CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code: 867)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 AND CHANGE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2019 (the "Reporting Period").

Financial Highlights

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

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

**For Identification Purpose Only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	3	6,073,624	5,433,449
Cost of goods sold		(1,527,308)	(1,516,575)
Gross profit		4,546,316	3,916,874
Other gains and losses	4	73,801	(5,611)
Selling expenses		(1,939,167)	(1,672,595)
Administrative expenses		(251,290)	(243,265)
Finance costs	5	(56,255)	(71,885)
Share of results of associates		114,293	82,856
Profit before tax		2,487,698	2,006,374
Income tax expense	6	(532,004)	(161,776)
Profit for the year	7	1,955,694	1,844,598
Item that will not be reclassified to profit or loss:			
Fair value loss on equity instruments at fair value through other comprehensive income		(14,523)	(14,065)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		8,865	23,168
Exchange differences arising from translation of foreign operations		(629)	211
Change in fair value on cash flow hedges			
- fair value (loss) gain		(16,286)	4,121
- deferred tax relating to change in fair value		2,687	(680)
Other comprehensive (expense) income for the year, net of income tax		(19,886)	12,755
Total comprehensive income for the year		1,935,808	1,857,353
Profit (loss) for the year attributable to:			
Owners of the Company		1,960,712	1,849,883
Non-controlling interests		(5,018)	(5,285)
		1,955,694	1,844,598
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		1,940,826	1,862,638
Non-controlling interests		(5,018)	(5,285)
		1,935,808	1,857,353
		RMB	RMB
Earnings per share	9		
Basic		0.7905	0.7441

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		472,901	478,268
Right-of-use assets		64,986	-
Prepaid lease payments		-	61,667
Interests in associates		2,590,159	2,491,478
Intangible assets		2,459,128	2,554,075
Goodwill		1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income		269,704	241,232
Deposits paid for acquisition of intangible assets		325,126	95,262
Amount due from an associate		31,816	31,816
Derivative financial instruments		-	32,866
Deferred tax assets	14	20,298	20,712
		7,618,653	7,391,911
Current assets			
Inventories		407,058	434,661
Financial asset at fair value through profit or loss		2,736	-
Trade and other receivables and prepayments	10	1,585,724	1,718,754
Tax recoverable		10,801	8,296
Derivative financial instruments		28,192	-
Amount due from an associate		152,804	137,749
Bank balances and cash	11	1,365,008	815,081
		3,552,323	3,114,541
Current liabilities			
Trade and other payables	12	372,796	382,215
Lease liabilities		9,388	-
Contract liabilities		12,939	5,469
Bank borrowings	13	693,909	25,000
Derivative financial instruments		142	-
Deferred consideration payables		10,744	8,847
Tax payable		447,784	129,314
		1,547,702	550,845
Net current assets		2,004,621	2,563,696
Total assets less current liabilities		9,623,274	9,955,607
Capital and reserves			
Share capital	15	84,963	84,963
Reserves		9,387,898	8,270,823
Equity attributable to owners of the Company		9,472,861	8,355,786
Non-controlling interests		43,271	48,289
		9,516,132	8,404,075

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred tax liabilities	14	91,552	101,411
Lease liabilities		10,491	-
Deferred consideration payables		5,099	9,926
Bank borrowings	13	-	1,440,195
		107,142	1,551,532
		9,623,274	9,955,607

1. GENERAL

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

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

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

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

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

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

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

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

2.1 *IFRS 16 Leases*

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

Definition of lease

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

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

As a lessee

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

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

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

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

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

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

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

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

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

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

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

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

New and Amendments to IFRSs in issue but not yet effective

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

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

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

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

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

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

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

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

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

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

The New Framework:

- reintroduces the terms stewardship and prudence;

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

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

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

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

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

(ii) Performance obligations for contracts with customers

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

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

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

(iii) Segment information

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

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

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

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

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

4. OTHER GAINS AND LOSSES

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

Note:

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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
The PRC Enterprise Income Tax	161,737	153,939
Malaysian Corporate Income Tax	357,219	33
Hong Kong Profits Tax	7,009	5,002
Others	4,822	-
	530,787	158,974
Underprovision in prior years:		
The PRC Enterprise Income Tax	7,975	399
Deferred taxation (note 14):		
- Current year	(6,758)	2,403
	532,004	161,776

Note:

(a) The PRC Enterprise Income Tax

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

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

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

(b) Malaysian Corporate Income Tax and Withholding Income Tax

Due to the tax reform that under Labuan New Tax Legislation, the Group's Malaysian subsidiary would be taxed under the Malaysian Income Tax Act 1967 (the "Act 1967") with effect from the year of assessment 2019. The statutory income tax of the Group's Malaysian subsidiary is at 24% of the chargeable income and withholding income tax of 15% and 10% shall be levied on the interest payment and royalty payment, respectively from the companies established in Malaysia to overseas entities for the year ended 31 December 2019 (2018: the Group's Malaysian subsidiary has paid tax at a flat rate of RM 20,000 (equivalent to RMB33,000) under the Labuan Business Activity Tax Act 1990).

(c) Hong Kong Profits Tax

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

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

(d) PRC Withholding Income Tax

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

(e) Overseas Income tax

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

(f) Macau Complementary Income Tax

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

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

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

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

7. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,146	1,062
Salaries and other benefits	8,652	7,492
Contribution to retirement benefits schemes	185	131
	9,983	8,685
Other staff costs	604,816	508,973
Contribution to retirement benefits schemes	43,608	42,921
Employee benefits expense (note 16)	14,000	9,000
Total staff costs	672,407	569,579
Auditor's remuneration	3,186	2,673

Impairment loss on intangible assets	4,730	-
Impairment loss on deposits paid for acquisition of intangible assets	963	-
Written off for inventories (included in cost of goods sold)	2,948	34,471
Release of prepaid lease payments	-	1,745
Depreciation of property, plant and equipment	32,181	32,743
Depreciation of right-of-use assets	9,557	-
Amortisation of intangible assets (included in cost of goods sold)	162,317	166,251
Cost of inventories recognised as an expense	1,349,705	1,310,321

8. DIVIDENDS

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

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

9. EARNINGS PER SHARE

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

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

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

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

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Trade receivables	1,010,198	1,290,530
Less: Allowance for credit losses	(8,336)	(9,828)
	1,001,862	1,280,702
Bills receivables	414,017	291,621
Purchase prepayments	73,039	70,978
Prepaid lease payment	-	1,878
Other receivables and deposits	96,806	73,575
	1,585,724	1,718,754

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,003,640,000.

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

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

	2019 RMB'000	2018 RMB'000
Trade receivables		
0 - 90 days	923,722	1,008,465
91 - 365 days	78,140	272,237
	1,001,862	1,280,702
Bill receivables		
0 - 90 days	303,460	180,960
91 - 120 days	29,524	37,752
121 - 180 days	81,033	72,909
	414,017	291,621

As at 31 December 2019, total bills receivables amounting to RMB414,017,000 (2018: RMB291,621,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills receivables by the Group are with a maturity period of less than six months.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB93,057,000 (2018: RMB237,932,000) which are past due at the reporting date. Out of the past due balances, RMB70,103,000 (2018: RMB44,826,000) was aged 90 days or more and is not considered as in default. Based on the historical experiences of

the Group, trade receivables past due are generally recoverable due to the long term relationship and good repayment record.

The Group does not hold any collateral over these balances.

11. BANK BALANCES AND CASH

The bank deposits carry interest at the prevailing market rate of approximately 0.35% to 2.75% (2018: 0.35% to 2.75%) per annum.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2019 RMB'000	2018 RMB'000
Euro ("EUR")	33,090	3,851
Hong Kong Dollar ("HK$")	12,749	2,081
United States Dollar ("US$")	2,927	5,462
CHF	717	2,547
GBP	1,266	35,287

12. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting periods is as follows:

	2019 RMB'000	2018 RMB'000
0 - 90 days	37,941	104,724
91 - 365 days	4,762	5
Over 365 days	1,337	1,405
Trade payables	44,040	106,134
Payroll and welfare payables	124,873	100,679
Other tax payables	67,186	51,252
Accrued promotion expenses	85,555	41,254
Accruals	31,746	35,072
Other payables	15,188	32,206
Payables for acquisition of property, plant and equipment	4,208	15,618
	372,796	382,215

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

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2019 RMB'000	2018 RMB'000
EUR	10,012	9,635

13. BANK BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank loans	693,909	1,465,195
Analysed as:		
Secured	10	105,000
Unsecured	693,899	1,360,195
	693,909	1,465,195

	2019 RMB'000	2018 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	693,909	25,000
Within a period of more than one year but not exceeding two years	-	1,440,195
	693,909	1,465,195
Less: Amounts due within one year shown under current liabilities	(693,909)	(25,000)
Amounts shown under non-current liabilities	-	1,440,195

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

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2019 RMB'000	2018 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 5.22% to 5.23% per annum as at 31 December 2019 and range from 5.22% to 5.23% per annum as at 31 December 2018)	10	105,000
Variable-rate borrowings (Note b)		
Denominated in US$ (3.53% as at 31 December 2019 and 31 December 2018) (Note a)	693,899	1,360,195
Total	693,909	1,465,195

Notes:

(a) Variable rate at London Interbank Offered Rate ("LIBOR") plus 1.8% as at 31 December 2019 (2018: LIBOR plus 1.8%).

(b) As at 31 December 2019, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB693,899,000 (2018: RMB1,360,195,000). The principal amount of the variable-rate bank borrowings will be repayable on 23 June 2020.

During the year ended 31 December 2018, in respect of a bank loan with a carrying amount of RMB25,000,000 as at 31 December 2018, a subsidiary of the Company breached certain of the terms of the bank loan, which were primarily related to the debt-asset ratio of the subsidiary. As at 31 December 2018, the bank borrowings of RMB25,000,000 has already been classified as a current liability based on the originally agreed repayment period. Such bank borrowing of RMB25,000,000 has been fully repaid during the year ended 31 December 2019.

As at 31 December 2019, the Group had unutilised banking facilities of approximately RMB1,718,562,000 (2018: RMB1,904,740,000).

14. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of equity instruments at FVTOCI RMB'000	Fair value (gain) loss on cash flow hedges RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	25,681	(38,550)	(63,964)	(1,984)	1,201	(77,616)
(Charge) credit to profit or loss for the year (note 6)	(6,170)	3,767	-	-	-	(2,403)
Charge to other comprehensive income	-	-	-	(680)	-	(680)
At 31 December 2018	19,511	(34,783)	(63,964)	(2,664)	1,201	(80,699)
(Charge) credit to profit or loss for the year (note 6)	(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)

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets	20,298	20,712
Deferred tax liabilities	(91,552)	(101,411)
	(71,254)	(80,699)

At 31 December 2019, the Group had unused tax losses of approximately RMB38,420,000 (2018: RMB38,290,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2019 are tax losses of approximately RMB20,657,000 (2018: RMB22,935,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2019, tax losses of approximately RMB4,266,000 (2018: RMB698,000) was expired. During the year ended 31 December 2019, the Group utilised unrecognised tax loss of RMB292,000 (2018: Nil).

As at 31 December 2019, the Group had deductible temporary differences of RMB605,235,000 (2018: RMB599,167,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB76,296,000 (2018: RMB78,044,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB528,939,000 (2018: RMB521,123,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB4,746,003,000 (2018: RMB3,701,717,000) as the Group is able to control the timing of the reversal of the temporary

differences and it is probable that the temporary differences will not reverse in the foreseeable future.

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2018, 31 December 2018 and 31 December 2019	20,000,000	765,218
Issued and fully paid		
At 1 January 2018	2,487,248	85,200
Shares repurchased and cancelled (Note)	(6,839)	(237)
At 31 December 2018 and 31 December 2019	2,480,409	84,963

Note: During the year ended 31 December 2018, the Company repurchased its own ordinary shares through the Stock Exchange 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 October 2018	1,122,000	HK$8.90	HK$8.78	HK$9,960,300
12 October 2018	150,000	HK$9.10	HK$9.07	HK$1,364,800
15 October 2018	150,000	HK$9.27	HK$9.24	HK$1,398,810
16 October 2018	500,000	HK$9.12	HK$9.03	HK$4,542,680
18 October 2018	500,000	HK$9.00	HK$8.90	HK$4,479,210
19 October 2018	500,000	HK$9.18	HK$9.16	HK$4,589,840
23 October 2018	500,000	HK$9.09	HK$8.93	HK$4,504,150
25 October 2018	500,000	HK$9.10	HK$8.97	HK$4,525,610
26 October 2018	500,000	HK$8.86	HK$8.75	HK$4,418,130
14 November 2018	500,000	HK$9.20	HK$9.12	HK$4,576,230
30 November 2018	800,000	HK$8.52	HK$8.52	HK$6,816,000
07 December 2018	1,117,000	HK$7.80	HK$7.64	HK$8,617,200

The above ordinary shares were cancelled upon repurchase.

1,272,000 ordinary shares were repurchased by a subsidiary of the Company during the year ended 31 December 2018.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2018 and 2019.

16. EMPLOYEE BENEFIT SCHEME

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

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

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

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

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

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme

rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subject to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. The Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2019, the Company recognised an expense of RMB14,000,000 (2018: RMB9,000,000) on the Master Scheme based on the Group's financial performance. RMB14,000,000 (2018: RMB9,000,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

I. Innovative Research and Development

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

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

remain the dynamic supplement and iteration of generic clusters with market competitiveness to seize the incremental market through participating in the National Volume-based Procurement.

1. Deployment and Development of Innovative Products

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

In-licensing

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

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

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

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

the Reporting Period, the Group actively worked on the regulatory application and other related work of the product in China.

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

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

Tildrakizumab-asmn is a humanized lgG1/k monoclonal antibody designed to specifically target IL-23, which is used to treat adults with moderate-to-severe plaque psoriasis that are candidates for systemic therapy or phototherapy. In March 2018, Tildrakizumab was approved by the U.S. FDA under the ILUMYA™ brand name for commercialization in the U.S. market. Two Phase III studies met primary efficacy endpoints, with an average of 63% of patients receiving Tildrakizumab 100 mg achieving 75% of skin clearance by week 12, and 77% of patients achieving 75% skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. Currently, the substance and formulation patents of Tildrakizumab have been granted in China. Psoriasis is a common life-long progressive and chronic systemic disease, which is currently incurable. At present, there are more than 6.5 million people suffering from psoriasis in China with an incidence rate of 0.47%. About 30% of patients with psoriasis are moderate-to-severe, and nearly 62% of them are dissatisfied with existing treatment options. According to the *Guideline for the Diagnosis and Treatment of Psoriasis in China (2018 Simplified Edition)*, biological agents are recommended for moderate-to-severe plaque psoriasis. As a cost effective biological agent with long-term safety and efficacy, Tildrakizumab-asmn can fulfill unmet clinical needs. During the Reporting Period, the Group actively worked on the regulatory application and other related work of the product in China.

Five Innovative Products In-licensed from SPARC

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

Taclantis™/PICS, a new formulation of paclitaxel injection concentrate for suspension developed with the proprietary innovative technology platform of SPARC, is expected to have indications such as metastatic breast cancer (MBC), locally advanced or metastatic non-small cell lung cancer (NSCLC) and metastatic adenocarcinoma of the pancreas. During the Reporting Period, the U.S. FDA accepted the New Drug Application ("NDA") submitted by SPARC for review. In February 2020, SPARC received the Complete Response Letter from the U.S.

FDA for the NDA for Taclantis™. Several recommendations in the letter were provided by the U.S. FDA to help SPARC resubmit the NDA. Currently, SPARC is actively working on the preparation works. According to 2018 IQVIA data (formerly known as IMS data), the sales of paclitaxel in Mainland China were about USD716 million, of which the albumin-bound products were about USD91.07 million. Taclantis™ is a Cremophor® and albumin free formulation, preventing the hypersensitivity reactions from Cremophor® and the potential risk of viral transmission from human serum albumin. At the same time, the premedication to prevent hypersensitivity is generally not needed prior to administration. Taclantis™ is expected to provide patients and healthcare professionals a more convenient medication option.

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

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

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

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

Equity Investment in overseas R&D companies and Acquisition of the Product Rights

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

Pre-September 2017

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

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

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

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

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

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

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

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

NRL-1 (Diazepam Nasal Spray)

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

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

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

Post-September 2017

As the China's pharmaceutical reform continues and the country's supports for innovative research and development increases, starting from September 2017 the Group adjusted its products introduction strategy and started to obtain the Product Rights of innovative products under clinical stage directly from R&D companies. The primary purpose of investing in equity of R&D companies is to obtain intellectual property rights and sales rights of innovative products under clinical stage at minimum costs and favorable terms (such as a lesser sum for or waiver of upfront fee and/or milestone payment). To reduce the Group's investment risks of innovative products under clinical stage, A&B agrees to take up half of the equity investment required in such R&D companies.

Through such 50/50 equity injection, the Group acquires not only 100% rights of innovative patent products in the relevant territories, but also the equity interests in the relevant R&D companies. In addition, such equity investments will provide R&D companies with sufficient funding to accelerate their products R&D and increase the probability of successful commercialization of products acquired by the Group. This investment model is in the interests of the Company and its shareholders as a whole. Key innovative products deployed under such model include the following:

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

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

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

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

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

Mainly developed for the treatment of diffuse intrinsic pontine glioma (DIPG), MTX110 takes the known active histone deacetylase inhibitor (HDACi) panobinostat, and solubilizes it into liquid form using nano-inclusion technology, which increases the aqueous solubility of panobinostat and allows high drug concentrations to be

delivered directly to the tumor while simultaneously minimizing systemic toxicity and other side effects. In October 2019, Midatech Pharma announced that the U.S. FDA had granted the company orphan drug designation for MTX110 for the treatment of patients with malignant glioma (DIPG included). Midatech Pharma has conducted the Phase I/II clinical trial to evaluate the safety, tolerability as well as efficacy of MTX110 given by intratumoral convection enhanced delivery in children with newly diagnosed DIPG. DIPG is a type of brain stem gliomas and its survival rate remains very low with overall median survival of approximately nine months and less than 1% survival rate within five years. At present, there is no drug for this tumor. MTX110 has the potential to bring a new treatment option for DIPG patients.

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

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

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

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

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

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

*European Medicines Agency ("EMA")

* * Therapeutic Goods Administration ("TGA")

The development process of innovative products (under clinical stages)

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

2. Deployment and Development of Generic Drugs with Market Competitiveness

By capitalizing on its abundant product resources and advanced generic pharmaceutical techniques in overseas markets, the Group intended to deploy complex generic drugs and generic clusters with market competitiveness in China market selectively. The Group will remain the supplement and iteration of generic clusters to create an

incremental market through participating in the National Volume-based Procurement. During the Reporting Period, the Group acquired, by way of licensing-in, exclusive license rights in respect of 11 generic drugs, including one complex generic drug with high imitation barriers.

Sun Pharma: One Complex Generic Drug and Seven Generic Drugs

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

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

Biocon: Three Generic Drugs

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

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

II. Existing Product Development

1. Main Products

Cardio-cerebrovascular Line

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

Plendil (Felodipine Sustained Release Tablets)

The Group owns the 20-year exclusive license for the commercialization of Plendil in China (HK SAR, Macau SAR and TWN excluded). Plendil is manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限

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

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

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

Deanxit (Flupentixol and Melitracen Tablets)

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

Digestion Line

The Group's products under digestion line mainly include Ursofalk, Salofalk, Bioflor and Combizym. During the

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

Ursofalk (Ursodeoxycholic Acid Capsules)

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

Salofalk (Mesalazine)

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

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations currently. The latest *Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea p*ublished in 2016 gave Bioflor a high level of recommendation. In 2017, the World Gastroenterology Organization

("WGO") updated the *Probiotics and Prebiotics Guideline* and the authoritative recommendation of Bioflor for relevant indications remained as in the previous version (2011). During the Reporting Period, adhering to the academic-oriented differentiation promotion strategy in core indications of pediatric department based on the evidence of evidence-based medicine, the Group cooperated with Biocodex to carry out academic forums and conference tours nationwide, and actively organized academic seminars and re-education activities fully leveraging online digital promotion tools and offline promotion initiatives. For the year ended 31 December 2019, sales of Bioflor covered around 4,000 hospitals and medical institutions throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

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

Ophthalmology Line

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

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

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

Dermatology Line

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

Hirudoid (Mucopolysaccharide Polysulfate Cream)

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

2. Other Products

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

III. Network Development

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

and promotion related personnel. For the year ended 31 December 2019, the Group's promotion network had covered around 57,000 hospitals and medical institutions in China.

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

IV. Internal Reorganization

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

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

Subsequent Events

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

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

Signing a License Agreement of the Innovative Product Desidustat with Zydus

The Group through its wholly-owned subsidiary signed a License Agreement with Cadila Healthcare Limited ("Zydus") for its product Desidustat (ZYAN1) on 20 January 2020. According to the agreement, the Group,

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

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

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

Impacts of COVID-19

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

control measures to resume business and production, carries out online academic conferences, and keeps close communication with overseas suppliers.

Impacts of Significant Policies with respect to Pharmaceutical Industry

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

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

Outlook and Future Development

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

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

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

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

Financial Review

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

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

Turnover

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

Gross Profit and Gross Profit Margin

Gross profit increased by 16.1% from RMB3,916.9 million for the year ended 31 December 2018 to RMB4,546.3

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

Selling Expenses

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

Administrative Expenses

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

Other Gains and Losses

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

Share of Result of Associates

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

Finance Costs

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

Income Tax Expense

Income tax expense increased by RMB370.2 million from RMB161.8 million for the year ended 31 December

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

Profit for the Year

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

Inventories

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

Trade Receivables

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

Trade Payables

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

Liquidity and Financial Resources

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

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

Franc ("CHF") and Hong Kong Dollars ("HK$").

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

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

Net cash from operating activities

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

Net cash used in investing activities

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

Net cash used in financing activities

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

Net Current Assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Current Assets		
Inventories	407,058	434,661
Financial assets at fair value through profit or loss	2,736	-
Trade receivables	1,001,862	1,280,702
Other receivables and prepayments	583,862	438,052
Tax recoverable	10,801	8,296
Derivative financial instruments	28,192	-

Amount due from an associate	152,804	137,749
Bank balances and cash	1,365,008	815,081
	3,552,323	3,114,541
Current Liabilities		
Trade payables	44,040	106,134
Other payables	328,756	276,081
Lease liabilities	9,388	-
Contract liabilities	12,939	5,469
Bank borrowings	693,909	25,000
Derivative financial instruments	142	-
Deferred consideration payables	10,744	8,847
Tax payable	447,784	129,314
	1,547,702	550,845
Net current assets	2,004,621	2,563,696

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

Capital Expenditures

The following table shows the Group's capital expenditure:

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

Capital Structure and Gearing Ratio

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

The following table shows the Group's debts:

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

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

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

Market Risks

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

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

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

Pledge of Assets

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

Contingent Liabilities

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

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

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

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the Board, an executive director and a controlling shareholder of the Company (i) ceases to directly or indirectly own more than

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

Dividend

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

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

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

After the Reporting Period, in February 2020, the Company repurchased an aggregate of 9,648,000 ordinary shares 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

Corporate Governance Practices

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

Mr. Lam Kong has been both the Chairman and Chief Executive of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and Chief Executive in the same person facilitates the execution of the

Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Audit Committee

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

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 Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

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

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

*Note：

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

The annual results announcement and annual report for the year ended 31 December 2019 of the Company have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Cash Dividend

The Company has paid an interim dividend of RMB0.1883 (equivalent to HK$0.210) per ordinary share of the Company (the "Share") for the six months ended 30 June 2019. The Board of Directors is pleased to recommend a final dividend of RMB0.1271 (equivalent to HK$0.139) per Share for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company at the close of business on

Wednesday, 10 June 2020 (the "Record Date"). The register of members of the Company will be closed on Wednesday, 10 June 2020. The final dividend will be paid to shareholders in Hong Kong dollars about Wednesday, 17 June 2020 after the shareholders' approval at the Annual General Meeting (the "AGM") of the Company dated on Thursday, 4 June 2020.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 29 May 2020 to Thursday, 4 June 2020 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 28 May 2020.

The register of members will be closed on Wednesday, 10 June 2020, on which date no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Friday, 5 June 2020. Shareholders are reminded that in order to qualify for the final dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificate(s) and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 9 June 2020.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (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 the Company, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2019. The Model Code also applies to other specified senior management of the Company.

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

Change of Independent Non-executive Director

The Board announces that Mr. Cheung Kam Shing, Terry has resigned as an independent non-executive director of the Company with effect from 31 March 2020 due to his desire to devote more time to other personal affairs. Mr. Cheung also has resigned as a member of the Audit Committee, a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Company with effect from the same date. Mr. Cheung confirms that he has no disagreement with the Board and there was no other matter relating to his resignation that would need to be brought to the attention of the shareholders of the Company or the Stock Exchange.

The Company would like to express its gratitude to Mr. Cheung for his valuable contribution to the Company during his tenure of service.

The Board also announces that Ms. Luo, Laura Ying was appointed as an independent non-executive director with effect from 31 March 2020. Ms. Luo was also appointed as a member of the Audit Committee, a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Company with effect from the same date.

The biographical details of Ms. Luo are as follows:

Ms. Luo, Laura Ying (formerly known as Ying Luo), aged 54, was appointed as an independent non-executive Director on 31 March 2020, and was also appointed as a member of the Audit Committee, a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Company. Ms. Luo has 25 years of investment experience. She currently works as consultant to GL Capital Management Limited. Ms. Luo was 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 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.

As at the date of this announcement, save as disclosed above, Ms. Luo has not held any directorships in other listed companies at present or in the last three years, Ms. Luo does not hold any position in the Company or any of its subsidiaries and does not have any relationship with other directors, senior management, substantial or controlling shareholders of the Company, and does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The Company has signed an appointment letter with Ms. Luo dated 31 March 2020 for her appointment as independent non-executive director with a term of one year. Ms. Luo is subject to re-election by shareholders at the first general meeting after her appointment. In addition, Ms. Luo will be subject to the retirement by rotation and re-election provisions in accordance with the Articles of Association of the Company. Ms. Luo is entitled to receive director's emoluments of HK$240,000 per year, which was determined by the Board with reference to her qualifications, duties and responsibilities with the Company and the prevailing market conditions.

Save as disclosed above, there is no other information that needs to be disclosed pursuant to the Rule 13.51(2) of

the Listing Rules, and there are no other matters that need to be brought to the attention of the shareholders in relation to the appointment of Ms. Luo.

The Company would like to extend its sincere welcome to Ms. Luo on her appointment.

Disclosure of Information

The information provided in this announcement is only the summary of 2019 Annual Report of the Company. The 2019 Annual Report will be dispatched to shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

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

Hong Kong, 31 March 2020

As at the date of this announcement, the directors of the Company comprise (i) Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling as executive directors; and (ii) Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Leung Chong Shun and as independent non-executive directors.