and meet the Company's demand for talents through the fair, impartial, open and standardized employment process, meeting the Company's demand for talents. At the same time, the Group carries out an annual internship plan, to recruit college student reaching the legal working age for the internship training program, offering internship salary and corresponding benefits according to legal requirements, in order to promote the Group's communication with colleges and universities, and expand the Group's social influence, as well as create a professional and efficient talent pool for the Group.

The Group has flexible working hours and vacation policies, sets minimum working hours according to the requirements of laws and regulations and implements a flexible working hour system. Employees may reasonably arrange the working pace according to their own needs. All the employees of the Group are entitled to leave according to law, and their posts will be 100% kept during the leave. At the same time, according to the employee handbook, any employee whose overtime application is approved will be compensated legally.

The Group's compensation system is inclined to "posts and people who creates value". The employees'compensation and benefits depend on the Company's performance and their own performance. The Human Resource Department of the Group dynamically reviews the employees' remuneration level according to the Consumer Price Index ("CPI") and compares internal and external remuneration levels once a year based on the remuneration report of professional consulting companies to ensure that employees receive fair and competitive salaries and remuneration. During the Reporting Period, the Group carried out level-of-position review and person-post matching certification, and promoted salary adjustment according to the certification results, ensuring that the salary adjustment was fair and reasonable, and providing clear career development guidance for employees. In addition, the Group continues to implement internal incentive policies such as "Hall of Honor Awarding System" and "Annual Incremental Reward Plan" to provide staged incentives.

The employee promotion within the Group is competence-oriented and follows the talent promotion principle of "internal selection, step-by-step promotion, classified training, spiral rise, and anomalous promotion in special period". In accordance with the guidelines and requirements of performance management and post descriptions, the Group established various development paths based on different position characteristics, providing the employees with fair, impartial and open promotion channels and opportunities. As for the appointment and removal of senior management, the Human Resource Management Department regularly announces of appointment and removal notice to ensure fairness and effectiveness.

In addition, the Group has established compensation and position application and appeal system. Employees can apply for position promotion certification. After approval by the professional evaluation team, the results will be objectively and fairly provided to employees. If employees have any objection to the certification process or results, they can appeal to the Human Resource Management Department, which will make further verification and give feedback according to the fact.

5.2 Training and Development

The Group attaches great importance to its employees' training and empowerment, and encourages employees to continuously improve their professional abilities and enterprising spirit to realize self-worth. The Group has established policies such as *Provisions on Employee Training and Career Development, Provision on Employee Training Process,* and *Provision on Internal Instructor Training* to define the Company's diversified training forms and support the employees' rapid growth.

The Group has set up a designated training base in Pingshan, Shenzhen that provides a good centralized training environment and atmosphere for employees. The Group regularly releases training materials with the support of digital mobile application tools, allowing employees to learn conveniently and effectively. The Group has established the "Navigation" training system to build a learning organization and better help employees' career development. The "Navigation" training system has two kinds of training programs: the promotional line and the functional line, covering corporate strategy, corporate culture, professional skill and knowledge, job qualification assessment, management and leadership skill, policy and regulation, etc., and comprehensively helping employees improve their all-round ability through the combination of internal and external training.

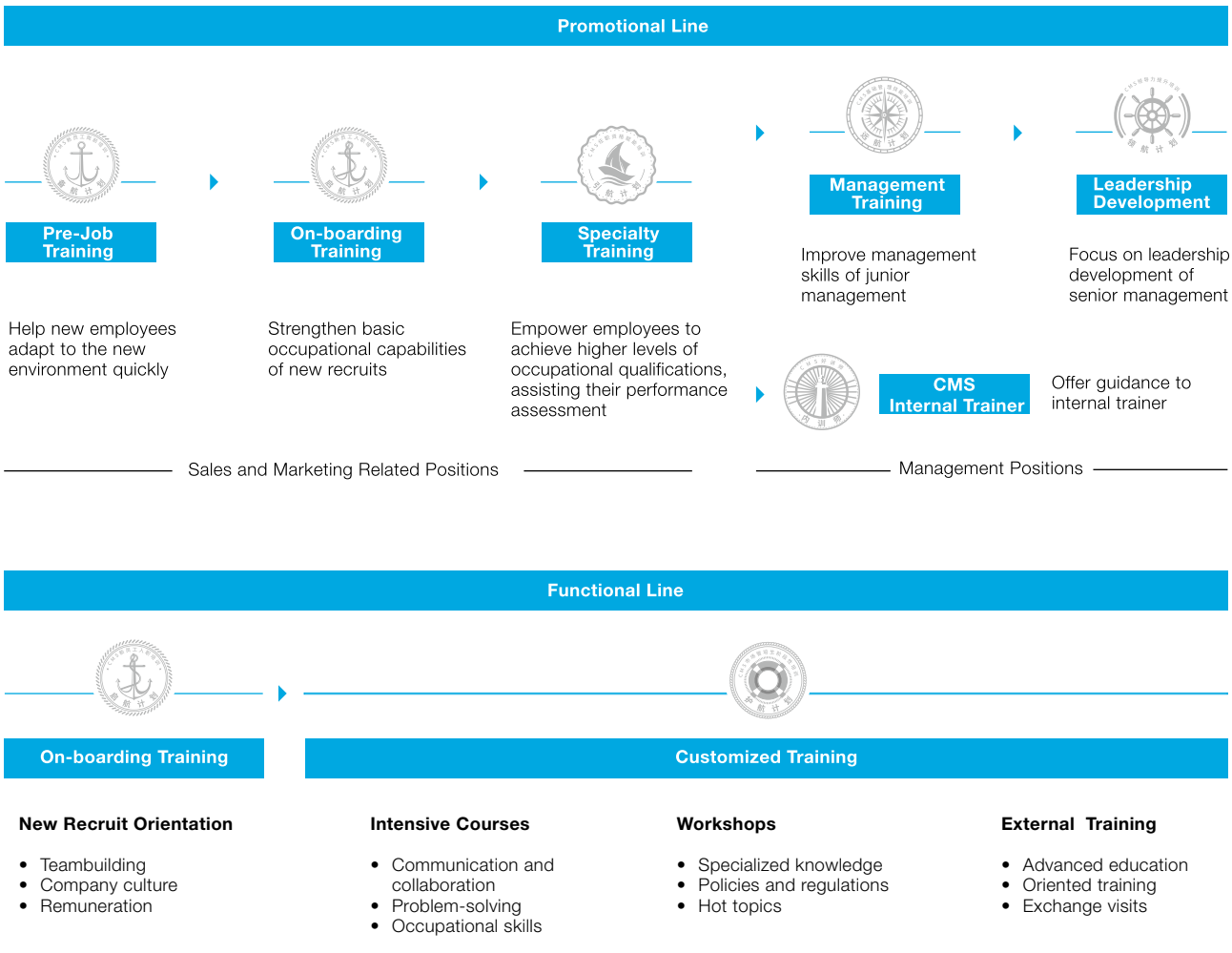


Figure 6 "Navigation" Training System

The Group's employee training data in 2020 is shown below:

Table 12 Employee Training Data

	Unit	**Year 2020**
Total employees training expenditure	Million RMB	5.3
Training coverage of employees	%	70.7
- Training coverage of general employees	%	70.5
- Training coverage of senior management	%	78.9
- Training coverage of male employees	%	72.6
- Training coverage of female employees	%	69.1
Employees training duration per capita	Hour	18.5
- Training duration per capita for general employees	Hour	18.6
- Training duration per capita for senior management	Hour	12.6
- Training duration per capita for male employees	Hour	20.2
- Training duration per capita for female employees	Hour	17.0

5.3 Employees Care

5.3.1 Occupational Health and Safety

The Group has formed and constantly improved the employee occupational health and safety system with production safety and occupational health as the core under the lead of the safety regulations:

Safety Rules and Regulations

Regulations on Governing Safety Prevention Responsibility, Environment and Fire Emergency Plan, Provisions on Production Safety, Provisions on Crises Management, Emergency Plan, Provisions on Workplace Safety Management, etc.

Safety Record

Establishment of chronological occupational safety and health documents for employees; complete safety assessment of storage and use of hazardous chemicals timely and report to the safety supervision authority

Safety Protection

Safety warning signs and first-aid kits are reasonably set, and employees at posts involving health and safety risk are supplied with appropriate personal protective devices such as earplugs, protective gloves, activated carbon anti-toxic masks and respirators

Safety Inspection

Each subsidiary sets up a leading group for production safety inspection, carries out a production safety responsibility system, and organizes and implements the "Production Safety Month" campaign; conducts assessment of safety production performances and management of safety production rewards and punishments; and conducts regular assessments of major hazards and monthly safety inspections in the workplace to prevent accidents

Safety Training

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

Health Check

Provision of annual health check for all employees. During the reporting period, 100% of employees had voluntarily participated in the annual health check

Safety Drills

During the reporting period, the Shenzhen subsidiary of the Group worked with relevant property management company to conduct safety and fire emergency drills, and the Hebei subsidiary independently conducted emergency drills for environmental accidents in hazardous waste storage rooms, while the Hunan subsidiary conducted emergency drills for safety production and fire proof

Daily Maintenance

The Group insists to reduce employees' health risks starting from daily trifles, such as timely changing drinking water filters, regularly cleaning and disinfecting the central air conditioning and carpets, as well as regularly exterminating insects and rats in the workplace

Figure 7 Occupational Health and Safety System

During the Reporting Period, the Group specially formulated the *Regulations on the COVID-19 Prevention and Control* for the protection of the physical and mental safety of employees during the COVID-19 pandemic period. The Group formed a leading group for prevention and control with unified command and hierarchical responsibility. During the COVID-19 pandemic period, the Group arranged for special personnel to conduct disinfection in the office every day, provided protective materials for employees' free use, and measured the body temperature of employees regularly, in order to ensure their physical and mental health during the pandemic period.

The Group's employee health and safety data in 2020 is shown below:

Table 13 Employee Health and Safety Data

	Unit	Year 2020
Working days lost due to work-related injury	Day	240
Number of work-related fatalities	Person	0
Proportion of work-related fatalities	%	0
Proportion of employees with occupational health checks	%	100

5.3.2 Employee Benefits

The Group provides employees with five statutory social insurance schemes (basic endowment insurance, basic medical insurance, employment injury insurance, maternity insurance and unemployment insurance) and the housing fund in strict accordance with national regulations. During the Reporting Period, the coverage of employee benefits was 100%, which including but not limited to the following:

- ✓ Providing allowances to fund employees' round trips for family visit once a year;
- ✓ Providing housing allowances to help some employees with housing problems;
- ✓ Providing Taikang group accident insurance to employees;
- ✓ Providing high-quality health check to help employees understand their health conditions;
- ✓ Organizing employees' sports activities such as badminton and basketball, setting a gym and cooperating with big sports venue to enrich employees' lives;
- ✓ Appropriating special funds to encourage team-building activities, enhancing friendships between employees;
- ✓ Providing festival gifts and benefits; providing employees with free masks, detergent, hand sanitizer and other protective materials for several times during the COVID-19 period;
- ✓ Implementing flexible working hours and allowing employees to telecommute, in order to provide convenience for employees in a variety of ways.

6. Cooperation and Mutual Benefit

The Group believes that effective cooperation and management with the upstream and downstream cooperators of the supply chain are essential to ensure the quality and safety of products and maintain the sustainable development of the Group. The Group strictly abides by relevant national and local laws and regulations, adheres to the principle of fairness, and establishes an efficient supply chain management system to ensure the quality of products and services, reduce procurement risks and improve management efficiency.

To build a harmonious, green and high-quality supply chain system, the Group has established a long-term communication mechanism with suppliers and distributors through telephone, e-mail and face-to-face visits, conducted comprehensive communication on existing problems and assisted partners to perform rectification, and maintained lasting and stable strategic partnership to achieve win-win and risk-sharing cooperation. During the Reporting Period, the Group took a variety of measures to further encourage suppliers to use more environment-friendly products and services, and strengthen the identification, supervision and control of environmental and social risks in each segment of the supply chain, making progress together with upstream and downstream partners and promoting the sustainable development of the supply chain.

During the Reporting Period, Shenzhen Kangzhe, a subsidiary of the Group, successfully passed the customs' advanced Authorized Economic Operator (AEO) certification and became an enterprise with the highest level of the "credit pass" for international trade. AEO certification requires training, auditing and inspection of the supply chain process by the customs, which is a high standard identification of the company's whole supply chain management.

6.1 Supplier Management

The Group has established the *Regulations on First-time Supplier Qualification Review* to comprehensively examine the qualification of the first-time suppliers, and also had the *Operation Provisions on Internal Quality Audit, Regulations on Drug Procurement, Provisions for Material Supplier Management, Operation Procedure of Material Supplier Evaluation, Provisions for Material Procurement* and other regulations and policies to guide and standardize the suppliers selection, monitoring and procurement process.

The finished drugs that the Group promotes and sells are introduced through asset purchase or long-term sales agreement to acquire their related products rights in specified regions, and the production is mainly conducted by the original or entrusted manufacturers. Therefore, the Group has sustained long-term and stable strategic relations with upstream suppliers. According to the strict selection criteria and *Regulations on First-time Supplier Qualification Review*, the Group checks several aspects of the supplier, include but are not limited to: company scale, history, industrial reputation and competitiveness, qualifications, production conditions, product category, quality and prestige, after-sales service, environmental protection and social responsibility. For the first-time supplier, the Group firstly reviews the completeness, authenticity and legal validity of the company's profile, and organizes a site inspection when necessary and evaluates the supplier's quality management system. Once the supplier is selected, the Group will sign a long-term supply agreement with it and conduct annual quality review at least once a year, then form the *List of Qualified Suppliers*. The Group actively communicates with suppliers and purchases on demand during the cooperation. Before importing goods, the supplier is required to provide quality certifications and relevant standard indicators are reviewed to confirm that the products meet the requirements. At the same time, the Group has established digital purchasing archives, recording the procurement process and timely reporting problems to suppliers to urges them to improve.

All production material suppliers are selected as per *Provisions for Material Suppliers Management*. Before the supplier is engaged, the Quality Management Department and other relevant departments will jointly conduct a comprehensive on-site evaluation and auditing, inspect the samples, and a small batch trial production will be conducted when necessary. Only suppliers who have passed the full review are eligible in the Group's qualified supplier list. According to the degree of importance of materials and the results of quality assessment, the Group implements hierarchical management and annual inspection for qualified suppliers. Among them, the material suppliers of Class A who have a significant impact on drug quality and safety shall receive an extra annual on-site auditing. The Group timely updates the suppliers list based on the results of the annual inspection and maintains at least two qualified suppliers for any production material to ensure the supply of materials in emergency.

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

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

The Group's supplier data in 2020 is shown below:

Table 14 Supplier Data

	Unit	Year 2020
Total number of suppliers	Number	116
- Number of Mainland China suppliers	Number	78
- Number of HK SAR, Macao SAR, TWN and overseas suppliers	Number	38

6.2 Distributor Management

The Group has established the *Regulations on Purchaser Qualification Review, Operation Procedures on Purchaser Qualification Review* and other regulations and policies to support distributors management. The Group's selection criteria for distributors includes operation ability, cooperation intention, distribution channel coverage, market management and control, etc., in order to fully guarantee the distributor' qualification, credit and compliance, and ensure product quality and intactness during the distribution process.

6.3 Sustainable Development of Supply Chain

The Group's supply chain management mainly includes three parts, namely supplier selection, procurement and production, and distribution. In the whole process, there may be corruption, bribery and unfair competition in biding, illegal operation of suppliers, substandard quality of products or raw materials, environmental pollution during transportation and other social and environmental risks. The Group has formulated corresponding prevention and control measures for potential risks in each part, including but not limited to the following:

Table 15 Abstract of ESG Risk Prevention and Control Measures in Supply Chain

Supplier selection	• Adhering to the principle of openness, impartiality and fairness, preventing and controlling possible corruption risks in the bidding process with participation of multiple departments • Including human rights, environmental and social factors into the supplier review; encouraging and tending to choose suppliers advocating the green environmental protection concept or with relevant qualifications, including but not limited to: ISO 14000, ISO 45001, SA8000, etc. • If the candidates are on a par, the one in closer proximity will be preferred for more convenient transportation, to reduce the potential environmental pollution to the environment during the shipment
Procurement and production	• In the agreement with suppliers, clearly stating quality credibility and supply integrity, in order to realize integrity in supply chain • Stating anti-bribery and anti-corruption requirements in the supplier's contract, and requiring suppliers to comply with the local regulatory requirements for operations and production, so as to prevent relevant social risks • In view of the possible impact of packaging materials used in the production process on product quality and environmental pollution risk, suppliers are required to use packaging materials in compliance with the environmental protection standards. The inner packaging in contact with drugs is required to be at least the food-grade packaging to ensure product safety and realize green packaging
Distribution	• Preferring large-scale distributors with comprehensive distribution channels coverage to reduce the negative environmental impact in logistics

During the Reporting Period, the Group invited its core suppliers to sign the *Supplier Statement* to express their commitment in anti-corruption, labor compliance, environmental protection, etc. This program is still ongoing. Through a series of management measures and regulations, the Group has identified the environmental and social risks in each segment of the supply chain while striving to ensure the compliance and safety of the supply chain, encouraged suppliers to use more environment-friendly products and services, and implemented the concept of environmental protection and sustainable development.

Table 16 Abstract of the *Supplier Statement*

Field	Abstract
Compliant operation and business ethics	• Following applicable laws, regulations, standards, guidelines and criterions, including but not limited to the GSP, advertising law and patent law, etc. • Providing high-quality, safe and effective products and services that comply with applicable laws, regulations, quality requirements and standards • Resolutely resisting on bid rigging, bidding collusion, acceptance of kickbacks and other unfair competition, and keeping zero tolerance for any form of corruption, extortion or bribery
Human rights and labor standards	• Respecting the protection of internationally recognized human rights and avoiding human rights violation • Avoiding all forms of child labor, forced and compulsory labor • Respecting personal dignity, privacy and rights, abiding by the maximum working hours stipulated by relevant laws, and providing fair remuneration • Promoting equal opportunity and treatment of employees, and not discriminating against or harass for any reason • Complying with laws and standards related to occupational health and safety, and providing safe working environment
Environmental protection	• Complying with environmental laws and standards • Establishing a reasonable internal environmental management system
Community culture	• Facilitating the economic and social development of the community • Ensuring the full respect for the human rights, dignity, culture, and the survival by reliance on natural resources

7. Environmental Protection

The Group always insists on contributing its corporate strength to the protection of the ecological environment, actively manages and controls the impact of production and operation on the surrounding environment, and strictly abides by various national laws and regulations, including but not limited to:

Table 17 Environmental Protection-related Laws and Regulations

Field	Major laws and regulations
Environmental protection	*Environmental Protection Law of the People's Republic of China, Environmental Impact Assessment Act of the People's Republic of China,* etc.
Emission control	*Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, Law of the People's Republic of China on Prevention and Control of Environmental Noise Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution, Emission Control Standard of Volatile Organic Compounds for Industrial Enterprises, Standard for Pollution Control on the Storage and Disposal Site of General Industrial Solid Wastes, Standard for Pollution Control on Hazardous Waste Storage, Emission Standard of Boiler Air Pollutants, Integrated Wastewater Discharge Standard, Wastewater Quality Standards for Discharge to Municipal Sewers, Discharge Standard of Pollutants for Municipal Wastewater Treatment Plants, Emission Standard for Industrial Enterprises Noise at Boundary,* etc.
Resource management	*Law of the People's Republic of China on Conserving Energy, Law of the People's Republic of China on Promoting Clean Production, Circular Economy Promotion Law of the People's Republic of China,* etc.

The Group and its subsidiaries have established and continuously improved the environmental management system, and fully implemented environmental protection works. The Group has formulated the *Integrated Emergency Response Plan for Environmental Incidents* and set up the emergency response organization with detailed solutions and responsible departments for various environmental risks. During the Reporting Period, the Group's Audit Department conducted a comprehensive environmental internal audit on its subsidiary Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan") about environmental issues such as pollutant emission management, resource management, ecological protection, climate change risk response, etc, to ensure the standardization of environmental management.

7.1 Emission Control

Based on the business types, the Group and its subsidiaries have formulated a series of internal environmental management regulations such as *Regulations on Environmental Protection, Exhaust Gas Emission Management Procedures, Wastewater Management Procedures, Resource-conserving Management Regulations, Provisions on Quality-Control Laboratory Waste Management, Regulations of Boilers Management*, etc., covering key businesses units that generate environmental pollutants and consume environmental resources.

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

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

7.1.1 Solid Waste Management

The Group has established the management process for solid wastes and formulated relevant internal management rules and regulations such as the *Management Procedure of Hazardous Chemicals, Regulations on Hazardous Waste, Regulations on Toxic Products*, etc., to enable a whole-process management, including the storage, use, and treatment of hazardous materials. The solid waste generated by the Group's production and operation activities mainly consist of herb residue, a small amount of chemical agents, animal excrement from agriculture and livestock business, office waste, etc.

During the Reporting Period, the Group's Administration Department carried out training on the garbage classification training and corresponding assessment for all employees in the Group's Shenzhen office, and conducted assessments to ensure that the employees fully understand the dumping rules, which is helpful for office waste management. As at December 31, 2020, the pass rate of the assessment was 100%. The training and assessment are still going on. The Group's management measures for solid waste also include:

Pharmaceutical production waste	Agriculture and livestock waste	Office waste
✓ Herb residues are mainly particle filter residues (lignin) and a small amount of insoluble extractives, which are non-hazardous solid waste. The Company timely transports the residues to a third-party company specialized in environmental protection technology for fuel processing; ✓ The subsidiary Hunan Agriculture and Livestock has set up storage tanks to receive the waste medicine residues from Kangzhe Hunan, which will ferment after mixing with organic fertilizer in a certain proportion to produce efficient fertilizer for crops, realizing the ecological and organic recycling of waste; ✓ Strictly implementing the management of the use of related chemicals and reagents, ordering and using chemicals according to the needs. Waste liquid is collected and stored by classification, and timely and properly disposed; ✓ The used chemicals are collected and stored in the temporary hazardous waste storage room in time, and a third-party specialized hazardous waste disposal company is entrusted to transfer out those hazardous wastes on a regular basis; ✓ The operating procedure is strictly carried out in the wastewater treatment station to control impurities and reduce the amount of sludge. In addition, oil separation tank and septic tank are established for primary treatment of the sludge	✓ Adopting automatic collection devices to collect animal excrement and making into organic fertilizers for crops via biological fermentation	✓ Reducing use of disposable tableware in canteens; ✓ Putting on saving-paper signs in the restrooms; ✓ Assigning dedicated personnel to collect domestic waste, and then putting into the unified designated garbage collection points; ✓ Imposing monthly quota on garbage bag and tissue for each department; ✓ Encouraging employees to exercise the garbage classification, regular handling of non-recyclable waste by the property company, while recycling or reusing paper, metal, plastic, glass and other recyclable waste

The Group's solid waste data in 2020 is shown below:

Table 18 Solid Waste Data

	Unit	Year 2020
Hazardous waste	Ton	4.3
Hazardous waste intensity	Ton/million RMB	0.00054
Non-hazardous waste	Ton	1,531.3
- Herb residue	Ton	1,413.0
- Sewage sludge	Ton	10.6
- Household garbage	Ton	107.8
Non-hazardous waste intensity	Ton/million RMB	0.19

7.1.2 Air Pollutant Management

Based on the applicability of business types, the Group has formulated internal regulations such as *Operation Regulations of Steam Boilers, Operation Regulation of Exhaust Gas*, etc., to standardize the air pollutant treatment process and minimize the adverse impact of exhaust gas emission on the atmospheric environment.

During the Reporting Period, the Group continued to use clean energy for boiler operation: Kangzhe Hunan mainly used natural gas as fuel, while Hebei Xili used alcohol-based liquid fuel to run the boilers. Through continuous optimization of production plan, the Group has continuously optimized its production plans to improve boiler operation efficiency to save energy and reduce emissions. The Group's air pollutant management measures also include:

Kangzhe Hunan	Hebei Xili
✓ The exhaust gas of the natural gas boiler is delivered to activated carbon absorption devices to remove Nitrogen Oxide, Sulfur Dioxide, and Particulate Matter, followed by wet-spraying. Normative exhaust gas is discharged at a specified altitude. Wastewater of wet sprinkler devices flows to the self-built sewage treatment station for treatment and recycling; ✓ Entrusting a third-party professional testing agency for quarterly sampling of the exhaust gas emitted by steam boilers. During the Reporting Period, the monitoring results showed that exhaust emission met the specified air pollutant emission limits	✓ The environment-friendly alcohol-based liquid fuel is used for boilers; ✓ Insisting on purchasing quality fuel to reduce the emission of exhaust pollutants; ✓ Entrusting a third-party professional testing agency for quarterly sampling of the exhaust gas emitted by steam boilers. During the Reporting Period, the monitoring results showed that exhaust emission met the specified air pollutant emission limits

The Group's air pollutant emission data in 2020 is shown below:

Table 19 Air Pollutant Emission Data

	Unit	**Year 2020**
Sulfur Dioxide (SO_2)	Kg	0.0
Nitrogen Oxide (NO_x)	Kg	1,838.1
Particulate Matter (PM)	Kg	157.7

7.1.3 GHG Management

A large amount of GHG emission will have a severe impact on the climate system of the Earth. In September 2020, China proposed to strive to reach the peak of carbon emissions by 2030 and exert very effort to achieve "carbon neutrality" by 2060. The Group is well aware of the close relationship between enterprise operation and climate change, and also pays close attention to the risks and opportunities brought by the climate change. The Group's direct GHG emissions mostly come from energy consumption of natural gas, alcohol-based liquid fuels, gasoline, diesel oil, etc., and indirect emissions of purchased electricity. The total GHG emission intensity of the Group is expected to be reduced by at least 5% by the end of 2023, comparing with 2020. In order to achieving this target, the Group has been actively choosing clean and efficient energy and is committed to downsizing energy consumption to reduce direct and indirect GHG emission, the detail of relevant measures can be found in the *7.2 Resource Management* section.

The Group's GHG emission data in 2020 is shown below:

Table 20 GHG Emission Data

	Unit	**Year 2020**
Direct GHG emission (Scope 1)	Ton CO_2e	5,876.0
Indirect GHG emission (Scope 2)	Ton CO_2e	6,686.2
Total GHG emission (Scope 1 + 2)	Ton CO_2e	12,562.3
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e /million RMB	1.58

7.1.4 Wastewater Management

The Group has formulated internal regulations, such as the *Operating Procedure for Wastewater, Job Duties for Wastewater Treatment*, etc. to strengthen wastewater discharge control. The Group's wastewater management measures include but are not limited to:

Kangzhe Hunan	Hebei Xili	Hunan Agriculture and Livestock
✓ In 2019, a new wastewater treatment facility with a daily capacity of 200 tons was built and has been put into trial operation during the Reporting Period, increasing the combined wastewater treatment capacity to 300 tons/ day	✓ After treatment of the Company's sewage treatment station, the qualified wastewater flows into the municipal wastewater treatment plant	✓ Actively growing turfs and other plants around animal houses and parks to purify outdoor residual animal dung water outdoor; ✓ The wastewater is filtered and settled via the protective ditch and sedimentation tank around the animal houses and the parks, and then discharged into the underground sewer system

The Group's wastewater discharge data in 2020 is shown below:

Table 21 Wastewater and Pollutant Components Data

	Unit	Year 2020
Wastewater	m^3	71,298.0
Wastewater intensity	m^3/million RMB	8.96
Ammonia Nitrogen (NH_3-N)	Ton	0.03
Chemical Oxygen Demand (COD)	Ton	0.7

7.1.5 Noise Management

Regarding the noise generated by the machine operation during drug production, the Group strictly manages the noise emission, monitoring regularly and requiring the susceptible employees to wear protection appliances. During the Reporting Period, Kangzhe Hunan, a subsidiary of the Group, employed the horizontal centrifuges in the oral liquid powder workshop to reduce noise, and set noise barriers outside the equipment room and added sound insulation cotton inside to further reduce the impact of equipment noise on the operators and surrounding residents.

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

7.2 Resource Management

The Group promotes the concept of energy conserving, efficiency improving and low-carbon development, and has formulated the *Management Regulations on Energy Conservation and Consumption Reduction of CMS Headquarters Office* and *Regulations on Resource Conservation Management*, etc. to promote the efficient utilization of energy, water resource and packaging materials, striving to reduce the impact on the environment and natural resources. During the Reporting Period, the Administration Department of the Group initiated the "Energy Conserving and Consumption Reduction" program to promote the healthy lifestyle of "Green Office and Low-carbon Life" in four aspects: energy conservation, water conservation, paper and consumable conservation, and environmental protection and personal hygiene, so as to improve employees' awareness of energy conservation and consumption reduction, create a thrifty, low-carbon and environmental friendly corporate culture, and strictly implement personal hygiene management during the time of pandemic prevention and control.

7.2.1 Energy Conservation

The Group attaches importance to energy management by adopting the following measures to promote energy conservation and efficient utilization, and to reduce the GHG emission from the energy consumption. Compared to 2019, the Group saved alcohol-based liquid fuel by 8.6% and gasoline by 26.0% in 2020.

Electricity	Boiler fuel	Gasoline	Diesel oil
Electricity is mainly used for drug production and daily office use: ✓ Assigning specialists to conduct routine inspections on the use of electricity; ✓ Posting signs to promote energy conservation and emission reduction; ✓ Installing induction lamps and LED energy-saving lamps; ✓ Setting the air conditioners at 26°C, regularly maintaining the air conditioners to reduce energy consumption; ✓ Modifying unreasonable power transformation lines that wastes electricity in office area	Boiler fuel is mainly used for drug production: ✓ Purchasing high-quality fuels, implementing fuel inspection to ensure efficient fuel utilization; ✓ Strictly preventing the energy waste due to steam and liquid leakage or dripping etc.; ✓ Maintaining boiler regularly to ensure reasonable and efficient use of gas boilers; ✓ Detecting and repairing the leakage of volatile organic compounds on a regular basis to reduce emission and leakage of the sealing points; ✓ Using small gas-fired boilers, with reasonable allocation based on actual needs	Gasoline consumption mainly comes from the use of office vehicles: ✓ Establishing the *Regulations on Vehicle Management,* implementing vehicle registration and approval system for vehicle use, encouraging employees to travel together to reduce the frequency of vehicle use; ✓ Encouraging employees to walk or take the battery-powered bicycles in industry park as much as possible; ✓ Regularly inspecting and maintaining the vehicle; requiring drivers to do mileage registration	Diesel oil consumption mainly comes from the use of greenhouses' insulation equipments and vehicles for the agricultural and livestock business, and standby power generators for the drug production business: ✓ Using natural water from reservoirs for irrigation to reduce the frequency of diesel engines use; ✓ Operating the diesel generators as per practical demand, and conducting regular maintenance

7.2.2 Water Conservation

The Group's water consumption includes: drug production and cleaning in drug plants, agricultural irrigation and livestock cultivation, and domestic use by employees. Hebei Xili, a subsidiary of the Group has established the *Water-saving Measures of Hebei Xili* to standardize the utilization of water in the plant area. The Group is committed to improving employees' water saving awareness and advocats water water cyclic utilization. The Group conducts the following measures to reduce water consumption and achieve reasonable control of water utilization based on the actual production scale.

Water for drug production and cleaning	Water for agricultural irrigation and livestock cultivation	Domestic water for employees
✓ Installing multi-level water meters to effectively monitor the water consumption of key segments; ✓ Comprehensively maintaining the water supply system in the factory to prevent water leakage; ✓ Recycling and reusing the cooling water produced in workshops; ✓ Collecting the domestic water and production wastewater to the self-built sewage treatment station for treatment, and then recycling	✓ Upgrading the livestock and poultry breeding water equipment to automatic water-saving equipment; ✓ Replacing spray irrigation by drip irrigation in the greenhouse to reduce the waste of water; ✓ Using reservoirs and pipeline ditches to store rainwater, and basically realizing the use of natural water for greenhouses irrigation	✓ Publicizing the act of water conservation and punishing act of water wasting; ✓ Replacing with water-saving faucets in the company's dormitory and canteen, and modifying the aging flush valves to prevent water wastage due to the aging of equipment

7.2.3 Packaging Material and Paper Conservation

The Group has formulated the *Material Distribution Regulations.* The Storage and Logistics Department formulates budget based on the use of packaging materials in the previous year, checks the inventory of packaging materials monthly, and reasonably formulats the packaging materials procurement plan based on the production plan. In addition, the Group strictly follows the principle of "withdrawal on demand", while the warehouse management staff strictly controls the release quantity of materials to avoid unnecessary waste.

The Group introduces mechanized packaging to save the utilization of packaging materials. By means of delivering the products in the original package, improving the packing mode of odds and ends, recycling the packaging boxes, etc., the Group aims to achieve reasonable utilization of packaging materials. The damaged and worn-out packaging materials are collected all together and reserved for other fillings. The packaging materials that cannot be further used are regularly sold to the salvage station on a regular basis to realize the recycling of resources. The Group also puts forward the corresponding environmental protection requirements for packaging material manufacturers and insists on selecting the environment-friendly packaging materials with high cost-effectiveness via comparison among multiple potential suppliers; packaging material manufacturers are required to provide environmental protection certificates and material inspection certificates for packaging materials they produced.

The Group encourages video conferencing to reduce business travels, insists on regulated paper use, and demands double-sided printing and the diversified use of paper, and the secondary use of the non-confidential paper, to fully create a paperless office environment.

The Group's energy and resource utilization data in 2020 is shown below:

Table 22 Energy and Resource Utilization Data

	Unit	**Year 2020**
Conversion of electricity for comprehensive energy consumption	kWh	31,600,399.0
- Outsourced electricity	kWh	7,520,182.0
- Natural gas	m^3	1,057,711.0
- Alcohol-based liquid fuel	Ton	1,914.8
- Gasoline	Liter	59,365.4
- Diesel oil	Liter	2,117.3
- Liquefied gas	Kg	435.0
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	3,917.23
Total water consumption	m^3	282,658.0
- Tap water	m^3	66,781.0
- Underground water	m^3	215,877.0
Total water consumption intensity	m^3/million RMB	35.52
Total packaging material	Ton	932.1
- Paper product	Ton	624.1
- Glass bottle	Ton	175.9
- Plastics	Ton	132.1
Total packaging material intensity	Ton/million RMB	0.12
Office paper	Ton	8.3

7.3 Environment and Natural Resource

The Group focuses on developing employees' awareness of environmental protection, delivering green business philosophy, constantly exploring the production mode of harmonious coexistence with nature, protecting biodiversity during production and operation, and with stakeholders to jointly promote green, harmonious and sustainable development with various stakeholders. The Group's operating process has not involved in the extraction and utilization of large quantity of natural resources and had a limited environmental impact. The Group's protection measures for environmental and natural resource include but are not limited to:

Pharmaceutical promotion and marketing business	Pharmaceutical production business	Agriculture and livestock business
✓ Effectively managing the waste generated in daily work and life and promoting green office program to reduce resource consumption	✓ Standardizing procurement to prevent environmental damages such as over-harvesting and destruction of biodiversity, etc.; ✓ Strengthening greening project and protecting surrounding water and soil resources	✓ Cleaning animal houses every day, and carrying out regular sanitary inspection to reduce the impact of the breeding area on the surrounding air and water area; ✓ Setting up double-layer protection in the breeding area to strictly prevent the l pollution to the ambient environment; ✓ Collecting and using natural precipitation for irrigation to reduce the consumption of purchased water sources

7.4 Combating Climate Change

Climate change is one of the most serious challenges that the world faces in the 21st century, and it is also the focal issue in the current domestic and international community. The Group is well aware of the profound and long-term impact of climate change on every region and enterprise. Therefore, the Group focuses on identifying the risks and opportunities brought by climate change in the daily operation, taking appropriate measures for risk management and control.

The following are the climate change risks identified by the Group:

- ✓ Transition risk: changes with laws, regulations, and industry standards due to promotion of low-carbon economy, which may result in the corresponding changes in factors such as production technology, production costs and other factors, etc..
- ✓ Physical risk: climate change may increase the risk of virus spread through various ways, and directly threaten global public health, resulting in changes in health demand, and making a series of influences on drug research and development, production and supply.
- ✓ Physical risk: extreme climate change may produce an impact on production processes, such as the shortage of raw materials due to extreme weather; and shutdown of the boiler workshop due to climate warming, etc.
- ✓ Physical risk: the increase of extreme weather events may make an impact on the stability of production, such as the increasing possibility of fire, more personal safety problems of employees on commuting, etc.

In response to the above identified climate change risks, the Group has taken a series of effective measures accordingly. For example, the Group has actively adopted various energy conservation and emission reduction measures to increase the use of renewable energy and reduce dependence on fossil energy; continuously tracked the changes of global diseases, especially the status of large-scale infectious diseases; carefully selected the construction site for new production facilities in the future, improved the quality of construction materials, and replaced with quality equipment to avoid the impact of extreme weather; strengthened inspection of the factory area, equipped with complete fire prevention facilities to try best to eliminate safety hazards.

8. Community Dedication

The Group attaches great importance to social contributions in the medical and healthcare field, and considers the efforts in promoting medical advancement a momentum for its development. The Group actively participates in the re-education programs in the medical and healthcare field, and is committed to promoting the health awareness of the public, involving in creating the "Healthy China". Meanwhile, the Group also focuses on community services and public welfare activities to taking responsibility as a corporate citizen. During the Reporting Period, the Group released the *CMS Guidelines for Public Welfare Activities* to provide a clearer and more standardized guidance for the implementation of community public welfare activities. During the Reporting Period, the total donation amount of public service activities was about RMB18.81 million.

8.1 Promoting Medical Advancement

Through cooperating with social groups and academic organizations, and utilizing digital conference platform, the Group has actively organized diverse academic exchange activities for basic-level doctors, and disease education activities for general patients, receiving sound feedbacks. During the Reporting Period, the Group launched various activities to promote the medical advancement, including but not limited to:

- "Myopia Prevention and Control Forum"
  Through the interpretation of the hot topics such as myopia prevention and control policy, the promotion of relevant consensus and standard, the experience exchange of diagnosis and correction, and the discussion of cutting-edge technologies, the forum is aimed to provide practical clinical guidance and recommendations to further improve the level of myopia prevention, control, diagnosis and treatment in China.

- "October - the Hypertension Publicity Month"
  Cooperating with Chinese Hypertension League to initiate free offline public service consultation and health education for hypertension patients includes 21 public service consultation sessions and 22 health education sessions for patients, covering more than 4,000 patients, in order to improve the patients' self-management on hypertension and promote people's awareness to the prevention and treatment of hypertension.

- "Online Programs for Pandemic Prevention"
  During the special period of fighting against the COVID-19 pandemic, the internet information technology has been used to hold online academic activities in the various fields of clinical medicine, aiming at urgent problems and practical needs of clinical medical workers, to help fight against the pandemic.

Meanwhile, during the COVID-19 pandemic period, the Group has held special online lectures such as "How to Protect Eyes During the COVID-19", "Scientific Eye Protection during Pandemic Period", etc., which introduced how to scientifically and effectively protect eyes and prevent infection during the special life and working environments, in order to provide helps for medical workers and the general public with self-isolation.

8.2 Participation in Public Service Activities

While pursuing the long-term corporate development, the Group has always regarded the fulfillment of social responsibility as its internal driving force, and incorporated philanthropy, especially the support for education, into its long-term plan, to give back to the society. During the Reporting Period, the Group actively conducted a number of public service activities, including but not limited to:

- The Group donated RMB12,000 for the people living in difficulties in the community's "Urban Superman" activity and received the title of "Ambassador for Making Dream Comes True".

- Since 2003, the Group's subsidiary in Hunan has been donating within its ability to the local poverty students or educational institutions every year. During the Reporting Period, it has sponsored local education bureaus and teachers with a total of around RMB110,000. As of the end of 2020, it had donated a total of around RMB 1.01 million to the local education bureaus.

- The Group's subsidiary in Hunan provided free agricultural technology guidance to the local farmer, as well as hired an annual average of about 5,000 local farmers, driving the re-employment of the local farmers in the neighborhood.

8.3 Fighting Against COVID-19 Pandemic

During the COVID-19 pandemic period, the Group initiated emergency projects which donated a total of more than RMB18 million worth of special funds, medical protective materials, medicines and medical devices, for front-line medical workers and patients, including but not limited to:

- The Group donated RMB1 million to Wuhan Charity for special anti-pandemic expenditure;

- The Group donated scarce protective materials worthy of more than RMB10 million to front-line anti-pandemic institution and personnel in China, including protective materials, including masks, medical protective gowns, washing free sanitizer, disinfection card and spray protective kits;

- The Group donated medicines with a total value of about RMB5.8 million to medical institutions in China, including Hirudoid, Augentropfen Stulln Mono Eye Drops, Deanxit and Bioflor, to relieve skin damage and visual fatigue caused by protective measures and continuous work, or relieve patients' anxiety, and prevent their intestinal bacterial infections;

- The Group reached an emergency agreement with CytoSorbents, a U.S. company focuses on blood purification, to work together to donate an initial quantity of CytoSorb® extracorporeal cytokine adsorbers, which would represent a potentially important device in the control of fatal inflammation in severe COVID-19 patients.

ESG Reporting Appendix

Appendix 1 CMS Environmental, Social and Governance Reporting Index

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
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	A1.3	Total hazardous waste produced and, where appropriate,intensity	7.1 Environmental Protection Emission Control
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity	7.1 Environmental Protection Emission Control
	A1.5	Description of emission target(s) set and steps taken to achieve them	7.1 Environmental Protection Emission Control 7.2 Environmental Protection Resource Management
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A2: Use of Resources	General Disclosure		7.2 Environmental Protection Resource Management
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A3: The Environment and Natural Resources	General Disclosure		7 Environmental Protection
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Appendix 1 CMS Environmental, Social and Governance Reporting Index - continued

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
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	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	6.1 Cooperation and Mutual Benefits Supplier Management
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	6.3 Cooperation and Mutual Benefits Sustainable Development of Supply Chain
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	6.3 Cooperation and Mutual Benefits Sustainable Development of Supply Chain

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

Environmental, Social and Governance General Disclosure and KPIs			Corresponding Chapter
Social			
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Appendix 2 CMS Key Environmental KPIs[2]

KPIs	Unit	Year 2018	Year 2019	Year 2020
Air Pollutants				
Sulfur Dioxide (SO_2)	Kg	237.1	35.5	0.0
Nitrogen Oxide (NO_x)	Kg	2,350.4	1,612.6	1,838.1
Particulate Matter (PM)	Kg	354.7	245.5	157.7
Wastewater and Pollutants[3]				
Wastewater	m^3	86,539.4	57,536.7	71,298.0
Wastewater intensity	m^3/million RMB	14.11	8.34	8.96
Ammonia Nitrogen (NH_3-N)	Ton	0.1	0.1	0.03
Chemical Oxygen Demand (COD)	Ton	0.9	1.1	0.7
GHG[4]				
Total GHG emission (Scope 1 + 2)	Ton CO_2e	11,852.0	12,081.5	12,562.3
Total GHG emission (Scope 1 + 2) intensity	Ton CO_2e / million RMB	1.93	1.75	1.58
Direct GHG emission (Scope 1)	Ton CO_2e	5,566.7	5,854.1	5,876.0
Indirect GHG emission (Scope 2)	Ton CO_2e	6,285.3	6,227.4	6,686.2
Solid Waste				
Hazardous waste[5]	Ton	0.2	0.2	4.3
Hazardous waste intensity	Ton/million RMB	0.00003	0.00003	0.00054
Non-hazardous solid waste	Ton	1,782.0	1,676.8	1,531.3
Non-hazardous waste intensity	Ton/million RMB	0.29	0.24	0.19

[2] All the intensity data of environmental indicators in 2018-2020 were calculated as per sales revenue, that is, total emissions or usage amount divided by the sales revenue (million RMB) after the excluding effect of the "two-invoice system" during the corresponding reporting period.
[3] Wastewater and pollutant data covers all the control units of the Group.
[4] The emission factors used in GHG calculation for 2018 to 2020 have been updated to those recommended by the SEHK in the revised *Appendix 2: Guidelines on Reporting Environmental Key Performance Indicators* in 2020.
[5] During the Reporting Period, the Group's subsidiary Kangzhe Hunan carried out a large-scale treatment and transfer of historical hazardous waste.

Appendix 2 CMS Environmental KPIs -continued

KPIs	Unit	Year 2018	Year 2019	Year 2020
Energy				
Conversion of electricity for comprehensive energy consumption	kWh	29,758,236.2	30,443,173.8	31,600,399.0
Conversion of electricity for comprehensive energy consumption intensity	kWh/million RMB	4,850.96	4,413.85	3,971.23
Outsourced electricity	kWh	7,079,280.2	7,010,258.4	7,520,182.0
Natural gas	m^3	954,116.0	875,788.0	1,057,711.0
Alcohol-based liquid fuel	Ton	1,842.8	2,095.3	1,914.8
Gasoline	Liter	77,640.0	80,272.9	59,365.4
Diesel oil	Liter	3,111.6	1,616.9	2,117.3
Liquefied gas	Kg	480.0	480.0	435.0
Water Resources				
Total water consumption[6]	m^3	148,634.2	204,687.8	282,685.0
Total water consumption intensity	m^3/million RMB	24.23	29.68	35.52
Packaging Materials				
Total packaging materials	Ton	544.1	659.3	932.1
Total packing material intensity	Ton/million RMB	0.09	0.10	0.12

[6] At the end of 2019 and in 2020, the Group's subsidiary Kangzhe Hunan has replaced and installed additional production equipment, and initiated the new products' test production projects, thus the water consumption increased significantly.

Appendix 3 CMS Key Social KPIs

KPIs	Unit	Year 2018	Year 2019	Year 2020
Employment				
Total number of employees	Person	Non-disclosure	4,052	4,372
Number of male employees	Person	Non-disclosure	1,903	2,024
Number of female employees	Person	Non-disclosure	2,149	2,348
Number of contracted employees	Person	Non-disclosure	4,052	4,372
Number of dispatched employees	Person	Non-disclosure	0	0
Number of employees aged under 30	Person	Non-disclosure	2,150	2,180
Number of employees aged 30-50	Person	Non-disclosure	1,782	2,042
Number of employees aged over 50	Person	Non-disclosure	120	150
Employee Turnover				
Turnover rate of employees	%	Non-disclosure	18.6	13.9
Turnover rate of male employees	%	Non-disclosure	19.9	14.2
Turnover rate of female employees	%	Non-disclosure	17.3	13.7
Turnover rate of employees aged under 30	%	Non-disclosure	20.1	19.3
Turnover rate of employees aged 30-50	%	Non-disclosure	17.4	7.9
Turnover rate of employees aged over 50	%	Non-disclosure	5.5	6.8
Occupational Health and Safety				
Number of work-related fatalities	Person	0	0	0
Proportion of work-related fatalities	%	0	0	0
Working days lost due to work-related injury[7]	Day	Non-disclosure	338	240
Proportion of employees with occupational health checks	%	100	100	100

[7] During the Reporting Period, employees were injured at work due to traffic accidents, collisions and accidental falls.

Appendix 3 CMS Key Social KPIs -continued

KPIs	Unit	Year 2018	Year 2019	Year 2020
Training and Development				
Total employees training expenditure	Million RMB	Non-disclosure	2.9	5.3
Training coverage of employees[8]	%	100	83.0	70.7
Training coverage of general employees	%	Non-disclosure	83.4	70.5
Training coverage of senior management	%	Non-disclosure	35.3	78.9
Training coverage of male employees	%	Non-disclosure	Non-disclosure	72.6
Training coverage of female employees	%	Non-disclosure	Non-disclosure	69.1
Employees training duration per capita	Hour	Non-disclosure	34.1	18.5
Training duration per capita for general employees	Hour	Non-disclosure	34.4	18.6
Training duration per capita for senior management	Hour	Non-disclosure	3.2	12.6
Training duration per capita for male employees	Hour	Non-disclosure	Non-disclosure	20.2
Training duration per capita for female employees	Hour	Non-disclosure	Non-disclosure	17.0
Supplier Management				
Total number of suppliers[9]	Number	87	106	116
Number of Mainland China suppliers	Number	75	87	78
Number of HK SAR, Macao SAR, TWN and overseas suppliers	Number	12	19	38
Quality and Safety of Product and Service				
Response and handling rate for product and service quality related complaints	%	100	100	100
Percentage of sold and delivered product recalls due to safety and health problems	%	0	0	0
Number of product and service related complaints	Number	Non-disclosure	150	137
Anti-corruption				
Corruption lawsuits	Number	0	0	0
Participation in Public Service Activities				
Total donation amount of public service activities	Million RMB	0.2	0.2	18.8

[8] During the Reporting Period, due to cancelling of offline trainings caused by COVID-19 pandemic and the increase of employee number, the training coverage of employees decreased comparing with 2019.
[9] During the Reporting Period, the statistical method of suppliers was changed. In order to be consistent, the 2019 data has been updated simultaneously.

INDEPENDENT AUDITOR'S REPORT

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 108 to 219, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill allocated to a cash generating unit of Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd. ("Tianjin Kangzhe") as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill allocated to a cash generating unit of Tianjin Kangzhe is determined based on the higher of fair value less costs of disposal and value in use of the cash generating unit. The recoverable amount has been determined based on value in use calculation, which is based on the cash flow forecasts prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. As at 31 December 2020, the carrying value of goodwill allocated to a cash generating unit of Tianjin Kangzhe was RMB1,160 million before any accumulated impairment losses. During the year ended 31 December 2020, an impairment loss of RMB170 million was recognised on goodwill allocated to a cash generating unit of Tianjin Kangzhe. As at 31 December 2020, the carrying value of goodwill allocated to a cash generating unit of Tianjin Kangzhe was RMB990 million after impairment. Details relating to the Group's goodwill and key sources of estimation uncertainty are set out in Note 18 and Note 4 to the consolidated financial statements, respectively.	Our procedures in relation to the impairment of goodwill included: • Making inquiries with management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentation; • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation; • Evaluating the independent professional external valuer's competence, capabilities and objectivity; and • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and discount rate adopted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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
16 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	5	6,945,964	6,073,624
Cost of goods sold		(1,811,749)	(1,527,308)
Gross profit		5,134,215	4,546,316
Other income/ other gains and losses	6	(73,480)	73,801
Selling expenses		(2,053,233)	(1,939,167)
Administrative expenses		(251,180)	(206,236)
Finance costs	7	(27,520)	(56,255)
Research and development expenses		(66,517)	(45,054)
Share of results of associates		153,804	114,293
Profit before tax		2,816,089	2,487,698
Income tax expense	10	(260,389)	(532,004)
Profit for the year	11	2,555,700	1,955,694
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(9,327)	(14,523)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (expense) income of associates		(34,127)	8,865
Exchange differences arising from translation of foreign operations		227	(629)
Change in fair value on cash flow hedges			
- fair value loss		(5,746)	(16,286)
- deferred tax relating to change in fair value		948	2,687
Other comprehensive expense for the year, net of income tax		(48,025)	(19,886)
Total comprehensive income for the year		2,507,675	1,935,808
Profit (loss) for the year attributable to:			
Owners of the Company		2,530,398	1,960,712
Non-controlling interests		25,302	(5,018)
		2,555,700	1,955,694
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		2,482,373	1,940,826
Non-controlling interests		25,302	(5,018)
		2,507,675	1,935,808
		RMB	RMB
Earnings per share	13		
Basic		1.0237	0.7905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	474,823	472,901
Right-of-use assets	15	56,862	64,986
Interests in associates	16	2,639,711	2,590,159
Intangible assets	17	2,239,588	2,459,128
Goodwill	18	1,214,535	1,384,535
Equity instruments at fair value through other comprehensive income	19(b)	415,585	269,704
Deposits paid for acquisition of intangible assets	22	628,989	325,126
Amount due from an associate	23	30,000	31,816
Derivative financial instruments	31	682	-
Deferred tax assets	30	21,759	20,298
		7,722,534	7,618,653
Current assets			
Inventories	20	381,215	407,058
Financial asset at fair value through profit or loss	19(a)	3,884	2,736
Trade and other receivables and prepayments	21	1,705,606	1,585,724
Tax recoverable		12,082	10,801
Derivative financial instruments	31	49	28,192
Amount due from an associate	23	207,271	152,804
Bank balances and cash	24	2,668,426	1,365,008
		4,978,533	3,552,323
Current liabilities			
Trade and other payables	25	619,284	372,796
Lease liabilities	26	7,266	9,388
Contract liabilities	27	14,406	12,939
Bank borrowings	28	10	693,909
Derivative financial instruments	31	-	142
Deferred consideration payables	29	2,929	10,744
Tax payable		268,068	447,784
		911,963	1,547,702
Net current assets		4,066,570	2,004,621
Total assets less current liabilities		11,789,104	9,623,274
Capital and reserves			
Share capital	32	84,634	84,963
Reserves	33	10,949,508	9,387,898
Equity attributable to owners of the Company		11,034,142	9,472,861
Non-controlling interests		68,573	43,271
		11,102,715	9,516,132

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Deferred tax liabilities	30	86,133	91,552
Lease liabilities	26	5,640	10,491
Deferred consideration payables	29	1,487	5,099
Bank borrowings	28	587,241	-
Derivative financial instruments	31	5,888	-
		686,389	107,142
		11,789,104	9,623,274

The consolidated financial statements on pages 108 to 219 were approved and authorised for issue by the Board of Directors on 16 March 2021 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 2020

	Attributable to owners of the Company											
	Share capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Accumulated profits	Dividend reserve	Sub-total	Attributable to non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (Note 33)	RMB'000 (Note 33)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	84,963	2,391,513	19,545	330,971	9,332	13,480	(17,336)	5,167,627	355,691	8,355,786	48,289	8,404,075
Profit (loss) for the year	-	-	-	-	-	-	-	1,960,712		1,960,712	(5,018)	1,955,694
Share of other comprehensive income of associates	-	-	-	-	8,865	-	-	-	-	8,865	-	8,865
Exchange differences arising from translation of foreign operations	-	-	-	-	(629)	-	-	-	-	(629)	-	(629)
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(14,523)	-	-	(14,523)	-	(14,523)
Change in fair value on cash flow hedges - fair value loss	-	-	-	-	-	(16,286)	-	-	-	(16,286)	-	(16,286)
- deferred tax relating to change in fair value	-	-	-	-	-	2,687	-	-	-	2,687	-	2,687
Total comprehensive income (expense) for the year	-	-	-	-	8,236	(13,599)	(14,523)	1,960,712	-	1,940,826	(5,018)	1,935,808
Dividends paid (Note 12)	-	-	-	-	-	-	-	(467,061)	(355,691)	(822,752)	-	(822,752)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(315,260)	315,260	-	-	-
Transfer of reserves	-	-	-	25,481	-	-	-	(25,481)	-	-	-	-
Release of surplus reserve fund on deregistration of a subsidiary	-	-	-	(999)	-	-	-	-	-	(999)	-	(999)
Balance at 31 December 2019	84,963	2,391,513	19,545	355,453	17,568	(119)	(31,859)	6,320,537	315,260	9,472,861	43,271	9,516,132
Profit for the year	-	-	-	-	-	-	-	2,530,398		2,530,398	25,302	2,555,700
Share of other comprehensive expense of associates	-	-	-	-	(34,127)	-	-	-	-	(34,127)	-	(34,127)
Exchange differences arising from translation of foreign operations	-	-	-	-	227	-	-	-	-	227	-	227
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(9,327)	-	-	(9,327)	-	(9,327)
Change in fair value on cash flow hedges - fair value loss	-	-	-	-	-	(5,746)	-	-	-	(5,746)	-	(5,746)
- deferred tax relating to change in fair value	-	-	-	-	-	948	-	-	-	948	-	948
Total comprehensive (expense) income for the year	-	-	-	-	(33,900)	(4,798)	(9,327)	2,530,398	-	2,482,373	25,302	2,507,675
Repurchase of ordinary shares (Note 32)	(329)	(86,634)	-	-	-	-	-	-	-	(86,963)	-	(86,963)
Dividends paid (Note 12)	-	-	-	-	-	-	-	(520,095)	(314,034)	(834,129)	-	(834,129)
Dividends proposed (Note 12)	-	-	-	-	-	-	-	(501,080)	501,080	-	-	-
Transfer of reserves	-	-	-	815	-	-	-	(815)	-	-	-	-
Release of surplus reserve fund upon deregistration of a subsidiary	-	-	-	(1,500)	-	-	-	1,500	-	-	-	-
Balance at 31 December 2020	84,634	2,304,879	19,545	354,768	(16,332)	(4,917)	(41,186)	7,830,445	502,306	11,034,142	68,573	11,102,715

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Profit before tax		2,816,089	2,487,698
Adjustments for:			
Amortisation of intangible assets	17	161,942	162,317
Impairment loss on intangible assets		57,598	4,730
Impairment loss on goodwill		170,000	-
Impairment loss on deposit paid for acquisition of intangible assets		-	963
Interest expenses		27,203	55,176
Depreciation of property, plant and equipment	14	35,117	32,181
Depreciation of right-of-use assets	15	11,257	9,557
Written off for inventories		-	2,948
Loss on disposal of property, plant and equipment		145	9,122
Gain on disposal of right-of-use assets		-	(6,268)
Release on deferred difference on initial recognition of financial instruments		(1,929)	(1,929)
Imputed interest expense on deferred consideration payables		317	1,079
Share of results of associates		(153,804)	(114,293)
Interest income		(61,031)	(41,998)
Net foreign exchange (gain) loss		(26,684)	30,276
Change in fair value of derivative financial instruments		13,827	(8,904)
Change in fair value of financial assets at fair value through profit or loss		567	-
Operating cash flows before movements in working capital		3,050,614	2,622,655
Decrease in inventories		25,843	24,655
(Increase) decrease in trade and other receivables and prepayments		(132,767)	148,569
Increase in amount due from an associate		(52,651)	(15,055)
Increase (decrease) in trade and other payables		246,488	(9,419)
Increase in contract liabilities		1,467	7,470
Cash generated from operations		3,138,994	2,778,875
People's Republic of China ("PRC") Enterprise Income Tax paid		(170,175)	(222,511)
Hong Kong Profits Tax paid		(6,758)	(1,203)
Malaysian Corporate Income Tax paid		(270,034)	(42)
NET CASH FROM OPERATING ACTIVITIES		2,692,027	2,555,119

	NOTES	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES			
Interest received		61,031	41,998
Dividends received from an associate		70,125	24,477
Purchase of property, plant and equipment		(37,558)	(37,546)
Proceeds from disposal of property, plant and equipment		374	1,610
Proceeds from disposal of right-of-use asset		12,993	22,929
Purchase of financial assets at fair value through profit or loss		(1,715)	(2,736)
Purchase of equity instruments at fair value through other comprehensive income		(155,208)	(39,774)
Payments for rental deposits		-	(1,339)
Deposits paid for acquisition of intangible assets		(303,863)	(302,927)
Net cash outflow on disposal of a subsidiary	42	-	(16,078)
NET CASH USED IN INVESTING ACTIVITIES		(353,821)	(309,386)
FINANCING ACTIVITIES			
New bank borrowings raised		630,594	-
Repayment of deferred consideration payables		(9,810)	(7,834)
Interest paid		(27,203)	(55,176)
Dividends paid	12	(834,129)	(822,752)
Repayment of bank borrowings		(696,939)	(801,595)
Repayments of lease liabilities		(10,106)	(7,780)
Payment on repurchase of shares		(86,963)	-
NET CASH USED IN FINANCING ACTIVITIES		(1,034,556)	(1,695,137)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,303,650	550,596
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		1,365,008	815,081
Effects of exchange rate changes on the balance of cash held in foreign currencies		(232)	(669)
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		2,668,426	1,365,008

1. GENERAL INFORMATION

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company and its subsidiaries (collectively referred to as the "Group") have applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

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

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

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

Impacts on application of Amendments to IAS 1 and IAS 8 Definition of Material

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

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

Impacts on application of Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The Group has applied the amendments for the first time in the current year. The amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reform. The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate bank borrowings, linked to London Interbank Offered Rate ("LIBOR"), which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

- The Group will retain the cumulative gain or loss in the hedging reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to IFRS 3	Reference to the Conceptual Framework[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018 - 2020[2]

[1] Effective for annual periods beginning on or after 1 January 2023
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 June 2020
[5] Effective for annual periods beginning on or after 1 January 2021

Except for the 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.

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

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

Amendments to IFRS 3 *Reference to the Conceptual Framework*

The amendments:

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

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

Amendments to *IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2*

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 *Interest Rate Benchmark Reform - Phase 2* relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16;
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and
- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has several LIBOR bank borrowings which be will subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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

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

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

The annual improvements make amendments to the following standards.

IFRS 9 Financial Instruments

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

IFRS 16 Leases

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

IAS 41 Agriculture

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

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

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

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

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

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

3.1 Basis of preparation of consolidated financial statements - continued

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

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

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

3.2 Significant accounting policies - continued

Basis of consolidation - continued

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

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

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

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

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

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

Business combinations

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

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

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

3.2 Significant accounting policies - continued

Business combinations - continued

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

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

Goodwill

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

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

3.2 Significant accounting policies - continued

Goodwill - continued

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

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

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

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

Interests in associates

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

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

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

3.2 Significant accounting policies - continued

Interests in associates - continued

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

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

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

Property, plant and equipment

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

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

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

3.2 Significant accounting policies - continued

Property, plant and equipment - continued

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets -research and development expenditure

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

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

3.2 Significant accounting policies - continued

Intangible assets - continued

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

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

3.2 Significant accounting policies - continued

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

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

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

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash- generating unit or group of cash-generating units.

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

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

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

3.2 Significant accounting policies - continued

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

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

Inventories

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

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.

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

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it as a separate line item on the consolidated statement of financial position).

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

3.2 Significant accounting policies - continued

Financial instruments - continued

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(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 income/ other gains and losses" line item.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, amount due from an associate and bank balances) which are subject to impairment 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.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(i) Significant increase in credit risk - continued

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

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

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

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

(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.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(v) Measurement and recognition of ECL - continued

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition of financial assets - continued

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

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

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

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

Financial liabilities

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

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.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at FVTPL - continued

A financial liability is held for trading if:

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

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

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

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at amortised cost

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

Bank borrowings

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

Deferred consideration payables

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

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.

Derivative financial instruments

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Hedge accounting

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

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

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

Assessment of hedging relationship and effectiveness

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

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

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

In assessing the economic relationship between the hedged item and the hedging instrument, the Group assumes that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Hedge accounting - continued

Cash flow hedges

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

For the purpose of reclassifying the amount of gains and losses accumulated in the cash flow hedge reserve in order to determine whether the hedged future cash flows are expected to occur, the Group assumes the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

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

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

Discontinuation of hedge accounting

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

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

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

3.2 **Significant accounting policies** - continued

Revenue from contracts with customers

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

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

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

the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.
- Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

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

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

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

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

Principal versus agent

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.

Variable consideration

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

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

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

Taxation

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

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

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

3.2 Significant accounting policies - continued

Taxation - continued

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

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

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

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

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

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

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

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

3.2 Significant accounting policies - continued

Taxation - continued

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

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

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

Foreign currencies

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

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

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

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

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

3.2 Significant accounting policies – continued

Leases

Definition of a lease

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

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

The Group as a lessee

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

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

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

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

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

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

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

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

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Lease modifications

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

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

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

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

Borrowing costs

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

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

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

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

3.2 Significant accounting policies - 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/ other gains and losses".

Retirement benefit costs

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

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

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

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

Short-term employee benefits

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to the five (2019: five) cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss/further impairment loss may arise. During the year ended 31 December 2020, an impairment loss of RMB170,000,000 (2019: nil) was recognised in profit or loss. As at 31 December 2020, the carrying amount of goodwill is approximately RMB1,214,535,000 (2019: RMB1,384,535,000) (net of accumulated impairment loss of RMB170,000,000 (2019: nil)).

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

As at 31 December 2020, the impairment indicator on interest in Tibet Pharmaceutical, an associate of the Group, no longer existed and no impairment assessment was carried out. As at 31 December 2019, due to prolonged decline in the quoted market price of the shares of Tibet Pharmaceutical, which was an impairment indicator, the Group performed an impairment assessment on Tibet Pharmaceutical. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associate which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from the proceeds from the ultimate disposal of the investment taking into account factors, including growth rates, discount rate and forecast performance. In cases where the actual cash flows are more or less than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place. In the opinion of the directors of the Company, no impairment of interest in Tibet Pharmaceutical is recognised for the years ended 31 December 2020 and 2019. Details of the interest in Tibet Pharmaceutical are disclosed in note 16.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

As at 31 December 2020, the carrying amount of the interests in Tibet Pharmaceutical amounted to RMB2,639,711,000 (2019: RMB2,590,151,000).

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 2020, an impairment loss of RMB57,598,000 (2019: RMB4,730,000) was recognised in profit or loss. As at 31 December 2020, the carrying amount of intangible assets is approximately RMB2,239,588,000 (2019: RMB2,459,128,000).

Provision of ECL for trade receivables

Trade receivables with credit-impairment are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on internal credit ratings as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. The information about the ECL and the Group's trade receivables are disclosed in notes 35 and 21, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Fair value measurement of financial instruments

The Group's unquoted equity instruments including equity instruments at FVTOCI amounting to RMB382,341,000 (2019: RMB235,568,000) as at 31 December 2020, are measured at fair values with certain fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 19 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 2020, an impairment loss of nil (2019: RMB963,000) was recognised. As at 31 December 2020, the carrying amount of the deposits paid for acquisition of intangible assets is approximately RMB628,989,000 (2019: RMB325,126,000).

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	2020 RMB'000	2019 RMB'000
Sales of pharmaceutical products	5,709,327	4,768,335
Promotion income	1,236,637	1,305,289
Total revenue	6,945,964	6,073,624

5. REVENUE AND SEGMENT INFORMATION - continued

(ii) Performance obligations for contracts with customers

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

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

For sales of pharmaceutical products to customers, revenue is recognised at a point in time when control of the pharmaceutical products is passed to customers, i.e. when the products are delivered and titles have passed to customers upon receipt by customers. Sales rebates will be granted to customers by the Group for qualified purchases at a pre-determined amount per unit.

For promotion of pharmaceutical products, revenue is recognised at a point in time when the Group satisfies its obligation to arrange for the pharmaceutical products to be provided by suppliers to distributors.

A contract liability represents the Group's obligation to sales of pharmaceutical products to customers for which the Group has received consideration from (or an amount of consideration is due from) customers while revenue has not yet been recognised. All the revenue contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(iii) Segment information

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

The Group only has one reportable operating segment that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose. Therefore, no analysis of the Group's revenue, results, assets and liabilities by operating segments is presented.

The Group's production of medicines, marketing, promotion and sale of drugs are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 74% and 26% of non-current assets excluding amount due from an associate, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively (2019: 74% and 26%).

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

6. OTHER INCOME/ OTHER GAINS AND LOSSES

	2020 RMB'000	2019 RMB'000
Impairment loss on intangible assets	(57,598)	(4,730)
Impairment loss on goodwill	(170,000)	-
Impairment loss on deposit paid for acquisition of intangible assets	-	(963)
Interest income	61,031	41,998
Government subsidies (Note a)	46,927	47,377
Loss on disposal of property, plant and equipment	(145)	(9,122)
Gain on disposal of right-of-use assets	-	6,268
Net foreign exchange gain (loss)	60,560	(18,851)
Change in fair value of derivative financial instruments	(13,827)	8,904
Change in fair value of financial assets at fair value through profit or loss	(567)	-
Release on deferred difference on initial recognition of financial instruments	1,929	1,929
Others	(1,790)	991
	(73,480)	73,801

Note:

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

7. FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on bank borrowings	26,109	53,862
Interest on lease liabilities	1,094	1,314
Imputed interest on deferred consideration payables	317	1,079
	27,520	56,255

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

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

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

Notes:

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

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

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

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

Notes:- continued

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

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

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

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2020 included 3 directors (2019: 3 directors), details of whose emoluments are set out in note 8 above. The emoluments of the remaining two (2019: two) individuals for the year ended 31 December 2020 were as follows:

	2020	2019
	RMB'000	RMB'000
Employees		
- basic salaries and allowances	4,248	2,952
- retirement benefits scheme contributions	61	116
	4,309	3,068

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	
	2020	2019
HK$1,500,001 to HK$2,000,000		
(approximately RMB1,300,050 to RMB1,733,400)	-	2
HK$2,000,001 to HK$2,500,000		
(approximately RMB1,733,400 to RMB2,166,750)	1	-
HK$2,500,001 to HK$3,000,000		
(approximately RMB2,166,750 to RMB2,600,100)	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.

10. INCOME TAX EXPENSE

	2020 RMB'000	2019 RMB'000
Current tax:		
The PRC Enterprise Income Tax	223,843	161,737
Malaysian Corporate Income Tax	-	357,219
Hong Kong Profits Tax	627	7,009
Macau Complementary Income Tax	127,866	4,782
Others	-	40
	352,336	530,787
(Over) underprovision in prior years:		
The PRC Enterprise Income Tax	1,168	7,975
Malaysian Corporate Income Tax	(87,183)	-
	(86,015)	7,975
Deferred taxation (note 30):		
- Current year	(5,932)	(6,758)
	260,389	532,004

Notes:

(a) The PRC Enterprise Income Tax

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

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

天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2019: 15%) granted by the local tax authority until 2020. 康哲 (湖南) 制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2019: 15%) granted by local tax authority until 2022. 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") is entitled to a reduced tax rate of 9% (2019: 9%) granted by local tax authority until 2021.

(b) Malaysian Corporate Income Tax and Withholding Income Tax

Due to the tax reform under Labuan New Tax Legislation, the Group's Malaysian subsidiary is taxed under the Malaysian Income Tax Act 1967 (the "Act 1967") with effect from the year of assessment 2019. The statutory income tax of the Group's Malaysian subsidiary is at 24% of the chargeable income and withholding income tax of 15% and 10% shall be levied on the interest payment and royalty payment, respectively from the companies established in Malaysia to overseas entities for the year ended 31 December 2019. The Malaysian subsidiary had been disposed of by the Group on 17 December 2019 as set out in Note 42.

10. INCOME TAX EXPENSE – continued

Notes: - continued

(c) Hong Kong Profits Tax

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

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

(d) PRC Withholding Income Tax

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

(e) Overseas Income tax

The company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 of Cayman Islands and accordingly, is exempted from the Cayman Islands Income Tax.

(f) Macau Complementary Income Tax

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits. The maximum tax rate is 12% for the years ended 31 December 2020 and 2019.

(g) Dubai Tax

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

10. INCOME TAX EXPENSE - continued

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

	2020 RMB'000	2019 RMB'000
Profit before tax	2,816,089	2,487,698
Tax at the applicable tax rate (Note)	704,022	621,925
Tax effect of share of results of associates	(38,451)	(28,574)
Tax effect of expenses that are not deductible in determining taxable profit	102,881	45,982
Tax effect of income that is not taxable in determining taxable profit	(6,449)	(2,353)
Tax effect of offshore income that is not taxable in determining taxable profit	(71,355)	(68,623)
Tax effect of tax losses not recognised	3,546	106
Tax effect of deductible temporary differences not recognised	27,474	1,954
Tax effect of tax concession	(111,060)	(81,004)
Effect on different applicable tax rates of subsidiaries	(134,424)	(13,119)
Effect of taxable profit that is not taxable in Dubai	(129,154)	(22,106)
(Over) underprovision in prior years	(86,015)	7,975
Utilisation of tax losses previously not recognised	-	(73)
Withholding tax levied on Malaysian subsidiaries	-	41,665
Additional tax obligation arising from Malaysian Income Tax Act	-	28,687
Others	(626)	(438)
Income tax expense for the year	260,389	532,004

Note: The applicable PRC EIT rate of 25% (2019: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group, which is engaged in the marketing, promotion and sales of imported drugs.

11. PROFIT FOR THE YEAR

	2020 RMB'000	2019 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 8)		
Fees	1,218	1,146
Salaries and other benefits	11,372	8,652
Contribution to retirement benefits schemes	80	185
	12,670	9,983
Other staff costs	710,472	604,816
Contribution to retirement benefits schemes	28,911	43,608
Employee benefits expense (note 40)	25,000	14,000
Total staff costs	777,053	672,407
Auditor's remuneration	3,305	3,186
Written off for inventories (included in cost of goods sold)	-	2,948
Depreciation of property, plant and equipment	35,117	32,181
Depreciation of right-of-use assets	11,257	9,557
Amortisation of intangible assets (included in cost of goods sold)	161,942	162,317
Cost of inventories recognised as an expense	1,641,855	1,349,705

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

12. DIVIDENDS

	2020	2019
	RMB'000	RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2020 Interim - RMB0.2105 (2019: 2019 interim dividend RMB0.1883) per share	520,095	467,061
2019 Final - RMB0.1271 (2019: 2018 final dividend RMB0.1434) per share	314,034	355,691
	834,129	822,752
Dividends proposed		
Dividends proposed during the year:		
2020 final - RMB0.2033 (2019: 2019 final - RMB0.1271) per share	502,306	315,260

The Board of Directors have declared a final dividend of RMB0.2033 per ordinary share for the year ended 31 December 2020 (2019: RMB0.1271 per ordinary share).

13. EARNINGS PER SHARE

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

	2020	2019
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	2,530,398	1,960,712

	Number of ordinary shares as at 31 December	
	2020	2019
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,471,841,299	2,480,408,512

The Group has no outstanding potential ordinary shares as at 31 December 2020 and 2019 and during the years ended 31 December 2020 and 2019. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2019	315,660	46,689	176,347	34,825	21,552	11,321	606,394
Additions	13,487	1,248	1,750	2,028	7,056	11,977	37,546
Disposals	(23,697)	-	(17)	(3,074)	(1,824)	-	(28,612)
Transfer	122	-	770	-	-	(892)	-
At 31 December 2019	305,572	47,937	178,850	33,779	26,784	22,406	615,328
Additions	1,944	6,284	3,959	2,263	10,317	12,791	37,558
Disposals	-	-	(2,946)	(1,407)	(3,293)	-	(7,646)
Transfer	15,463	-	4,250	-	-	(19,713)	-
At 31 December 2020	322,979	54,221	184,113	34,635	33,808	15,484	645,240
ACCUMULATED DEPRECIATION							
At 1 January 2019	50,342	5,585	40,089	21,609	10,501	-	128,126
Provided for the year	11,655	3,901	11,635	3,543	1,447	-	32,181
Eliminated on disposals	(13,419)	-	(16)	(2,767)	(1,678)	-	(17,880)
At 31 December 2019	48,578	9,486	51,708	22,385	10,270	-	142,427
Provided for the year	12,050	4,327	12,089	3,541	3,110	-	35,117
Eliminated on disposals	-	-	(2,576)	(1,267)	(3,284)	-	(7,127)
At 31 December 2020	60,628	13,813	61,221	24,659	10,096	-	170,417
CARRYING VALUES							
At 31 December 2020	262,351	40,408	122,892	9,976	23,712	15,484	474,823
At 31 December 2019	256,994	38,451	127,142	11,394	16,514	22,406	472,901

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

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

The Group has pledged property, plant and equipment with a net book value of approximately RMB65,539,000 (2019: RMB69,838,000) to secure certain bank borrowings and banking facilities granted to the Group.

15. RIGHT-OF-USE ASSETS

	Leasehold land	Building	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2020			
Carrying amount	44,505	12,357	56,862
As at 31 December 2019			
Carrying amount	45,593	19,393	64,986
For the year ended 31 December 2020			
Depreciation charge	1,088	10,169	11,257
For the year ended 31 December 2019			
Depreciation charge	1,291	8,266	9,557

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Expense relating to short-term leases	5,828	1,953
Total cash outflow for leases	(17,028)	(11,047)
Disposal of right-of-use assets	-	(16,661)
Additions to right-of-use assets	3,133	18,160

15. RIGHT-OF-USE ASSETS - continued

For both years, the Group leases offices premises and warehouses for its operations. For the year ended 31 December 2020, lease contracts are entered into for fixed term of 1 year to 5 years (2019: 1 year to 5 years) with fixed payment. The Group does not have the option to purchase the leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Group's discretion. The Group's obligations are secured by the rental deposits for such leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

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

As at 31 December 2020, the Group has pledged right-of-use assets with a net book value of approximately RMB15,506,000 (2019: RMB15,904,000) to secure general banking facilities granted to the Group.

The Group regularly entered into short-term leases for offices premises and warehouses. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

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

16. INTERESTS IN ASSOCIATES

	2020 RMB'000	2019 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	-	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	335,355	274,267
	2,639,711	2,590,159
Fair value of listed investment (note)	6,231,377	2,116,334

Note: As at 31 December 2020, the fair value of the Group's interest in its listed associate, Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB6,231 million (2019: approximately RMB2,116 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 Fair Value Measurement.

16. INTERESTS IN ASSOCIATES - continued

As at 31 December 2020 and 2019, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest /voting rights held by the Group		Principal activities
			2020	2019	
Ophol Limited ("Ophol") (Note a)	Hong Kong	Hong Kong	-	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical (Note b)	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs

Notes:

(a) Ophol has been liquidated during the year ended 31 December 2020.

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

During the year ended 31 December 2019, Tibet Pharmaceutical repurchased an aggregate of 2,520,746 ordinary shares.

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

At 31 December 2019, due to prolonged decline in the quoted market price of the shares of Tibet Pharmaceutical, the impairment review was performed which was determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 14.4%. Tibet 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. In the opinion of the directors of the Company, as the recoverable amount based on the value in use calculation is higher than the carrying amount as at 31 December 2019, no impairment loss was recognised for the year ended 31 December 2019.

Details of the assumptions used in the impairment assessment of interest in Tibet Pharmaceutical are disclosed in note 4.

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates

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

Tibet Pharmaceutical - continued

	31.12.2020 RMB'000	31.12.2019 RMB'000
Current assets	1,351,115	1,341,035
Non-current assets	1,593,173	1,426,197
Current liabilities	(333,077)	(309,846)
Non-current liabilities	(22,829)	(10,595)

	2020 RMB'000	2019 RMB'000
Revenue	1,373,105	1,256,022
Profit for the year	420,663	317,370
Other comprehensive (expense) income for the year	(100,064)	23,728
Total comprehensive income for the year	320,599	341,098
Dividends received from the associate during the year	70,125	24,477

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical - continued

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

	31.12.2020 RMB'000	31.12.2019 RMB'000
Net assets of Tibet Pharmaceutical	2,588,382	2,446,791
Non-controlling interests	(12,297)	(9,730)
	2,576,085	2,437,061
Proportion of the Group's ownership interest in Tibet Pharmaceutical	37.36%	37.36%
	962,425	910,486
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	(1,841)	538
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,639,711	2,590,151

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Ophol

	31.12.2020 RMB'000	31.12.2019 RMB'000
Current assets	-	45
Current liabilities	-	(14)

	2020 RMB'000	2019 RMB'000
Revenue	-	-
Loss for the year	(31)	(2)
Other comprehensive income for the year	-	1
Total comprehensive expense for the year	(31)	(1)
Dividends received from the associate during the year	-	-

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

	31.12.2020 RMB'000	31.12.2019 RMB'000
Net assets of Ophol	-	31
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	-	8

17. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000
COST				
At 1 January 2019	2,111,920	320,431	800,556	3,232,907
Addition	-	-	72,100	72,100
At 31 December 2019 and 31 December 2020	2,111,920	320,431	872,656	3,305,007
AMORTISATION				
At 1 January 2019	342,451	122,329	194,052	658,832
Charge for the year	102,124	18,964	41,229	162,317
At 31 December 2019	444,575	141,293	235,281	821,149
Charge for the year	101,751	18,963	41,228	161,942
At 31 December 2020	546,326	160,256	276,509	983,091
IMPAIRMENT LOSS				
At 1 January 2019	20,000	-	-	20,000
Recognised in the year	4,730	-	-	4,730
At 31 December 2019	24,730	-	-	24,730
Recognised in the year	-	57,598	-	57,598
At 31 December 2020	24,730	57,598	-	82,328
CARRYING VALUES				
At 31 December 2020	1,540,864	102,577	596,147	2,239,588
At 31 December 2019	1,642,615	179,138	637,375	2,459,128

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.

17. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(i) - continued

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

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

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

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

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(ii) - continued

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

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

As at 31 December 2020 and 2019, 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 2020, the carrying amount of the exclusive distribution right was approximately RMB 1,538,667,000 (2019: RMB1,640,118,000).

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 2020 and 2019.

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

(b) Acquisition of exclusive distribution rights and patent rights

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

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

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000.

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.

As at 31 December 2020, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were nil, nil and nil, respectively (2019: RMB66,027,000, nil and nil).

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2020, the carrying amount of the exclusive distribution right and patent right of XiDaKang were approximately RMB2,197,000 and RMB1,708,000, respectively (2019: RMB2,497,000 and RMB1,939,000).

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 29) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang was also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2020, the carrying amount of the patent right was approximately RMB18,495,000 (2019: RMB21,016,000).

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

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

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

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2020, the carrying amount of the patent right of GanFuLe was approximately RMB5,335,000 (2019: RMB6,697,000).

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

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

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

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2020, the carrying amount was approximately RMB77,039,000 (2019: RMB83,459,000).

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

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2020, the carrying amount of the product right was approximately RMB51,519,000 (2019: RMB55,334,000), which included a deferred consideration payable (see note 29) in the amount of nil (2019: approximately EUR1,000,000 (equivalent to approximately RMB7,815,000, which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,307,000) over next one year discounted at 10%).

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2020, the carrying amount was approximately RMB113,638,000 (2019: RMB121,755,000).

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 2020, the carrying amount was approximately RMB366,100,000 (2019: RMB391,791,000).

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

17. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(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 2020, the carrying amount was approximately RMB 64,890,000 (2019: RMB68,495,000).

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

18. GOODWILL

	RMB'000
COST	
At 1 January 2019, 31 December 2019 and 31 December 2020	1,384,535
IMPAIRMENT LOSS	
At 1 January 2019 and 31 December 2019	-
Impairment loss recognised during the year	170,000
At 31 December 2020	170,000
CARRYING VALUES	
At 31 December 2020	1,214,535
At 31 December 2019	1,384,535

18. GOODWILL - continued

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2019: five) CGUs, representing five (2019: five) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2019: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2020 RMB'000	2019 RMB'000
Tianjin Kangzhe	990,333	1,160,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	198,090
Tibet Kangzhe Development	1,854	1,854
	1,214,535	1,384,535

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

Tianjin Kangzhe

At 31 December 2020, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 12.1% (2019: 12.3%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2019: 3%). This growth rate is based on management's best estimate and past experience on the industry.

18. GOODWILL - continued

Tianjin Kangzhe - continued

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

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

Kangzhe Hunan

At 31 December 2020, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 12.3% (2019: 11.9%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2019: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the years ended 31 December 2020 and 2019, no impairment loss was recognised.

Xili Pharmaceutical

At 31 December 2020, 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 13.4% (2019: 13.5%). Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2019: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the years ended 31 December 2020 and 2019, no impairment loss was recognised.

The goodwill of Sky United and Tibet Kangzhe Development was immaterial as at the end of both reporting periods. During the years ended 31 December 2020 and 2019, no impairment loss was recognised.

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

(a) Financial assets at FVTPL

	2020	2019
	RMB'000	RMB'000
Financial assets measured at FVTPL		
Unlisted securities (note 38 (j))	3,884	2,736

(b) Equity instruments at FVTOCI

	2020	2019
	RMB'000	RMB'000
Listed investments:		
Equity securities listed on		
London Stock Exchange Plc (the "LSE") (Note a)	33,244	34,136
Unlisted investments:		
Equity securities (Note b)	382,341	235,568
Total	415,585	269,704

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

Notes:

(a) The listed equity investment represents ordinary shares of two (2019: two) entities listed on LSE. These investments are not held for trading, instead, they are held for long-term strategic purposes. The investments are denominated in British Pound ("GBP") and the fair values are based on the quoted market price.

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

Notes:- continued

During the year ended 31 December 2019, the Group invested in Midatech Pharma Plc ("Midatech") for a consideration of approximately GBP4,000,000 (equivalent to RMB34,705,000) (note 38(i)).

During the year ended 31 December 2020, the Group further invested in Destiny Pharma plc ("Destiny") for a consideration of GBP1,000,000 (equivalent to RMB8,435,000).

As at 31 December 2020, the fair value of these equity securities amounted to RMB33,244,000 (2019: RMB34,136,000), a loss on change in fair value of RMB9,327,000 (2019: RMB14,523,000) has been recognised in other comprehensive income.

(b) The unlisted equity investments represent the Group's equity interests in the following biotech/ pharmaceutical companies,

(1) Acticor Biotech ("Acticor"), an European company for a consideration of EUR4,000,000 (note 38(d)), equivalent to RMB30,607,000 (2019: EUR4,000,000, equivalent to RMB30,607,000);

(2) Blueberry Therapeutics Limited ("Blueberry"), a British company for a consideration of GBP5,000,000, equivalent to RMB44,771,000 (note 38(e)) (2019: GBP5,000,000, equivalent to RMB44,771,000);

(3) VAXIMM AG ("VAXIMM"), an European company for a consideration of approximately EUR2,950,000, equivalent to RMB23,518,000 (with additional investment of EUR225,000, equivalent to RMB1,865,000 during the year ended 31 December 2020) (2019: EUR2,725,000, equivalent to RMB21,653,000) (note 38(h));

(4) Neurelis, Inc. ("Neurelis"), an American company for a consideration of approximately US$19,937,000, equivalent to RMB138,537,000 (2019: US$19,937,000, equivalent to RMB138,537,000) (note 38(g)).

(5) Gelesis Inc., an American company for a consideration of approximately US$20,000,000 (equivalent to RMB142,632,000) (2019: nil).

(6) Qureight Limited, a British company for a consideration of approximately GBP249,000 (equivalent to RMB2,276,000) (2019: nil).

The fair values of the above unlisted equity investments were performed by Vigers Appraisal & Consulting Limited, a professional independent valuer. During the years ended 31 December 2020 and 2019, no change in fair value has been recognised in other comprehensive income.

20. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	9,920	11,283
Work in progress	9,328	14,580
Finished goods	361,967	381,195
	381,215	407,058

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 RMB'000	2019 RMB'000
Trade receivables	1,056,176	1,010,198
Less: Allowance for credit losses	(8,228)	(8,336)
	1,047,948	1,001,862
Bills receivables	445,998	414,017
Purchase prepayments	137,360	73,039
Other receivables and deposits	74,300	96,806
	1,705,606	1,585,724

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB1,280,702,000.

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.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS - continued

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

	2020	2019
	RMB'000	RMB'000
Trade receivables		
0 - 90 days	1,034,677	923,722
91 - 365 days	13,271	78,140
	1,047,948	1,001,862
Bill receivables		
0 - 90 days	276,546	303,460
91 - 120 days	45,732	29,524
121 - 180 days	123,720	81,033
	445,998	414,017

As at 31 December 2020, total bills receivables amounting to RMB445,998,000 (2019: RMB414,017,000) are held by the Group. All bills receivables by the Group are with a maturity period of less than six months.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB10,872,000 (2019: RMB93,057,000) which are past due at the reporting date. Included in the past due balances, RMB3,604,000 (2019: RMB70,103,000) was aged 90 days or more and is not considered as in default. Based on the historical experiences of the Group, trade receivables past due are generally recoverable due to the long term relationship and good repayment record.

The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables as at 31 December 2020 and 2019 are set out in note 35.

22. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS

	2020 RMB'000	2019 RMB'000
Deposits paid for acquisition of intangible assets	628,989	325,126

Note: Included in the deposits paid for acquisition of intangible assets, approximately RMB402,223,000 (2019: RMB303,775,000), RMB106,974,000 (2019: nil), RMB40,824,000 (2019: nil) and RMB27,904,000 (2019: nil) , have been paid to Sun Pharmaceutical Industrial Ltd., Gelesis Inc., Medac Gesellschaft Fur Klinische Speziallpraparate M.B.H and Cadila Healthcare Limited, respectively. All these companies are independent third parties not connected with the Group. The deposits were paid for certain exclusive distribution rights of medical products to be approved by relevant regulatory bodies for the sales in specific territories.

During the year ended 31 December 2019, the research on an intangible asset, of which the Group paid deposit of RMB963,000 has been suspended. The management considers that such deposit is not probable to be recovered and an impairment loss of RMB963,000 (2020: nil) was recognised in profit or loss for the year ended 31 December 2019. Such research remained suspended during the year ended 31 December 2020.

23. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2020, the balance of approximately RMB30,000,000 (2019: RMB31,816,000) was non-trade nature and non-interest bearing, represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2020, the balance of approximately RMB207,271,000 (2019: RMB152,804,000) was trade nature and non-interest bearing, represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2020 was aged within three months (2019: within three months) based on the invoice date.

24. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.30% to 1.95% (2019: 0.35% to 2.75%) per annum. Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2020	2019
	RMB'000	RMB'000
Euro ("EUR")	8,459	33,090
Hong Kong Dollar ("HK$")	13,613	12,749
United States Dollar ("US$")	10,411	2,927
CHF	1,557	717
GBP	3,180	1,266

25. TRADE AND OTHER PAYABLES

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

	2020	2019
	RMB'000	RMB'000
0 - 90 days	128,643	37,941
91 - 365 days	3,185	4,762
Over 365 days	2,980	1,337
Trade payables	134,808	44,040
Payroll and welfare payables	205,357	124,873
Other tax payables	90,935	67,186
Accrued promotion expenses	84,233	85,555
Accrued sales rebates	25,000	-
Accruals	44,872	31,746
Other payables	34,079	19,396
	619,284	372,796

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

26. LEASE LIABILITIES

	2020 RMB'000	2019 RMB'000
Lease liabilities payable:		
Within one year	7,266	9,388
Within a period of more than one year but not more than two years	4,888	6,382
Within a period of more than two years but not more than five years	752	4,109
	12,906	19,879
Less: Amount due for settlement with 12 months shown under current liabilities	(7,266)	(9,388)
Amount due for settlement after 12 months shown under non-current liabilities	5,640	10,491

27. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
Receipts in advance from customers - finished goods	14,406	12,939

As at 1 January 2019, contract liabilities amounted to RMB5,469,000.

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

	2020 RMB'000	2019 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	12,939	5,469

27. CONTRACT LIABILITIES- continued

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

The increase in contract liabilities in current year was mainly due to the increase in the minimum balance of the receipt in advance from customers.

28. BANK BORROWINGS

	2020	2019
	RMB'000	RMB'000
Bank loans	587,251	693,909
Analysed as:		
Secured	10	10
Unsecured	587,241	693,899
	587,251	693,909

28. BANK BORROWINGS - continued

	2020 RMB'000	2019 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	10	693,909
Within a period of more than one year but not exceeding two years	117,448	-
Within a period of more than two years but not exceeding five years	469,793	-
	587,251	693,909
Less: Amounts due within one year shown under current liabilities	(10)	(693,909)
Amounts shown under non-current liabilities	587,241	-

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

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2020 RMB'000	2019 RMB'000
Fixed-rate borrowings		
Denominated in RMB (5.23% per annum as at 31 December 2020 and 2019)	10	10
Variable-rate borrowings (Note b)		
Denominated in US$ range from 1.44% to 1.49% per annum as at 31 December 2020 (2019: 3.53%) (Note a)	587,241	693,899
Total	587,251	693,909

Notes:

(a) Variable rates range from London Interbank Offered Rate ("LIBOR") plus 1.25% to LIBOR plus 1.3% as at 31 December 2020 (2019: LIBOR plus 1.8%).

(b) As at 31 December 2020, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB587,241,000 (2019: RMB693,899,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023 and 27 March 2023 (2019: 23 June 2020). Details of the interest rate swaps are disclosed in note 31.

As at 31 December 2020, the Group had unutilised banking facilities of approximately RMB1,478,227,000 (2019: RMB1,718,562,000).

29. DEFERRED CONSIDERATION PAYABLES

	2020 RMB'000	2019 RMB'000
Non-current	1,487	5,099
Current	2,929	10,744
	4,416	15,843

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 17(b) (ii)). In addition to the first payment of RMB30,000,000, further consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2020, the carrying value amounting to RMB2,487,000 (2019: RMB4,170,000) was included in deferred consideration payables.

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market, part of the consideration is payable annually in the amount of EUR1,000,000 (see note 17(c) (i)) (equivalent to approximately RMB7,307,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2020, the carrying value amounting to nil (2019: EUR1,000,000 (equivalent to approximately RMB7,815,000)) was included in deferred consideration payables.

During the year ended 31 December 2019, the Group acquired both shares and warrants issued by a company listed on LSE at a lump sum consideration of approximately GBP4,000,000 (note 38(i)) (equivalent to approximately RMB34,705,000). Upon the acquisition, as the fair value of the warrant is not based on a valuation technique that uses only data from observable markets, the difference between the aggregate of fair value of both shares and warrants at the date of initial recognition and the consideration was recognised and included within deferred consideration payables and amortised over the exercise period of the warrants. As at 31 December 2020, the carrying value amounting to approximately GBP218,000 (equivalent to approximately RMB1,929,000) (2019: GBP435,000 (equivalent to approximately RMB3,858,000)) was included in deferred consideration payables.

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

	RMB'000
At 29 January 2019 (date of initial recognition)	5,787
Charge to profit or loss	(1,929)
At 31 December 2019	3,858
Charge to profit or loss	(1,929)
At 31 December 2020	1,929

30. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories	Fair value adjustments to assets acquired in business combinations	Unrealised profit of equity instruments at FVTOCI	Fair value (gain) loss on cash flow hedges	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)
(Charge) credit to profit or loss for the year (note 10)	(437)	7,195	-	-	-	6,758
Credit to other comprehensive income	-	-	-	2,687	-	2,687
At 31 December 2019	19,074	(27,588)	(63,964)	23	1,201	(71,254)
Credit to profit or loss for the year (note 10)	513	5,419	-	-	-	5,932
Credit to other comprehensive income	-	-	-	948	-	948
At 31 December 2020	19,587	(22,169)	(63,964)	971	1,201	(64,374)

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

	2020	2019
	RMB'000	RMB'000
Deferred tax assets	21,759	20,298
Deferred tax liabilities	(86,133)	(91,552)
	(64,374)	(71,254)

At 31 December 2020, the Group had unused tax losses of approximately RMB50,553,000 (2019: RMB38,420,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2020 are tax losses of approximately RMB20,001,000 (2019: RMB20,657,000) 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 2020, tax losses of approximately RMB2,051,000 (2019: RMB4,266,000) was expired. During the year ended 31 December 2020, the Group utilised unrecognised tax loss of nil (2019: RMB292,000).

As at 31 December 2020, the Group had deductible temporary differences of RMB717,183,000 (2019: RMB605,235,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB78,348,000 (2019: RMB76,296,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB638,835,000 (2019: RMB528,939,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

30. DEFERRED TAX - continued

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 RMB5,680,490,000 (2019: RMB4,746,003,000) 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.

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 RMB'000	2019 RMB'000
Assets:		
Foreign exchange forward contracts	682	27,422
Warrants	49	770
	731	28,192
Analysed as:		
Current assets	49	28,192
Non-current assets	682	-
	731	28,192
Liabilities:		
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	(5,888)	(142)
Analysed as:		
Current liabilities	-	(142)
Non-current liabilities	(5,888)	-
	(5,888)	(142)

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 2020 and 2019 are set out below:

31. DERIVATIVE FINANCIAL INSTRUMENTS - continued

At 31 December 2020

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

At 31 December 2019

Notional amount	Maturity date	Exchange rate range agreed
US$100,000,000 (Note)	23 June 2020	US$1:RMB6.7 to RMB7.2

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

During the year ended 31 December 2020, the fair value loss of approximately RMB26,740,000 (2019: fair value gain of approximately RMB10,700,000) have been recognised in "other income/ other gains and losses" line item (see note 6).

Warrants

As set out in note 29, the Group acquired warrants issued by a company listed on LSE on 29 January 2019, which are classified as a derivative financial instrument as at 31 December 2020 and 2019.

The fair value of the derivative financial instrument as at 31 December 2020 was approximately GBP7,000 (equivalent to approximately RMB49,000) (2019: GBP84,000 (equivalent to approximately RMB770,000)) which is determined by Vigers Appraisal & Consulting Limited, a professional independent valuer, based on the Binomial Model.

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

	29 January 2019 (date of grant)	31 December 2019	31 December 2020
Share price	GBP0.041	GBP0.028	GBP0.265*
Exercise price	GBP0.5	GBP0.5	GBP10*
Expected volatility	81%	92%	120%
Expected option life	3 years	2.08 years	1.2 years
Expected dividend yield	0%	0%	0%
Risk-free rate	0.83%	0.53%	0%

31. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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

The expected volatility adopted were based on average annualised standard deviations of the continuously compounded rates of return of the share price of Midatech as of the valuation date. The fair value calculated for the warrants is inherently subjective due to the assumptions made and the limitations of the model utilised.

The movement of the warrant is shown as follows:

	RMB'000
On 29 January 2019 (date of grant)	2,566
Charge to profit or loss	(1,796)
At 31 December 2019	770
Charge to profit or loss	(721)
At 31 December 2020	49

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 2020 and 2019 are set out below:

At 31 December 2020

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

31. DERIVATIVE FINANCIAL INSTRUMENTS - continued

At 31 December 2019

Notional amount (Note)	Carrying amount	Contract date	Maturity date	Receive	Pay
US$72,000,000	RMB4,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$25,600,000	RMB102,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$2,400,000	RMB36,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

Note: The notional amount will be expired on 24 March 2023 and 27 March 2023 (2019: 23 June 2020), which are the same as corresponding bank borrowings.

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2020, the fair value loss of approximately RMB5,746,000 (2019: RMB16,286,000), income tax of approximately RMB948,000 (2019: RMB2,687,000), resulting in a net amount of approximately RMB4,798,000 (2019: RMB13,599,000) 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.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates with alternative nearly risk-free rates. The Group has several LIBOR bank borrowings which will be subject to the interest rate benchmark reform. The Group is closely monitoring the transition to new benchmark interest rates.

32. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2019, 31 December 2019 and 31 December 2020	20,000,000	765,218
Issued and fully paid		
At 1 January 2019, 31 December 2019 and 1 January 2020	2,480,409	84,963
Shares repurchased and cancelled (Note)	(9,648)	(329)
At 31 December 2020	2,470,761	84,634

Note: During the year ended 31 December 2020, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share Highest	Price per share Lowest	Aggregated consideration paid
11 February 2020	9,648,000	HK$10.30	HK$10.04	HK$98,164,100

The above ordinary shares were cancelled upon repurchase.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2020 and 2019.

33. 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.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs.

35. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020 RMB'000	2019 RMB'000
Financial assets		
Derivative financial instruments		
- foreign exchange forward contracts	682	27,422
- warrants	49	770
Financial assets at amortised cost	4,473,943	3,062,313
Equity instruments at FVTOCI	415,585	269,704
Financial asset at FVTPL	3,884	2,736
Financial liabilities		
At amortised cost	(965,911)	(898,061)
Derivative instruments under hedge accounting		
(cash flow hedges-interest rate swaps)	(5,888)	(142)

Financial risk management objectives and policies

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

35. FINANCIAL INSTRUMENTS - continued

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 28) and lease liabilities (see note 26). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 24) and variable-rate bank borrowings (see note 28). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates at LIBOR arising from the Group's US$ denominated borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 31). In addition, 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. Accordingly, no sensitivity analysis is presented.

Interest income of RMB61,031,000 was earned (2019: RMB41,998,000) from financial assets that are measured at amortised cost (including cash and cash equivalents) for the year ended 31 December 2020.

Interest expense of RMB27,520,000 was incurred (2019: RMB56,255,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2020.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 44% (2019: 45%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (representing financial asset at FVTPL, trade and other receivables and bank balances and cash) and monetary liabilities (representing trade and other payables, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
US$	14,295	5,663	590,140	694,757
EUR	8,459	34,593	6,171	17,827
GBP	3,180	1,266	1,929	3,858
HK$	14,806	12,749	-	-
CHF	1,557	717	-	-

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The Group is mainly exposed to currency risk of the US$, Eur, GBP, HK$ and CHF. The following table details the Group's sensitivity to a 5% (2019: 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% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes financial asset at FVTPL, derivative financial instruments, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2019: 5%) against the relevant foreign currencies. If there is a 5% (2019: 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:

	2020 RMB'000	2019 RMB'000
RMB (as functional currency of the relevant group entities) against US$	21,594	25,841
RMB (as functional currency of the relevant group entities) against EUR	(86)	(629)
RMB (as functional currency of the relevant group entities) against GBP	(47)	97
RMB (as functional currency of the relevant group entities) against HK$	(555)	(478)
RMB (as functional currency of the relevant group entities) against CHF	(58)	(27)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during both years.

Other price risk management

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the LSE.

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Other price risk management - continued

Sensitivity analysis

The following details the Group's sensitivity to a 10% (2019:10%) increase and decrease in the quoted market price of the equity securities. 10% (2019: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the quoted market price of the equity securities. If there is a 10% (2019:10%) higher/lower in the quoted market price of the equity securities, the other comprehensive income would be increased/decreased by RMB3,324,000 (2019: RMB3,414,000).

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 2020 and 2019.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances and amount due from an associate. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix based on share credit risk characteristics by reference to repayment history for recurring customers and current past due exposure for the new customers.

Except for the derivative financial instruments, financial asset at FVTPL and equity instruments at FVTOCI, the Group performed impairment assessment for financial assets and other items under ECL model.

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed every year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued or guaranteed by reputable PRC banks, if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant.

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade receivables arising from contracts with customers - continued

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2019: 100%) of the total trade receivables as at 31 December 2020. 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. No impairment is recognised for the years ended 31 December 2020 and 2019. Details of the quantitative disclosures are set out below in this note.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on this, the 12m ECL on bank balances is considered to be insignificant.

Amount due from an associate

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated through the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. The Group assessed the loss allowance for trade related balance with the associate on lifetime ECL basis and non-trade related balance with the associate on 12m ECL basis. The Group performs impairment assessment under ECL model on this trade balance individually and the directors of the Company believe that there are no significant increases in credit risk at the reporting date of these amounts and the trade receivables due from the associate have been subsequently settled. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for amount due from an associate to be insignificant and thus no loss allowance was recognised.

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other receivables and deposits

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportable and forward-looking information available without undue costs or effort. The directors of the Company believe that there are no significant increase in credit risk at the reporting date of these amounts and most of the other receivables have been subsequently settled. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for other receivables and deposits to be insignificant and thus no loss allowance for credit losses 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

35. 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	2020 Gross carrying amount		2019 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost							
Trade receivables	21	Note 1	Lifetime ECL - Provision matrix	1,051,099		1,005,013	
		Loss	Credit-impaired	5,077	1,056,176	5,185	1,010,198
Bills receivables (Note 2)	21	Low risk	12m ECL	445,998		414,017	
Amount due from an associate (Notes 2 and 3)	23	Low risk	12m ECL	30,000		31,816	
			Lifetime ECL - Not credit-impaired	207,271	237,271	152,804	184,620
Bank balances (Note 2)	24	Low risk	12m ECL	2,668,426		1,365,008	
Other receivables and deposits (Note 2)	21	Low risk	12m ECL	74,300		96,806	

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 2020 and 2019 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amount of RMB5,077,000 as at 31 December 2020 (2019: RMB5,185,000) were assessed individually.

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) **Provision matrix - internal credit rating** - continued

Gross carrying amount

	2020		2019	
Internal credit rating	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Normal risk	0.2%	1,030,013	0.1%	921,145
Doubtful	2.8%	21,086	2.5%	83,868
		1,051,099		1,005,013

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. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates.

During the year ended 31 December 2020, RMB108,000 (2019: RMB531,000) of impairment allowance was written-off 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 2019	4,112	5,716	9,828
Write-offs	(961)	(531)	(1,492)
As at 31 December 2019	3,151	5,185	8,336
Write-offs	-	(108)	(108)
As at 31 December 2020	3,151	5,077	8,228

35. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) **Provision matrix - internal credit rating** - continued

The 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 and amount due from an associate in relation to deposit for exclusive distribution right on 12m ECL basis. In determining the ECL of the bank balances, the Group has taken into account the counterparties are reputable banks with high credit ratings assigned by international credit agencies and forward looking information as appropriate. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies and the management considers that the expected credit loss on the bank balances is immaterial. In determining the ECL other than the bank balances, the Group has taken into account the historical default experience and forward looking information as appropriate, including changes in growth rate of gross domestic product of the PRC. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that the expected credit loss on these balances is immaterial.

(3) The Group assessed the loss allowance for amount due from an associate with trade nature on lifetime ECL basis. In determining the ECL, the Group has taken into account the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. There had been no significant increase in credit risk since initial recognition. No additional impairment loss on trade receivables has been provided during the years ended 31 December 2020 and 2019 and the entire balance has been subsequently settled.

35. 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 2020, the Group has available unutilised banking facilities of approximately RMB1,478,227,000 (2019: RMB1,718,562,000) respectively. Details of which are set out in note 28.

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 2020
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2020					
Non-derivative financial liabilities					
Trade and other payables	-	374,244	-	374,244	374,244
Deferred consideration payables	5.43	2,929	2,000	4,929	4,416
Fixed rate bank borrowings	5.23	10	-	10	10
Variable-rate bank borrowings	1.92	-	655,084	655,084	587,241
Lease liabilities	4.75	9,272	6,536	15,808	12,906
		386,455	663,620	1,050,075	978,817
Derivative financial liabilities					
Interest rate swap		2,790	3,487	6,277	5,888

35. 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 2019
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2019					
Non-derivative financial liabilities					
Trade and other payables	-	188,309	-	188,309	188,309
Deferred consideration payables	5.43	10,744	5,570	16,314	15,843
Fixed rate bank borrowings	5.23	10	-	10	10
Variable-rate bank borrowings	3.54	706,164	-	706,164	693,899
Lease liabilities	4.75	10,332	11,215	21,547	19,879
		915,559	16,785	932,344	917,940
Derivative financial liabilities					
Interest rate swap		142	-	142	142

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).

35. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) **Fair value of the Group's financial assets that are measured at fair value on a recurring basis** - continued

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	31/12/2020	**31/12/2019**			
1) Interest rate swaps classified as derivative financial instruments	Liabilities - RMB5,888,000	Liabilities - RMB142,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Nil
2) Foreign exchange forward contracts classified as derivative financial instruments	Assets - RMB682,000	Assets - RMB27,422,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate and contracted exchange rate, discounted at a rate that reflects the credit risk of various counterparties.	Nil
3) Equity instruments at FVTOCI - Listed	Listed equity securities on the LSE - RMB33,244,000	Listed equity securities on the LSE - RMB34,136,000	Level 1	Quoted bid prices in an active market.	Nil
4) Financial asset at FVTPL	Assets RMB3,884,000	Assets - RMB2,736,000	Level 1	Quoted prices provided by financial institutions.	Nil
5) Equity instruments at FVTOCI - Unlisted	Unlisted equity investments RMB382,341,000	Unlisted equity investments: RMB235,568,000	Level 3	Black-Scholes approach. Black-Scholes Option Pricing Model are based on risk-free rate, expected volatility, expected dividend yield and liquidation timing.	Estimation of expected volatility, determined by reference to the expected volatility of comparable companies.
6) Warrant classified as derivative financial instruments - FVTPL	Assets – RMB49,000	Assets - RMB770,000	Level 3	Binomial Model - Binomial Pricing Model. Valuation of the derivative financial instruments is based on share price, exercise price, risk-free rate, expected option life, expected dividend yield and expected volatility.	Estimation of expected volatility determined by reference to the expected volatility of Midatech

35. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) **Fair value of the Group's financial assets that are measured at fair value on a recurring basis** - continued

Sensitivity analysis

If the expected volatility of the comparable companies had been 5% higher/lower while all other variables were held constant, the Group's fair value of equity instruments as at 31 December 2020 would have increased/decreased by approximately RMB351,000 (2019: RMB272,000).

If the expected volatility of Midatech had been 5% higher/lower while all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2020 would have increased/decreased by approximately RMB30,000 (2019: RMB240,000).

(ii) **Reconciliation of Level 3 fair value measurements**

	Equity instruments at FVTOCI RMB'000	Derivative financial instrument - warrant RMB'000	Total RMB'000
As at 1 January 2019	230,953	-	230,953
Purchases	4,615	2,566	7,181
Total losses			
- in profit or loss	-	(1,796)	(1,796)
As at 31 December 2019	235,568	770	236,338
Purchases	146,773	-	146,773
Total losses			
- in profit or loss	-	(721)	(721)
As at 31 December 2020	382,341	49	382,390

(iii) **Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)**

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

There is no transfer among Level 1, Level 2 and Level 3 during both years.

36. 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 28)	Deferred consideration payables RMB'000 (note 29)	Dividend payables RMB'000 (note 12)	Lease liabilities RMB'000 (note 26)	Total RMB'000
At 1 January 2019	1,465,195	18,773	-	9,499	1,493,467
Financing cash flows	(855,457)	(7,834)	(822,752)	(9,094)	(1,695,137)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	(1,929)
Dividends declared	-	-	822,752	-	822,752
Finance costs	53,862	1,079	-	1,314	56,255
Net foreign exchange loss	30,309	(33)	-	-	30,276
Commencement of new leases	-	-	-	18,160	18,160
Non-cash transaction	-	5,787	-	-	5,787
At 31 December 2019	693,909	15,843	-	19,879	729,631
Financing cash flows	(92,454)	(9,810)	(834,129)	(11,200)	(947,593)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	(1,929)
Dividends declared	-	-	834,129	-	834,129
Finance costs	26,109	317	-	1,094	27,520
Net foreign exchange gain	(40,313)	(5)	-	-	(40,318)
Commencement of new leases	-	-	-	3,133	3,133
At 31 December 2020	587,251	4,416	-	12,906	604,573

37. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of the acquisition of financial asset at FVTPL, property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	17,399	21,034

38. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related financial parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the consolidated financial statements.

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

Name of related company	**Relationship**	**Nature of transactions**	2020 RMB'000	2019 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	609,021	527,985
Tibet Pharmaceutical	Associate	Service fee	1,698	1,132

(b) Pursuant to a transfer agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) and a further agreement dated 16 December 2007 between Shenzhen Kangzhe and Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D")", the Group acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, of which 83.23% equity interest is indirectly held by a controlling shareholder as at 31 December 2020 and the date of this report. Pursuant to the terms of the agreement, as consideration for the transfer of CMS024, Shenzhen Kangzhe paid US$3.1 million to Kangzhe R&D as compensation for the actual research and development costs incurred by Kangzhe R&D, and further agreed to pay a royalty fee of 13% of the quarterly sales revenue generated by the Group after CMS024 is successfully launched. The Group has appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist the Group in the application for a new-drug permit for CMS024. The Group has not paid any fee to Kangzhe R&D during the years ended 31 December 2020 and 2019.

38. RELATED PARTY TRANSACTIONS - continued

(c) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to Traumakine in China (including Hong Kong SAR, Macau SAR and Taiwan) (the "Territory"), intellectual properties related to Traumakine from the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition was not yet completed up to the date of this report and the Group has not paid any consideration to A&B in respect of this acquisition during the years ended 31 December 2020 and 2019.

(d) On 31 July 2018, each of the Group and A&B invested in Acticor for the consideration of approximately EUR4,000,000 (note19(b)(b)(1)) (equivalent to RMB30,607,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Acticor. According to the terms of such agreement, the Group acquired all assets (the "Assets of ACT017") related to Acticor's product ACT017 and any follow-up products developed on the basis of the same compound of ACT017 (the "Product of ACT017") in China (including Hong Kong SAR, Macau SAR and Taiwan), Singapore, Philippines, Republic of Korea, Malaysia and other designated Asian countries (excluding Japan, India and Western Asia countries) (the "Asia Pacific Territory") in consideration of an upfront payment of EUR50,000 (equivalent to RMB384,000) which has been paid as at 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets (see note 22) as at 31 December 2020 and 2019. 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.

As Product of ACT017 has not yet been commercialised, the Group has not paid any consideration for Product of ACT017 during years ended 31 December 2020 and 2019.

38. RELATED PARTY TRANSACTIONS - continued

(e) On 14 August 2018, each of the Group and A&B invested in Blueberry for the consideration of GBP5,000,000 (note 19(b)(b)(2)) (equivalent to RMB44,771,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Blueberry. According to the terms of such agreement, the Group has acquired all related assets of Blueberry's leading product BB2603 (for the treatment of onychomycosis and tinea pedis) in China (including Hong Kong SAR Macau SAR and Taiwan), Republic of Korea, Democratic People's Republic of Korea and Mongolia (the "Asia Territory") and the Group further acquired access to all related assets of other pipeline products being or to be developed subsequently by Blueberry utilizing its unique nanoformulation delivery system in dermatology and other fields (such as products used for treating atopic dermatitis and acne, etc., together with the product BB2603 as the "Product of BB2603") in the Asia Territory in consideration of (1) an upfront payment of USD600,000 (equivalent to RMB4,090,000), (2) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of BB2603 in Asia Territory. The aforementioned assets include, among others, all the national patents covering the development, commercialization and formulation of the Product of BB2603, national trademarks and necessary regulatory approvals in or for the Asia Territory.

As the milestone as well as the commercialisation of Product of BB2603 has not yet been achieved as at 31 December 2020 and 2019, 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 22) as at 31 December 2020 and 2019.

(f) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices developed by or for Helius Medical Technologies group ("Helius") (the "Product of PoNS"). According to the terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of PoNS (the "Assets of PoNS") in the Territory (the "Transaction of PoNS"). The Assets were originally purchased by A&B from Helius, in which A&B has equity interest. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of PoNS under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction at a later stage prior to the launch of the Product of PoNS in the Territory. As at 31 December 2020, 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 2020 and 2019.

(g) During the year ended 31 December 2018, the Group and A&B invested in Neurelis for the consideration of approximately US$19,531,000 (equivalent to RMB135,664,000) and US$15,000,000 (equivalent to RMB104,342,000), respectively.

During the year ended 31 December 2019, each of the Group and A&B further invested in Neurelis for the consideration of approximately US$406,000 (equivalent to RMB2,873,000) (note 19(b)(b)(4)).

38. RELATED PARTY TRANSACTIONS - continued

(g) – continued

On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 etc. and/or line extensions developed by or for Neurelis, Inc. ("Neurelis") (collectively, the "Product of NRL-1"). According to terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of NRL-1 (the "Assets of NRL-1") in the Territory (the "Transaction of NRL-1"). A&B obtained the Assets of NRL-1 from its related entity which in turn obtained the Assets of NRL-1 from Neurelis. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of NRL-1 under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction of NRL-1 at a later stage prior to the launch of the Product of NRL-1 in the Territory. As at 31 December 2020, the Group and A&B have not yet negotiated and agreed on the terms of the Transaction of NRL-1 and the Group has not paid any consideration to A&B in respect of the Transaction of NRL-1 during the years ended 31 December 2020 and 2019.

(h) On 19 September 2018, each of the Group and A&B invested in VAXIMM for the consideration of approximately EUR2,500,000 (equivalent to RMB19,911,000), respectively.

On the same date, the Group entered into license and collaboration agreement with VAXIMM. According to the terms of such agreement, the Group gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current pharmaceutical products portfolio and line extension of or under the control of VAXIMM (the current leading product is VXM01) as well as designated pharmaceutical products and line extension that will be solely owned and under the control of VAXIMM (the "Product of VXM01") in Asia Pacific Territory in consideration of (1) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement, (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of VXM01 in Asia Pacific Territory.

On 2 and 3 December 2019, each of the Group and A&B further invested in VAXIMM for the consideration of approximately EUR225,000 (equivalent to RMB1,742,000), respectively.

During the year ended 31 December 2020, each of the Group and A&B further invested in VAXIMM for the consideration of approximately EUR225,000 (equivalent to RMB1,865,000) (note 19(b)(b)(3)).

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 2020 and 2019.

38. RELATED PARTY TRANSACTIONS - continued

(i) On 29 January 2019, each of the Group and A&B invested in Midatech Pharma PLC ("Midatech") for the consideration of approximately GBP4,000,000 (notes 19(b)(a) and 29) (equivalent to RMB34,705,000), respectively.

On the same date, the Group entered into a license, collaboration and distribution agreement with Midatech. According to the terms of such agreement, the Group will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialise Midatech's current products mainly including MTD201, MTX110 (subject to receipt of consent from Secura Bio) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech controls and which Midatech or its affiliates have given a codename within three years from 29 January 2019 (the "Products") in China (including Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) and certain Southeast Asian countries selected by the Group (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Group once a regulatory approval is granted by the US Food and Drug Administration, the European Medicines Agency or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland).

As Products have not yet been commercialised, the Group has not paid any consideration in relation to Products during year ended 31 December 2020 and 2019.

(j) During the year ended 31 December 2019, the Group and A&B invested in a capital fund for a consideration of approximately US$388,000 (equivalent to RMB2,736,000) (note 19(a)), respectively.

During the year ended 31 December 2020, each of the Group and A&B further invested in the capital fund for the consideration of approximately US$250,000 (equivalent to RMB1,715,000) (note 19(a)).

(k) During the year ended 31 December 2017, each of the Group and A&B invested in Destiny Pharma Plc. ("Destiny") for the consideration of approximately GBP3,000,000 (equivalent to RMB26,291,000), respectively.

During the year ended 31 December 2017, the Group entered into an agreement with Destiny. According to the terms of such agreement, the Group will gain exclusive sub-licensable rights to develop and commercialise Destiny's current products mainly including XF-73 (the "Products of XF-73") in Asia Pacific Territory.

During the year ended 31 December 2020, each of the Group and A&B further invested in Destiny for the consideration of approximately GBP1,000,000 (equivalent to RMB8,435,000) (note 19(b)(a)), respectively.

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 2020 and 2019.

(l) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 8.

(m) During the year ended 31 December 2020, each of the Group and A&B invested in Qureight Limited for the consideration of approximately GBP249,000 (equivalent to RMB2,276,000) (note 19(b)(b)(6)), respectively.

(n) During the year ended 31 December 2020, each of the Group and A&B agreed to invest in Exseed Health Limited for the consideration of approximately GBP150,000 (equivalent to RMB1,334,000), respectively. The consideration has not been paid before year ended 31 December 2020. The consideration was subsequently paid on on 4 January 2021.

39. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

The employees employed in Macau are required to join the Social Security Fund (the "FSS"). Contributions to FSS are made in accordance with the statutory limits prescribed by the Social Security System of Macau.

The employees employed in Malaysia are required to join the Employees Provident Fund ("EPF"). Contributions to the EPF Scheme are made in accordance with the statutory limits prescribed by the Public Pension (Kumpulan Wang Simpanan Pekerja, "KWSP") of Malaysia.

The employees employed in Dubai are required to be entitled to gratuity based on the years of services under the labour law of United Arab Emirates Ministry of Human Resources and Emiratisation.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB28,991,000 (2019: RMB43,793,000).

40. 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).

40. EMPLOYEE BENEFIT SCHEME - continued

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

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

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

40. EMPLOYEE BENEFIT SCHEME - continued

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 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.

During the year ended 31 December 2020, the Company recognised an expense of RMB25,000,000 (2019: RMB14,000,000) on the Master Scheme based on the Group's financial performance. RMB25,000,000 (2019: RMB14,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2020 and 2019, 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 2020	31 December 2019	31 December 2020		31 December 2019		
				Directly	Indirectly	Directly	Indirectly	
CMS International	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB36,750,000	-	100%	-	100%	Production of medicines
Tibet Kangzhe Enterprise Management Co. Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Lengshuijiang Kangzhe Pharmaceutical Co., Ltd, (wholly-owned domestic enterprise)	PRC	RMB32,500,000	RMB22,359,050	-	100%	-	100%	Production of medicines
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines
Tibet Kangzhe Development (wholly-owned domestic subsidiary)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
CMS Bridging Limited (formerly known as Everest Fortune Limited)	Hong Kong	HK$1,000,000,000	HK$1,000,000,000	-	100%	-	100%	Investment holding
CMS Medical Venture Investment Limited	British Virgin Island	US$50,000	US$50,000	-	100%	-	100%	Investment holding
CMS Medical Venture Investment (HK) Limited	Hong Kong	HK$100	HK$100	-	100%	-	100%	Investment holding

41. 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 2020	31 December 2019	31 December 2020		31 December 2019		
				Directly	Indirectly	Directly	Indirectly	
CMS International Development and Management Limited	Macau	MOP$25,000	MOP$25,000	-	100%	-	100%	Trading of drugs
CMS Pharma DMCC	Dubai	DH104,490,000	DH50,000	-	100%	-	100%	Trading of drugs
CMS Bridging DMCC	Dubai	DH261,220,000	DH50,000	-	100%	-	100%	Investment holding

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.

42. DISPOSAL OF A SUBSIDIARY

On 17 December 2019, the Group entered into a sales and purchase agreement (the ''Agreement") with purchaser (the "Purchaser"), who is the spouse of a director of CMS Pharma Co., Ltd. ("CMS Pharma"). Pursuant to the Agreement, the Group agreed to sell and the Purchaser agreed to purchase the entire equity interest in CMS Pharma, a wholly-owned subsidiary of the Group, at a consideration of US$1 (equivalent to RMB7). The consideration was determined after arm's length negotiation between the Group and the Purchaser. The transaction was completed on 17 December 2019 on which date control of CMS Pharma passes to the purchaser.

CMS Pharma is principally a trading company. Pursuant to the Agreement, the Group was entitled to all creditor's rights and all benefits, interests, right to all receivables accrued to, and assume all liabilities and payables of CMS Pharma in respect of business trading, regulatory or tax arising from transactions that occurs prior to 17 December 2019 (i.e. the date of disposal).

42. DISPOSAL OF A SUBSIDIARY - continued

The net assets at the date of disposal were as follows:

Analysis of assets and liabilities over which control was lost

	17 December 2019 RMB'000
Bank balance and cash	16,078
Amount due to Group's companies	(16,078)
Cash consideration	-

	31 December 2019 RMB'000
Net cash outflow arising on disposal:	
Cash consideration received (Note)	-
Less: bank balances and cash disposed of	(16,078)
	(16,078)

Note: US$1 (equivalent to RMB7) has been received as cash consideration.

Gain on disposal of RMB7 has been recognised and included in "others" under "other income/ other gains and losses" line item during the year ended 31 December 2019.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
Non-current asset		
Interests in subsidiaries	4,324,239	4,279,255
Current assets		
Amount due from a subsidiary	500,000	1,000,000
Bank balances and cash	5,124	2,019
	505,124	1,002,019
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	3,220	2,218
	6,178	5,176
Net current assets	498,946	996,843
Total assets less current liabilities	4,823,185	5,276,098
Capital and reserves		
Share capital (note 32)	84,634	84,963
Reserves	4,738,551	5,191,135
Total equity	4,823,185	5,276,098

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 2019	2,391,513	6,960	2,293,459	355,691	5,047,623
Profit and total comprehensive income for the year	-	-	966,264	-	966,264
Dividends paid	-	-	(467,061)	(355,691)	(822,752)
Dividends proposed	-	-	(315,260)	315,260	-
Balance at 31 December 2019	2,391,513	6,960	2,477,402	315,260	5,191,135
Repurchase of ordinary shares	(86,634)	-	-	-	(86,634)
Profit and total comprehensive income for the year	-	-	468,179	-	468,179
Dividends paid	-	-	(520,095)	(314,034)	(834,129)
Dividends proposed	-	-	(501,080)	501,080	-
Balance at 31 December 2020	2,304,879	6,960	1,924,406	502,306	4,738,551

44. EVENTS AFTER THE REPORTING PERIOD

Acquisition of a subsidiary

On 1 February 2021, a wholly-owned subsidiary of the Company acquired all the issued and outstanding shares of Luqa Ventures Co., Limited (the "Target Company"), a dermatology specialty company, from independent third parties (the "Acquisition").

The Target Company has an extensive product portfolio of prescription medicines, medical devices, medical aesthetic solutions and skin care products, that meets the diversified needs of consumers and provides the market with safe and effective solutions for a broad range of skin conditions.

The Acquisition is accounted for under IFRS 3 and upon the completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company. However, the directors of the Company are still assessing the financial impact of the Acquisition to the Group at the date of the issuance of these consolidated financial statements.

Details are set out in the announcement made by the Company on 1 February 2021.