神威藥業
SHINEWAY

China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2877

LEADING
MODERN CHINESE MEDICINE
PROMOTING
HEALTH INDUSTRY

ANNUAL REPORT 2021

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong

Independent non-executive Directors

Ms. Cheng Li
Prof. Luo Guoan
Mr. Liu Shun Fai (appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony
(ceased on 1 November 2021)

Non-executive Director

Mr. Zhou Wencheng

BOARD COMMITTEES

Audit Committee

Mr. Liu Shun Fai *(Committee Chairman)*
(appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony
(ceased on 1 November 2021)
Ms. Cheng Li
Prof. Luo Guoan

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Liu Shun Fai
(appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony
(ceased on 1 November 2021)

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Prof. Luo Guoan
Mr. Liu Shun Fai
(appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony
(ceased on 1 November 2021)

Corporate Social Responsibility and Sustainability Committee

Mr. Liu Shun Fai *(Committee Chairman)*
(appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony
(ceased on 1 November 2021)
Ms. Xin Yunxia
Ms. Cheng Li
Prof. Luo Guoan

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35/F, One Pacific Place
88 Queenway Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman,
KY1-1111, Cayman Islands

CORPORATE INFORMATION

HEAD OFFICE

Luan Cheng, Shijiazhuang
Hebei Province, The People's Republic of China ("PRC")

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3109, 31/F, Central Plaza
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3,
Building D, P.O. Box 1586,
Gardenia Court, Camana Bay,
Grand Cayman, KY1-1100,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of East Asia, Limited
Bank of China, Jin Zhu Xi Lu Branch Lhasa, Xizang
China Construction Bank, Luan Cheng Branch
Shijiazhuang, Hebei Province

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

2877 (Main Board of
The Stock Exchange of Hong Kong Limited)

WEBSITES

www.shineway.com.hk
www.shineway.com

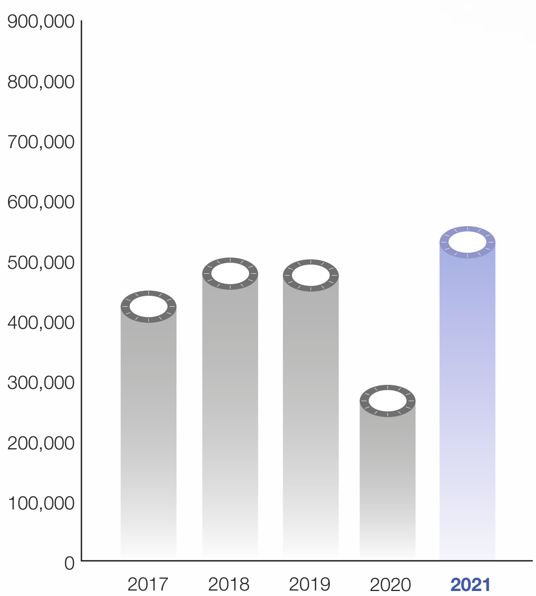
FINANCIAL HIGHLIGHTS

(in RMB'000)

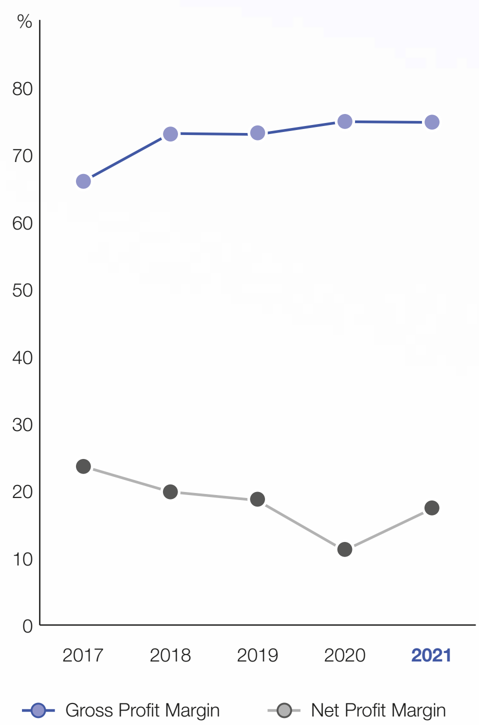
	2017	2018	2019	2020	**2021**
RESULTS					
Turnover	1,919,608	2,570,196	2,705,996	2,655,701	**3,223,550**
Gross profit	1,267,084	1,876,047	1,981,565	1,987,846	**2,410,336**
Profit before taxation	587,822	669,130	642,772	395,024	**720,103**
Profit attributable to owners of the Company	451,553	505,876	503,150	295,033	**556,674**
Basic earnings per share	RMB0.55	RMB0.62	RMB0.64	RMB0.39	**RMB0.74**
Dividends	264,640	261,185	249,072	241,472	**453,072**
ASSETS AND LIABILITIES					
Total assets	6,665,113	6,731,791	7,131,341	7,213,508	**7,203,958**
Total liabilities	(844,158)	(966,010)	(1,354,414)	(1,419,326)	**(1,302,477)**
Total equity attributable the owners of the Company	5,820,955	5,765,781	5,776,927	5,794,182	**5,901,481**

Profit Attributable to Owners of the Company

(in RMB'000)



Gross and Net Profit Margins



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2021, the Group's employees overcame the adversity of frequent pandemic outbreaks in many places in China. We always adhere to the original mission as the executor of healthy China by embracing Shineway's spirits of hard working, fearless for difficulties and able to fighting for tough battles. On this basis, the Group set a good sales performance and achieved growth in every dosage form of products. The sales for the year were over RMB3.2 billion, representing an increase of 21.4% as compared with last year. Net profit reached RMB557 million, representing a 88.7% growth from last year.

In 2021, with the strong support from the Country on promoting the revitalization of TCM, the Group seized the opportunities from such policy and actively established its position in key products during the year with comprehensively enhancing end-to-end coverage and strengthening investment. Through our efforts in marketing innovation, brand innovation and product innovation, the Group continued to strengthen academic promotion and evidence-based medical research, and leveraged the Internet to build a new marketing model, in bid to enhance product competitiveness and drive rapid business development. Accordingly, several exclusive products of the Group have emerged as the highest sales growth varieties during the year.

The pharmaceutical industry in China will be in a crucial period of continuous development and the Group is also accelerating the pace of digital transformation of our enterprise. In 2021, the Group racked up online sales of RMB190.5 million, nearly 1.3 times higher than those of last year. The Internet hospital established by Shineway received the approval of business registration during the year, and at present it is well prepared in its house settings, equipment and facilities, departmental settings, staffing, online diagnosis and treatment systems, rules and regulations, and development plans. Once the Internet hospital license is granted, the Group will then actively push forward the hospital operation under the Internet + Healthcare model, so that more people can enjoy high-quality TCM medical services.

In terms of R&D innovation, academic research and promotion, the Group's R&D team continues to steadily advance the progress of Phase III clinical trials of "Sailuotong Capsule", and is accelerating the pace of research and development on Phase III clinical trials of other innovative Chinese medicines in the pipeline. The Group is currently speeding up a construction project for the creation and industrialization of classical prescriptions in the forms of modern Chinese medicines. The total investment of this project exceeds RMB150 million, involving the construction of gross floor area of approximately 12,000 square meters. Through the application of advanced equipment and control technology, the automatic extraction production lines of the Group's modern Chinese medicine preparations will be upgraded and transformed, which greatly improves the extraction efficiency of Chinese herbal medicines and enhance processing capacity of herbs by 10,000 tonnes.

The Group continues to actively strengthen and improve the evidence-based medical evidence and academic status of our strategic products. The Group's multi-center, randomized, double-blind, placebo, positive parallel-group controlled clinical trials on the clinical efficacy and safety of Xiao Jie An Capsule in the treatment of uterine fibroids were successfully commenced out during the year. Xiao Jie An Capsule, the Group's exclusive product on National Drug Reimbursement List, has significant curative effect on intramammary nodules, breast lobular hyperplasia, uterine fibroids and ovarian cysts. Led by Hebei University of Chinese Medicine, the research was carried out simultaneously in more than 10 tertiary hospitals, including the Beijing University of Chinese Medicine Third Affiliated Hospital, to further improve the evidence-based medical evidence of Xiao Jie An Capsule and help cultivate the Group's major products in the field of gynecology. In the future, the Group will closely follow relevant national policies, increase investment in evidence-based research on exclusive strategic products, and continue to improve the clinical value of products with proprietary intellectual property rights.

CHAIRMAN'S STATEMENT

Along with the opening up of the national market for TCM formula granules, the Group has been expediting the registration of our TCM formula granules across The People's Republic of China (the "PRC"). The enrollment procedures for the national standard varieties in all provinces have been completed and those of provincial standards were being submitted for the approval of relevant provincial authorities. This layout our positioning at a high starting point. The Group has established two TCM innovative platforms during the year, namely "Key Laboratory" and "Engineering Research Centre" for TCM formula granules in Yunnan province in addition to the completion of expanding production capacity of TCM formula granules to an annual production value of RMB4 billion by the end of the year, laying a solid foundation for the nationwide development of TCM formula granules.

2022 is a critical year for the Group to achieve the "14th Five-Year" strategic objectives. The development of TCM is supporting by the national policies in a top-down manner with specific measures being implementing. The Group, together with all staff, will diligently develop modern Chinese medicine and make unremitting efforts for promoting TCM culture, revitalizing TCM industry and safeguarding people's lives and health.

For the year past, our entire staff had contributed to the Group's business advancement relentlessly with unremitting support and dedication in their relevant positions. On behalf of the Board, I would like to extend my cordial gratitude and make sincere greeting to each of them who had work diligently for the Company over the last year. I would also like to convey my heartfelt thanks to shareholders, customers and partners for their continuous support and trust to the Group.

Li Zhenjiang
Chairman of the Board
Hong Kong, 29 March 2022

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS HIGHLIGHTS

With the PRC government's thriving promotion of the TCM industry accompanied by continual introduction of favorable policies to TCM, the Group kept on making all-out effort to strengthen its end-to-end coverage of hospitals and pharmacies and enhance academic marketing across the board. As a result, the sales of all the Group's exclusive oral products registered rapid growth, sales volume of TCM formula granules also continued to increase, and overall sales and core profit are commencing growth momentum. Along with the reducing impact of the COVID-19 pandemic during the year, the growth of the Group's business had risen comprehensively. The sales for the full year of 2021 recorded an increase of 21.4% as compared with last year. Net profit reached RMB557 million, representing a 88.7% growth from last year, which was mainly attributable to the increase in sales, and a lower net profit base due to a one-off non-recurring impairment provision last year.

The Group's gross profit margin was 74.8% in 2021, which was about the same as compared to 74.9% of last year.

Net profit margin increased from 11.1% in last year to 17.3%, and earnings per share increased by 89.7% to RMB74 cents as compared to last year.

The Group adopted a new dividend policy on 24 December 2021 (the "Dividend Policy"). For details, please refer to the announcement of the Company dated 24 December 2021.

After considering the Dividend Policy, the Board does not recommend the payment of any final dividend for the year ended 31 December 2021. Instead, the Company has declared an interim dividend for the year ending 31 December 2022 amounting to RMB21 cents per share.

As of 31 December 2021, as calculated based on the total issued shares of 827,000,000, net cash per share of the Group amounted to HK$6.22, and net assets per share amounted to HK$8.73.

MANAGEMENT DISCUSSION AND ANALYSIS

GROWTH ACROSS THE BOARD FOR EVERY DOSAGE FORM

In 2021, the Group focused on positioning its key products with comprehensively enhanced end-to-end coverage and strengthened investment. During the year, Huamoyan Granule and other exclusive products of the Group recorded strong growth. Also, our injection products overall achieved impressive sales growth in each quarter as compared to last year. As TCM formula granules continued its growth momentum, the Group achieved business growth across the board for every dosage form. The table below shows the sales and growth rates of each dosage form in 2021 as compared to last year:

	Year-on-year growth rate in 2021					RMB'000	
	First quarter	Second quarter	Third quarter	Fourth quarter	Full year	Full year sales	Percentage of sales
Injections	**34.4%**	**25.9%**	**12.8%**	**16.7%**	**21.5%**	**1,339,241**	41.5%
Soft Capsules	**6.6%**	**8.4%**	**12.7%**	**-8.4%**	**4.9%**	**484,841**	15.0%
Granules	**62.6%**	**60.8%**	**25.8%**	**7.5%**	**31.4%**	**533,469**	16.5%
TCM Formula Granules	**51.1%**	**21.4%**	**5.4%**	**31.0%**	**24.5%**	**692,565**	21.5%
Others	**47.1%**	**41.8%**	**29.3%**	**24.8%**	**34.6%**	**173,434**	5.5%
Oral products	**38.8%**	**24.7%**	**14.0%**	**12.7%**	**21.3%**	**1,884,309**	58.5%
Total	**37.0%**	**25.2%**	**13.5%**	**14.3%**	**21.4%**	**3,223,550**	100.0%

The PRC government has repeatedly emphasized the insistence on combining the use of TCM and Western medications in the treatments. A number of TCM injections (including Shen Mai Injection, a medication produced by the Group) have also been included in the "Diagnosis and Treatment Program for Novel Coronavirus Infected Pneumonia (7th Trial Edition)", highlighting the effectiveness and safety of TCM injections. The Group had also proactively optimized its product mix of injection products, resulting in a 21.5% year-on-year increase in overall sales of injection products this year. This was the fifth consecutive quarter recording high sales of injection products after years of decline since 2013. Guan Xin Ning Injection, which was mainly being used in hospitals, has recorded sales revenue of RMB295 million during the year, representing a significant increase of 71.2% as compared to last year. Sales of Shen Mai Injection and Qing Kai Ling Injection which was used in grass-root medical institutions were increased by 10.7% and 18.4%, respectively. Sales of the Group's biological medication, Pseudomonas Aeruginosa Injection, increased by 15.3% as compared to last year, while sales of Shu Xie Ning Injection decreased by 6.9%.

The Group continued to focus on the development strategy of expanding new growth areas for oral products in 2021. The overall sales of oral products increased by 21.3% in 2021 as compared to the last year. In the first half of 2021, the sales of soft capsules, granules and TCM formula granules increased by 7.6%, 61.8% and 34.1% respectively as compared to the same period last year. The proportion of oral products sales reached 58.5% of the Group's overall sales.

With the Covid-19 pandemic under control, the Group's pediatric granule products witnessed a significant rebound in market demand with an increase of 38.6% in the sales of our key product Pediatric Qingfei Huatan Granule as compared to last year. Meanwhile, Huamoyan Granule, an exclusive product of the Group, became the leading granule product, recording a sales growth of 51.2%, which contributed to an increase of 31.4% in the sales of all granule products.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall sales of the Group's soft capsule products increased 4.9% as compared to last year. But the sales of other key products including Wu Fu Xin Nao Qing Soft Capsule, Huo Xiang Zheng Qi Soft Capsule and Qing Kai Ling Soft Capsule decreased by 16.5%, 4.6% and 13.7%, respectively. On the other hand, sales of the Group's exclusive products such as Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Soft Capsule increased by 107.6%, 89.1% and 194.3% year-on-year, respectively.

CHINA IS MAKING STRONG EFFORTS TO PROMOTE THE HIGH-QUALITY DEVELOPMENT OF TCM INDUSTRY

In 2021, the country introduced a number of policies to promote the development and revitalization of TCM, which brought opportunities for the development of TCM industry, including "Several Policy Measures on Accelerating the Featured Development of Traditional Chinese Medicine" (《關於加快中醫藥特色發展的若干政策措施》) issued in February this year, "Opinions on Further Strengthening Synergistic Development of Chinese and Western Medicines by Traditional Chinese Medicine Practice in General Hospital" (進一步加強綜合醫院中醫藥工作推動中西醫協同發展的意見) published in June this year, "Implementation Plan for Building a High-quality and Highly Efficient Medical Health Service System during the 14th Five-year Plan Period" (《「十四五」優質高效醫療衛生服務體系建設實施方案》) and "Implementation Plan for Prompting the Dissemination of Traditional Chinese Medicine Culture (2021-2025)" (《中醫藥文化傳播行動實施方案(2021-2025年)》) issued in July this year. In 2021, the number of new TCM approved by National Medical Products Administration surged, demonstrating clearly the positive effect of numerous policies introduced to encourage the development of TCM industry.

At the end of 2021, the National Healthcare Security Administration and the National Administration of Traditional Chinese Medicine issued the "Guiding Opinions on Supporting the Inheritance and Innovative Development of Traditional Chinese Medicine by Medical Insurance" (《關於醫保支持中醫藥傳承創新發展的指導意見》), which specifies that traditional Chinese medical institutions should take the lead to form a tight-knit medical consortia as well as the payment policies in respect of payment standards, enhanced supervision and assessment, surplus retention, and reasonable over-expenditure sharing shall be implemented to facilitate the quality TCM medical resources to community medical institutions, and the "dual channels (i.e. the ways of purchasing drugs through designated hospital and designated pharmacy)" shall be taken to expand the channel of medication for insured patients to designated retail pharmacies. It proposed to include primary hospitals providing TCM services and the "Internet+" TCM services in the scope of medical insurance payment. For TCM techniques originated from ancient classified prescriptions and are still widely used currently with proven efficacy, as well as new TCM techniques with prominently innovative and economical advantages, the review procedures for new pricing shall be simplified to establish a green passage. The guiding opinions also suggest that the TCM decoction pieces sourced from regular channels by public medical institutions shall be strictly sold at prices that the actual purchase price with not more than 25% mark up.

The national policies of promoting the revitalization of TCM are gradually being implemented in the development of the TCM industry. It is also clarified that Diagnosis Related Group (or DRG) payments will not be implemented for Chinese medical institutions for the time being. At the moment, a large number of services will be included in the scope of reimbursement under the national unified medical insurance coding system, allowing more patients and related clinics to receive policy benefits. The TCM industry is about to embrace high-quality development. The Group is also making continuous efforts to invest in creating a new cycle of growth for the Group to drive rapid business development.

MANAGEMENT DISCUSSION AND ANALYSIS

STRIVING TO SPEED UP THE NATIONWIDE REGISTRATION OF TCM FORMULA GRANULES

TCM formula granules continued to show a rapid growth trend in 2021, with an increase in sales of 24.5% as compared to last year, while expansion of the production capacity of TCM formula granules with annual production value of RMB4 billion was also completed by the end of the year. The Group's full efforts in exploiting the Yunnan market has begun in 2021 with sales of more than RMB33.1 million in the year. The progress was similar to the market in the Hebei Province exploited by the Group in the initial year. At present, the Group continues our academic promotion to the medical institutions in Yunnan Province.

The Group's formula granules production base in Yunnan Province is listed as a high-tech enterprise with solid scientific research resources. It has the first "Key Laboratory of TCM Formula Granules in Yunnan Province" and the first "Engineering Research Centre of TCM Formula Granules in Yunnan Province" and the "Beijing-Tianjin-Hebei Joint Venture Pharmaceutical (Chuxiong) Research Institute". The Yunnan production facilities utilizes state-of-the-art green and intelligent integrated manufacturing technologies to extract and produce TCM, so as to create superb therapeutic effect of our TCM formula granules products.

In accordance with the Notice on Matters Relating to the Filing of TCM Formula Granules (《中藥配方顆粒備案工作有關事項的通知》) issued by the General Department of the National Medical Product Administration at the end of January 2022, the Group has registered the national standards varieties of formula granule at the filing agency set up by the National Medical Product Administration. At present, the provinces in the country have successively promulgated their administrative methods and quality standards for TCM formula granules, while the Group has already completed the filing of all national standards varieties of TCM formula granules in all provinces and those of provincial standards are now in progress. Based on the current status, it is expected that the Group will complete the filing with the relevant approval authorities in the target provinces in mid-2022, and upon approval will then start the promotion of our TMC formula granules to local hospitals and grass-root healthcare institutions. With a wide range and high quality of TMC formula granules, the Group will definitely earn our presence in the nationwide market.

During the year, the Group has conducted in-depth cooperation with China Association of Chinese Medicine, Chinese Medicine Association of Hebei Province, Tsinghua University, Hebei Medical University, Hebei University of Chinese Medicine, Hebei Provincial Hospital of Traditional Chinese Medicine, TCM Hospital of Shijiazhuang City on the TCM research projects, the co-construction of hospitals and the transformation of scientific research achievements. It has also established the first specialized committee for formula granules under the provincial TCM association in the PRC, aiming to build a jointly established and shared platform for the industry and strengthen the cooperation in respect of standard setting, academic exchange and industry development for TCM formula granules.

In recent months, Beijing Municipal Medical Insurance Bureau issued the Notice on the Sunshine Online Procurement of TCM Decoction Pieces and TCM Formula Granules (關於開展中藥飲片和中藥配方顆粒陽光掛網採購的通知), which requires that all TCM decoction pieces and TCM formula granules for clinical use by all public medical institutions and medical insurance designated medical institutions should carry out sunshine online procurement. The Group believes that the sunshine online procurement policy will make the market access process of TCM formula granules more transparent and faster, which is beneficial to our development of the nationwide market.

Along with the opening up of the nationwide market, on one hand, the Group will expedite the registration of our TCM formula granules in targeted provinces. On the other hand, we will accelerate the expansion of sales teams to actively prepare for the coming boom period of development of TCM formula granules and advance the development of TCM formula granules with the highest quality, marching towards the goal of becoming one of the leading suppliers of TCM formula granules in the PRC by 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

EXCLUSIVE ORAL PRODUCTS BECOMING THE HIGHEST-GROWTH

The Group is speeding up on its evidence-based medical researches of its exclusive oral products of TCM used in six core therapeutic areas, being orthopedics, cardio-cerebrovascular diseases, anti-viral, gastroenterology, gynecology and pediatrics. Such evidence-based medical researches are being conducted through expert argumentation and other methods. As academic promotion has become the Group's key initiative, the Group will continue to utilize medical evidence-based strategies to develop the Group's exclusive oral products to be the forthcoming new driving force for our growth.

In 2021, the increase in sales of the Group's exclusive oral TCM products with proprietary intellectual property rights reported the highest growth among the others. A total of 22 relevant exclusive oral TCM had recorded sales of RMB379,372,000 in aggregate, representing an increase of 96.5% over last year and accounting for 11.8% of the Group's total sales as compared with that of 7.3% last year. In particular, Huamoyan Granule recorded sales of RMB172,259,000, an increase of 51.2% as compared to the same period last year; Qi Huang Tong Mi Soft Capsule recorded sales of RMB46,896,000, an increase of 107.6% as compared to the same period last year; Jiang Zhi Tong Luo Soft Capsule recorded sales of RMB19,636,000, an increase of 89.1% as compared to the same period last year; Dan Deng Tong Nao Capsule recorded sales of RMB18,082,000, an increase of 194.3% as compared to the same period last year; while Qing Kai Ling Soft Capsule recorded a decrease in sales for the year by 10.7% due to the relatively larger comparable base in the same period last year caused by the COVID-19 pandemic, with sales amounted to RMB52,305,000. Promotion of Xiao Jie An Capsule, the Group's exclusive oral gynecological TCM product on National Drug Reimbursement List and Xiao Jie An Oral Liquid under the same series, had commenced at the beginning of the year. They had recorded a total sales of RMB11,829,000 during the year.

SHINEWAY'S INTERNET HOSPITAL RECEIVED APPROVAL OF BUSINESS REGISTRATION

Shineway's Internet hospital had received the approval of business registration during the year, marking a crucial step for the Group to promote the development of Internet + Healthcare. The Group proactively explored and innovated in new development patterns and continuously improved its healthcare positioning. The Internet hospitals was established by leveraging on our own strength, striving to break the geographical restrictions on medical resources through the Internet + Healthcare pattern and provide users with better, safer and more convenient online services, effectively alleviating the difficulty in accessing medical services.

Starting with a closed circle of health management of a team of more than 100 experts and the integration of numerous medical resources, Shineway's Internet hospital is committed to provide users with comprehensive, one-stop healthcare services, including health education, medical information enquiry, electronic health records, disease risk assessment, online disease consultation, e-prescription, remote consultation, remote treatment and rehabilitation.

B2B ONLINE PLATFORMS DIRECTLY EXPANDED TERMINAL COVERAGE

The Group recorded online sales of approximately RMB190.5 million in 2021, representing an increase of 128.1% as compared to last year. Among which, 92.8% was generated from sales through B2B third-party online platforms and approximately 7.2% was from B2C online e-commerce.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group continued to diligently cooperating with a number of B2B pharmaceutical online platforms to promote the distribution of terminal business mainly for oral products, and developed B2B online market by different types of customers according to the development features of pharmaceutical Internet in different provincial and regional markets. This had directly enhanced the terminal coverage and activity. A total of 56,000 new terminal customers was acquired during this year. Cumulatively, the Group had now covered a total of 116,000 terminal customers as we continue to strengthen our cooperation with the five major B2C platforms, namely, Ali Health Pharmacy Chain, JD Pharmacy, III Inc, Jianke, and ehaoyao.com, and will increase our efforts in online precision marketing to break geographical restrictions for our product sales and escalate our business to the next level.

ACCELERATING THE DEVELOPMENT OF EXCLUSIVE INNOVATIVE MEDICATIONS

The Group focuses on the research and development of innovative medications with clinical advantages and unique characteristics, and adopted the combined strategy of independent and joint research and development, and patents trading to accelerate the development of new core product pipelines. The Group currently has a total of 3 groundbreaking exclusive medications undergoing Phase III clinical trials:

1. Sailuotong Capsule

The Group's key research initiative "Sailuotong Capsule", an innovative compound TCM, is now under phase III clinical trials in China and Australia. The phase III clinical trial in China mainly addresses the treatment of vascular dementia, while the phase III clinical trial in Australia focuses on the treatment of vascular dementia and Alzheimer's disease.

In early 2019, Sailuotong Capsule was granted an invention patent by IP Australia, and also received a notice of patent family grant from Russia in the same month. Since the first overseas invention patent granted in 2010, Sailuotong Capsule has been granted 8 invention patents by countries including the United States, Japan, Korea, Germany, Russia, Canada and Australia, etc.

Further details of Sailuotong Capsule are disclosed in the Company's 2021 interim report.

2. Q-B-Q-F Condensed Pill

Q-B-Q-F Condensed Pill focuses on the treatment of mycoplasma pneumonia in children and is currently undergoing phase III clinical trial. Further details of Q-B-Q-F Condensed Pill are disclosed in the Company's 2019 interim report.

3. JC Soft Capsule

JC Soft Capsule is a compound TCM developed under the guidelines based on the traditional medicine theory. It is a new medication of compounded Chinese medicine using "detoxification from the interior to exterior" as the principle for treatment of common cold. It is used for treating upper respiratory infection with symptoms such as fever and aversion to cold, dry and sore throat, nasal congestion and runny nose, headache and cough, etc. At present, most traditional Chinese medicines in the market for treating common cold are heat-clearing detoxifying types and antiseptics, but none of those in the market are available for "detoxification from the interior to exterior". JC Soft Capsule is currently undergoing phase III clinical trial.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Turnover

In 2021, the Group recorded an increase in turnover of 21.4% from last year. Sales of injection products reached approximately RMB1,339,241,000, up approximately 21.5% as compared with 2020. Sales of injection products accounted for approximately 41.5% of the Group's turnover. Sales of soft capsule products were approximately RMB484,841,000, up approximately 4.9% from last year. Soft capsule products accounted for approximately 15.0% of the Group's turnover. Sales of granule products amounted to approximately RMB533,469,000, up approximately 31.4% from last year. Granule products accounted for 16.5% of the Group's turnover. Sales of TCM formula Granules were approximately RMB692,565,000, representing an increase of 24.5% from last year and accounting for 21.5% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB173,434,000 which accounted for approximately 5.5% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 5.6% and 24.3% respectively of the Group's turnover for the year.

Cost of Sales

Cost of sales in 2021 was approximately RMB813,214,000 representing approximately 25.2% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 58.7% (2020: 55.9%), 13.6% (2020: 12.3%) and 27.7% (2020: 31.8%) of total cost of sales respectively.

Gross Margin

In 2021, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 75.9% (2020: 77.5%), 71.2% (2020: 78.0%), 77.4% (2020: 76.5%) and 73.7% (2020: 68.1%) respectively. Overall gross margin was 74.8% (2020: 74.9%).

Other Income

Other income mainly includes government subsidies of RMB79,023,000 (2020: RMB74,988,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits and investments in financial products of RMB95,066,000 (2020: RMB87,826,000) and RMB9,073,000 (2020: RMB44,833,000) respectively.

Other gains and losses

In 2021, other gains and losses mainly comprised of net loss on disposal and write-off of property, plant and equipment of RMB18,173,000 (2020: net gain of RMB2,062,000).

Impairment Losses on Financial Assets

In 2021, respective impairment of RMB5,424,000 (2020: RMB5,800,000) and RMB1,597,000 (2020: RMB1,115,000) for trade receivables and trade receivables backed by bank bills were accounted for after the expected credit risk of financial assets assessment by the Group's management.

Distribution Costs

Distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2021, the distribution costs have increased by approximately 26.5% as compared to last year and accounted for approximately 46.5% of turnover in 2021 (2020: 44.6%). It was mainly due to the increase in distribution and promotion expenses and market research and development expenses of 27.8% and 63.5% respectively as compared to last year. Distribution and promotion expenses and market research and development expenses accounted for 30.6% (2020: 29.1%) and 7.1% (2020: 5.3%) of the Group's turnover respectively.

Administrative Expenses and Research and Development Costs

In 2021, administrative expenses have decreased by 6.1% as compared to last year, representing approximately 8.0% (2020: 10.3%) of the Group's turnover. The decrease in administrative expenses was mainly attributable to reduction in the amortization expense in current year as a result of the one-time non-recurring impairment charge related to the intangible assets of a wholly-owned subsidiary of the Group made in last year. Besides, administrative expenses mainly comprised of (i) non-productive depreciation expenses of fixed assets and amortization expenses of intangible assets and (ii) salaries of administrative staff which accounted for 1.6% and 2.1% of the Group's total turnover in 2021 respectively. Research and development expenses have increased by approximately 13.0% from last year, accounted for approximately 3.5% (2020: 3.8%) of the Group's turnover in 2021.

Income Tax Rates

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and were entitled to PRC EIT at concessionary rate of 15.0% (2020: 15.0%). Certain subsidiaries which were recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15.0% for 2020 and 2021. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2021, the effective tax rate of the Group was 22.7% (2020: 25.3%).

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2021 was RMB556,674,000, representing an increase of 88.7% from 2020. The increase in profit was mainly attributable to the absence of the effect of a one-time non-recurring impairment loss on property, plant and equipment, intangible assets and goodwill of a subsidiary of last year and the overall improvement in the Group's operating results for current year.

Liquidity and Financial Resources

As at 31 December 2021, bank balances and cash of the Group amounted to approximately RMB4,205,722,000 (2020: RMB3,943,010,000), of which approximately RMB4,094,854,000 (2020: RMB3,800,912,000) were denominated in RMB, others being equivalent to approximately RMB64,308,000, RMB43,307,000 and RMB3,253,000 (2020: RMB92,627,000, RMB46,143,000 and RMB3,328,000) were denominated in Hong Kong Dollars, Australian Dollars and United States Dollars respectively.

The directors of the Company (the "Directors") believe that the financial position of the Group is healthy, with sufficient financial resources to meet the requirement for future development.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividends

Details of dividends are set out in the directors' report on page 23 of this annual report.

Capital Structure

For the year ended 31 December 2021, there was no change in the capital structure of the Group and issued share capital of the Company.

Trade Receivables backed by Bank Bills, Trade Receivables and Discounted bills

As at 31 December 2021, trade receivables backed by bank bills and trade receivables decreased by 10.7% and increased by 36.1% respectively as compared to the balance as at 31 December 2020. Turnover days of trade receivables backed by bank bills and trade receivables were 48.1 days and 41.7 days (2020: 59.3 days and 39.3 days) respectively.

Inventories

As at 31 December 2021, inventories in the amount of RMB587,956,000, increased by approximately 32.7%, as compared to the balance as at 31 December 2020. As at 31 December 2021, raw materials, work in progress and finished goods accounted for 29.5%, 34.5% and 36.0% (2020: 24.5%, 35.0% and 40.5%) of inventories respectively. Turnover of finished goods inventories in 2021 was 87.7 days as compared to 96.1 days in 2020.

Property, Plant and Equipment

As at 31 December 2021, property, plant and equipment amounted to approximately RMB1,251,999,000, decreased by approximately 10.2% as compared to last year. The new construction works were mainly the workshop projects located in Sichuan and Yunnan and various workshops modification projects located in Shijiazhuang, which amounted to approximately RMB32,075,000 in total, and there were also new additions to buildings, plant and machineries and office equipment of approximately RMB48,549,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold lands, leased properties, leased motor vehicles and leased machineries, which had respective net book values of RMB115,528,000, RMB3,111,000, RMB2,373,000 and RMB3,881,000 as at 31 December 2021.

The depreciation of property, plant and equipment expenses for the year amounted to RMB167,170,000 (2020: RMB165,838,000).

Intangible Assets

Intangible assets represent patents and production licenses with finite useful lives. During the year, the amortisation of intangible assets was approximately RMB15,216,000.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% ownership equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014, the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited in 2015 and the acquisition of 100% equity interest of Shineway Pharmaceutical (Kunming) Company Limited (formerly known as Yunnan Liangfang Pharmaceutical Co., Ltd.) in current year.

Trade Payables

As at 31 December 2021, turnover days of trade payables was 88.2 days (2020: 96.5 days).

Employees

As at 31 December 2021, the Group had 3,674 (2020: 3,441) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange loss for the year arose from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2021, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2021 (2020: Nil).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

LI Zhenjiang (李振江), aged 66, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 30 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th, 11th and 12th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group.

XIN Yunxia (信蘊霞), formerly known as XIN Yunxia (信雲霞) aged 58, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 30 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 54, is an executive Director. He obtained an EMBA degree from Chinese University of Hong Kong in 2016. He is primarily responsible for the marketing and sales of the Group's products and, since joining the predecessor of the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 25 years' experience. Mr. Li is the vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

CHEN Zhong (陳鍾), aged 55, is an executive Director of the Group. He is qualified as a chief senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy. Mr. Chen is a leader of Modern Traditional Chinese Medicines Manufacturing Technology of Hebei Province, chief officer of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection, chief officer of Chinese Medicine Injection Engineering and Technology Research Centre in Hebei Province, general vice-officer of National-Recognition on Enterprise Technology Centre, deputy officer of specialized committee of traditional Chinese medicines on economic in China Association of Traditional Chinese Medicine and price review expert on medicines in National Development and Reform Commission of the People's Republic of China. Mr. Chen joined the predecessor of the group in 1990 and is currently the vice president of the Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") and Mr. Chen is also directors of several members of the Group. He is responsible for quality control on production and technology management activities of the Company's group with over 30 years of experience.

Independent Non-Executive Directors ("INED")

CHENG Li (程麗), aged 62, was appointed as an INED in 2006. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

DIRECTORS AND SENIOR MANAGEMENT

LUO Guoan (羅國安), aged 75, was appointed as an INED on 16 June 2017. He graduated with biochemical engineering profession, and subsequently obtained master degree in chemistry from East China University of Science and Technology. Prof. Luo is the head of the Collaboration Centre of Network for Traditional Chinese Medicine of National Education Ministry, professor and doctoral tutor of the Department of Chemistry in Tsinghua University. Prof. Luo is currently the committee chairman of the biopharmaceutical technology branch of China Medicinal Biotech Association, council chairman of the National Conference on Pharmaceutical Analysis and the chairman of Chinese Medicine Product Development and Cultivation of Professional Committee in China Association of Traditional Chinese Medicine. Prof. Luo is a well-known expert in the field of Chinese medicine analysis and quality control. He has long been engaged in drug analysis and traditional Chinese medicine systems and biological research. He has published a book titled "Systems Biology for Traditional Chinese Medicine" which is an international publication of traditional Chinese medicine system biology monographs.

LIU Shun Fai (廖舜輝), aged 50, was appointed as an INED on 1 November 2021. He is currently an executive director, the company secretary and the chief financial officer of AMVIG Holdings Limited (together with its subsidiaries, the "AMVIG Group"). He is responsible for the accounting, finance and treasury function of the AMVIG Group. He graduated from the Chinese University of Hong Kong with a bachelor's degree and a master's degree in Business Administration in 1992 and 1999 respectively and is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Liu has more than 25 years of auditing and accounting experience. Before joining the AMVIG Group in August 2007, Mr. Liu had been the financial controller and the qualified accountant of two other companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for 9 years and had also worked in an international accounting firm for 8 years.

CHEUNG Chun Yue Anthony (張振宇), aged 39, was appointed as an INED on 1 January 2019 and ceased to be an INED on 1 November 2021. Mr. Cheung has more than 15 years of experiences in finance and asset management and had served in renowned institutions, including BNP Paribas, Pictet Asset Management and Gartmore Investment Management. Mr. Cheung is an INED and chairman of the environmental, social and governance ("ESG") committee of IPE Group Limited (stock code: 929), and also an INED of Forward Fashion (International) Holdings Company Limited (stock code: 2528). Mr. Cheung holds a bachelor's degree in economics from the London School of Economics and Political Science, University of London and is a Fellow of CPA Australia. He was awarded the Certified ESG Analyst designation. Mr. Cheung is an executive director of the Hong Kong Independent Non-Executive Director Association, director of Friends of the Earth (HK) and co-chairman of the insurance working group of the Hong Kong Green Finance Association.

Non-Executive Director ("NED")

ZHOU Wencheng (周文成), aged 46, was appointed as a non-executive director on 1 October 2020. Mr. Zhou graduated from the Faculty of Finance and Taxation of the Hebei University of Economics and Business, is a certified tax agent of the People's Republic of China. Mr. Zhou has more than 20 years' experience in financial and taxation management. He has been the chief executive officer of Kexin Enterprise Consulting Group Company Limited since 2017, and has provided financial and taxation consultancy services for various large and medium-sized domestic enterprises.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

LIU Tiejun (劉鐵軍), aged 47 joined the predecessor of the Group in 1999 and was appointed as vice president of the Group on May 16, 2013. He is qualified as a senior engineer and is a certified Pharmacist. He graduated from Hebei Medical University in 1999 with a bachelor's degree in pharmacy. Mr. Liu is a member of the China Association of Chinese Medicine (Chinese Medicine Branch) and a deputy director of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection. He has received Model Worker of Hebei Province Award by the People's Government of Hebei Province. Mr. Liu is currently the Production vice president and the legal representative of the Shineway Pharmaceutical Group Limited (formerly known as Shineway Pharmaceutical Company Limited). He is responsible for overseeing the Group's Production technology management with more than 20 years' experience.

ZHANG Yudong (張宇棟), aged 48, joined the Group in 1994. He graduated from Hebei University of Economics and Business with major in marketing and obtained a bachelor's degree in pharmacy. He has served as director of Investment, general manager of hospital division and general manager of terminal division. Since November 2017, he has been the general manager of sales and marketing. He is responsible for the sales and marketing management of the Group with more than 20 years' experience.

HUNG Randy King Kuen (孔敬權), aged 56, is the Director of Investor Relation of the Group. Mr. Hung has more than 20 years of experience as CFO, executive director and independent non-executive director of various listed companies in Hong Kong. He was an executive director of the Group from 2005 to 2010, and was appointed as a non-executive director of the Group in 2011 and continued to serve as an independent non-executive director of the Group from 2014 to March 2017. Currently, Mr. Hung is also serving as a council member and the Chairman of Training Committee of the Hong Kong Institute of Directors, and the Vice Chairman of Hong Kong Investor Relations Association.

Mr. Hung is a fellow CPA of Hong Kong and a licensed CPA of the State of California, USA. He holds an MBA degree from University of London and a Bachelor degree in Accounting and a Certificate of Programming and Data Processing from the University of Southern California. Mr. Hung also obtained a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong, a Specialist Certificate in Corporate Finance from the Hong Kong Securities and Investment Institute, and a Certificate in Investor Relations from the UK Investor Relations Society. He has extensive experience in IPO, corporate finance and investor relation.

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 49, is the Financial Controller and Company Secretary of the Group. He joined the company in 2011 as the Financial Controller and was appointed as the Company Secretary and an Authorised Representative with effect from 1 July 2017. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Accounting and Financial Analysis and a master's degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007.

DIRECTORS' REPORT

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its subsidiaries are research and development, manufacturing and trading of modern Chinese medicines.

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group and future development of the Group's business are provided in "Management Discussion and Analysis" set out on pages 8 to 18 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year under review, if any, can be found in the abovementioned section and the notes to the consolidated financial statements.

Environmental Policies and Performance

The Group is committed to creating a successful business that is not achieved at the expense of the environment. The Group is dedicated to creating an environmentally friendly and sustainable operation. The Group has enforced the "Environmental Protection Law of the PRC", "Law of the Peoples' Republic of China on the Prevention and Control of Water Pollution" and other laws and regulations.

Compliance with the Applicable Laws and Regulations

In 2021, the Group has complied with the relevant laws and regulations which have significant impact on the operations of the Group.

Relationships with Employees, Customers and Suppliers

The Group's management policies, working environment, career prospects and employees' benefits have contributed to building good employee relations and employee retention of the Group. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses, a share option scheme and a share award scheme. The management regularly reviews its employee's remuneration packages to ensure they are up to prevailing market standard.

The Group has established long term business relationships with its major suppliers and customers. The Group will endeavor to maintain its established relationship with these existing suppliers and customers.

Principal Risks and Uncertainties

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

Product Liability

As the insurance is not mandatory required, the Group has no effective product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group, it may attract negative publicity to the Group and our products, which may adversely affect our reputation, business, financial condition and operations. We have set up a dedicated department to strictly implement the relevant technical and quality standards to ensure that the products meet the requirement in all aspects, to avoid product liability, and to properly handle relevant issues expeditiously.

DIRECTORS' REPORT

Healthcare Reform in China

The healthcare system in the PRC is undergoing a crucial reform period, where laws, regulations and policies in effect governing the medical, healthcare and pharmaceutical industry are constantly evolving. Moreover, regulatory bodies in the PRC may regularly or unexpectedly amend its implementation practices. Accordingly, past enforcement actions taken may not be reflective of future actions. Any enforcement action taken by the government against may affect the Group adversely and result in negative publicity and reputation damage. Hence, the Group will pay close attention to the updates and timely implement the measures required by the relevant laws and regulations so as to limit any adverse effect on its business and operation.

Tender and Price Control

The Group has to participate in a government-led tender process every year or every few years. In the event that the Group fails to win the tender in a provincial tender process, the sale of products in such province will be affected and the Group will lose market share in such province. The market share, revenue and profitability of the Group may be adversely affected. We have a team of staff monitoring and handling the drug tenders of our products with the objective of winning the tenders for our products at a desirable price level. The Group is also committed to investing in research and development of new drugs in order to expand and diversify our product portfolio.

RESULTS

The results of the Group for the year ended 31 December 2021, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 56 of this annual report.

DIVIDENDS

An interim dividend of RMB39 cents per share, which is calculated on the basis of 827,000,000 shares in issue less 71,600,000 shares held for share award scheme as at 16 September 2021, amounting to RMB294,606,000, was paid to the shareholders on 28 September 2021.

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021. Instead, the Company has declared an interim dividend for the year ending 31 December 2022 amounting to RMB21 cents per share to be paid out on 18 May 2022, to the shareholders whose names appear on the register of members of the Company on 6 May 2022.

DIVIDEND POLICY

As disclosed in the announcement of the Company dated 24 December 2021, the Board has adopted a new dividend policy. Any distribution of dividends shall be in accordance with the applicable laws and the relevant provisions of Articles of Association effective from time to time. The Company may declare and distribute final dividends, interim dividends or special dividends as may be determined by the Board from time to time. The distribution of dividends by the Company is subject to: (i) the financial performance of the Company; (ii) the reasonable return in investment of the investors and the Shareholders in order to provide them with incentives in furtherance of their support in the Company's long-term development; (iii) the future development needs of the Company; (iv) the general market conditions; and (v) other factors deemed appropriate by the board.

DIRECTORS' REPORT

FINANCIAL HIGHLIGHTS

A summary of the results and assets and liabilities for the last five years, as extracted from the relevant audited financial statements, is set out on page 4 of this annual report. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in notes 26 and 37 to the consolidated financial statements respectively. As at 31 December 2021, the Company's reserves available for distribution to shareholders amounted to RMB874,930,000 (2020: RMB1,125,273,000).

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors:

Mr. Li Zhenjiang
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Chen Zhong

Independent Non-Executive Directors:

Ms. Cheng Li
Prof. Luo Guoan
Mr. Liu Shun Fai (appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony (ceased on 1 November 2021)

Non-Executive Director:

Mr. Zhou Wencheng

The biographical details of the Directors are set out on pages 19 to 20 of this annual report.

Mr. Cheung Chun Yue Anthony ("Mr. Cheung") ceased to serve as an INED upon the expiry of the terms of directorship pursuant to his appointment letter with effect from 1 November 2021. Mr. Cheung confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his cessation as INED. Mr. Liu Shun Fai ("Mr. Liu") was appointed as an INED with effect from 1 November 2021. Details of Mr. Liu's appointment and biographical information were disclosed in the announcement of the Company dated 29 October 2021.

DIRECTORS' REPORT

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia and Mr. Li Huimin have entered into a service contract with the Company for a term of two years commencing from 1 October 2020. Mr. Chen Zhong has entered into a service contract with the Company for a term of two years commencing from 1 December 2020. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

NED Mr. Zhou Wencheng and INED Mr. Liu Shun Fai have been appointed for a term of two years. Their service contract will continue thereafter until terminated by not less than one month notice in writing served by either party on the other. INEDs Ms. Cheng Li and Prof. Luo Guoan do not have service contracts with the Company. According to the articles of association of the Company (the "Article of Association"), one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to and not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three year.

None of the Directors proposed for re-election at the forthcoming AGM has entered into or has proposed to enter into any service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

The Company had received confirmation from each of the INEDs of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and considered all INEDs to be independent.

Pursuant to Article 87(1) of the Articles of Association, Mr. Li Zhenjiang, Ms.Xin Yunxia and Ms.Cheng Li will retire from the Board at the forthcoming AGM. Pursuant to Article 86(3) of the Articles of Association, Mr. Liu Shun Fai will hold office until the forthcoming AGM. The above-mentioned Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming AGM.

Details of Directors' emoluments on a named basis are set out in note 11 to the consolidated financial statements.

CHANGE IN DIRECTOR'S INFORMATION

Save as the cessation of Mr. Cheung Chun Yue Anthony on 1 November 2021 as INED, and the appointment of Mr. Liu Shun Fai on 1 November 2021 as INED, the Company is not aware of any changes in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

The Articles of Association provides that every Director is entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may incur or sustain in or about the execution of the duties of his office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

MANAGEMENT CONTRACTS

No contracts other than employment contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2021.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 35 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2021, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Name of relevant company	Capacity	Name of shares	Approximate percentage of shareholding in the Company
Li Zhenjiang	Company	Founder of discretionary trust *(Note)*	546,802,990	66.12%
Li Huimin	Company	Beneficiary owner	1,020,000	0.12%
Xin Yunxia	Company	Beneficiary owner	540,000	0.07%
Chen Zhong	Company	Beneficiary owner	280,000	0.03%

Note: These 546,802,990 shares of the Company ("Shares") are held by Forway Investment Limited ("Forway"). Forway is owned as to 100% by BH Corporate Services Ltd, a trust company, in its capacity as the trustee of The Li Family 2004 Trust. The Li Family 2004 Trust is a discretionary trust, the founder (as defined in the SFO) of which is Mr. Li Zhenjiang and the discretionary objects of which are family members of Mr. Li Zhenjiang (excluding Mr. Li Zhenjiang himself). Accordingly, Mr. Li Zhenjiang is deemed to be interested in the 546,802,990 Shares under the SFO.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share Option Scheme" below, at no time during the year was the Company, its holding companies, fellow subsidiaries or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2021, interest of every person (not being a Director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of shares	Approximate percentage of shareholding in the Company
Forway	Beneficial owner	546,802,990	66.12%
BH Corporate Services Ltd *(Notes 1 and 2)*	Trustee of discretionary trust	546,802,990	66.12%

Notes:

(1) Interests of Forway and BH Corporate Services Ltd in the Shares were duplicated.

(2) The entire issued share capital of Forway is owned by BH Corporate Services Ltd in its capacity as the trustee of The Li Family 2004 Trust, a discretionary trust, the founder (as defined in the SFO) of which is Li Zhenjiang and the discretionary objects of which are family members of Li Zhenjiang (excluding Li Zhenjiang himself).

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

The Company adopted a share option scheme at an extraordinary general meeting of the Company held on 29 May 2015 (the "2015 Scheme"). The purpose of the 2015 Scheme is to provide the Company with a flexible means of incentivizing, rewarding, remunerating, compensating and/or providing benefits to the following participants, and for such other purposes as the Board may approve from time to time:

(i) any executive or non-executive director including any independent non-executive director or any employee (whether full-time or part-time) of any member of the Group;

(ii) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or any employee, executive or non-executive director of any member of the Group;

(iii) any consultant, professional and other advisers to any member of the Group;

(iv) any chief executive or substantial shareholder of any member of the Group;

(v) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(vi) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The maximum number of shares in respect of which options may be granted under the 2015 Scheme and any other share option schemes of the Company shall not in aggregate exceed 82,700,000 representing 10% of the shares in issue as at 29 May 2015 (being the date of the extraordinary general meeting approving the 2015 Scheme) and as at the date of this annual report.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the 2015 Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the total number of shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million,

Such grant of option shall be subject to prior approval of the shareholders of the Company who are not the grantee, his associates all core connected persons of the Company as defined in the Listing Rules.

Option granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per grant. Subject to terms and conditions upon which the option was granted, options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The 2015 Scheme has a life of 10 years and will expire on 28 May 2025.

Details of options granted, exercised, cancelled/lapsed and outstanding under the 2015 Scheme during the year are as follows:

		No. of shares comprised in share options					
Name of grantees	**Date of grant**	**As at 1 Jan 2021**	**Granted during the year**	**Lapsed during the year**	**As at 31 Dec 2021**	**Notes**	**Exercise price per share (HK$)**
Other Employees	1 Jun 2016	1,000,000	–	–	1,000,000	1	8.39
Other Employees	30 Aug 2017	3,000,000	–	–	3,000,000	2	7.21
		4,000,000	–	–	4,000,000		

Notes:

(1) *The options have a validity period of 6 years from the date of grant on 1 June 2016.*

The options are exercisable in tranches:

(i) *up to 20% within such period(s) during the year commencing on 1 June 2017 to be designated by the Company;*

(ii) *up to 20% within such period(s) during the year commencing on 1 June 2018 to be designated by the Company;*

(iii) *up to 20% within such period(s) during the year commencing on 1 June 2019 to be designated by the Company;*

(iv) *up to 20% within such period(s) during the year commencing on 1 June 2020 to be designated by the Company; and*

(v) *up to 20% within such period(s) during the year commencing on 1 June 2021 to be designated by the Company.*

The Share Options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$8.39.

(2) *The options have a validity period of 10 years, from 30 August 2017 to 29 August 2027 (both dates inclusive).*

The Share Options will be exercisable upon achievement of the relevant performance targets.

The closing price per share immediately before the date on which the options were granted was HK$7.19.

For details of the nature and terms of the 2015 Scheme, please refer to the circular of the Company dated 8 May 2015.

SHARE AWARD SCHEME

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group.

During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market at an average price of approximately HK$5.50 (equivalent to RMB4.58) per share. The proceeds from disposal of those shares amounted to HK$4,403,000 (equivalent to RMB3,663,000). The difference of HK$2,885,000 (equivalent to RMB2,400,000) between the cost of the shares and the proceeds was credited to accumulated profits. During the year ended 31 December 2020, 7,032,000 shares were purchased by the trustee from the market at an average price of approximately HK$5.70 (equivalent to RMB5.18) per share, with an aggregate amount of HK$40,080,000 (equivalent to RMB36,437,000).

At the end of the reporting period, there are 71,600,000 (2020: 72,400,000) shares held by the trustee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2021, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

EQUITY-LINKED AGREEMENT

Save for share option schemes disclosed in this annual report, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holding of such shares.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers combined of the Group were 5.6% and 17.3% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers combined of the Group were 4.9% and 16.5% respectively of the Group's purchases for the year.

None of the Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) has any interests in the five largest customers or suppliers of the Group.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transaction:

Technical Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 5 November 2019, Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") , a wholly-owned subsidiary of the Company, and Shineway Medical entered into a technical services agreement, in relation to the provision of technical services by Shineway Medical to Shineway Pharmaceutical in relation to clinical trial, for a term commencing from 5 November 2019 to 4 November 2024 at a consideration of RMB14,000,000. The spouse of Mr. Li Zhenjiang, an executive Director, indirectly holds 100% equity interest in Shineway Medical. Accordingly, Shineway Medical is a connected person of the Company within the meaning of the Listing Rules.

Land Lease Agreement with Shineway Medical

On 17 December 2020, a land lease agreement (the "Land Lease Agreement I") was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Land Lease Agreement I, Shineway Medical has conditionally leased to Shineway Pharmaceutical a land with an area of approximately 49,276 square meters owned by Shineway Medical for a period of three years from 1 January 2021. The leased land is restricted to the operation of a building complex, plaza and animal centre. The annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB1,600,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement I require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Land Lease Agreement with Shineway (Sanhe) Property development Limited ("Shineway Sanhe")

On 17 December 2020, a land lease agreement (the "Land Lease Agreement II") was entered into between Hebei Shineway and Shineway Sanhe. The spouse of Mr Li Zhenjiang, an executive Director, holds 30% of equity interest of Shineway Sanhe. Accordingly, Shineway Shanhe is a connected person of the Company within the meaning of the Listing Rules. Pursuant to the Land Lease Agreement II, Shineway Sanhe has conditionally leased to Hebei Shineway a land with an area of approximately 20,986 square meters owned by Shineway Sanhe for a period of three years from 1 January 2021. The leased land is restricted to the entrance and injection workshop. The annual rental payable to Shineway Sanhe by Hebei Shineway amounts to RMB1,200,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement II require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Hotel Services Agreement with Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")

On 17 December 2020, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2021.

The payment to be made by the Group under the Hotel Services Agreement contains different components and therefore different accounting treatments should be applied. The Hotel Service Agreement contains two components which are room rentals and hotel services. Pursuant to IFRS 16, the entering into of the hotel services agreement in respect of the room rentals require the Group to recognize the rental as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group. In respect of the room rental of the hotel rooms, the annual rental payable to Kang Yue Hotel by Shineway Pharmaceutical amounts to RMB1,368,000.

Equipment Lease Agreement with Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into an equipment lease agreement, in relation to the provision of the lease of a number of automatic liquid impurities inspection machine by Shineway Medical to Shineway Pharmaceutical, for a term commencing from 1 January 2021 to 31 December 2023 at annual rent of RMB2,100,000. Pursuant to IFRS 16, the entering into of the equipment lease agreement require the Group to recognize the rental payments as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Car Lease Agreement with Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a car lease agreement, in relation to the provision of the lease of a number of cars by Shineway Medical to Shineway Pharmaceutical, for a term commencing from 1 January 2021 to 31 December 2023 at annual rent of RMB1,284,000. Pursuant to IFRS 16, the entering into of the car lease agreement require the Group to recognize the rental payments as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions:

General Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2021 are RMB9,836,000 and RMB10,500,000 respectively.

The proposed annual caps for General Service Agreement I for the two years ending 31 December 2023 are RMB11,500,000 and RMB12,500,000 respectively.

General Services Agreement between Hebei Shineway and Shineway Sanhe

On 17 December 2020, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Sanhe entered into a general services agreement ("General Services Agreement II"). Pursuant to the General Services Agreement II, Shineway Sanhe has agreed to provide Hebei Shineway with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2021 are RMB2,410,800 and RMB3,000,000 respectively.

The proposed annual caps for General Service Agreement II for the two years ending 31 December 2023 are RMB3,200,000 and RMB3,400,000.

Hotel Services Agreement with Kang Yue Hotel Co., Ltd.

On 17 December 2020, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel. Pursuant to the Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2021. The payment to be made by the Group under the hotel service agreement contains different components and therefore different accounting treatments should be applied. The Hotel Service Agreement contains two components which are room rentals and hotel services. The entering into of the Hotel Services Agreement in respect of the hotel services of the Hotel constitute a continuing connected transaction of the Company. The transaction amount and cap amount of hotel services for the year ended 31 December 2021 are RMB514,632 and RMB3,000,000 respectively.

The proposed annual caps for Hotel Services Agreement in respect of the hotel services for the two years ending 31 December 2023 are RMB3,000,000.

Training Agreement with Shijiazhuang Municipal Luancheng County Shineway Training School ("Shineway Training School")

On 17 December 2020, a Training Agreement (the "Training Agreement") was entered into between Shineway Pharmaceutical and Shineway Training School, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Training Agreement, Shineway Training School has agreed to provide Shineway Pharmaceutical with training services and training venue for a period of three years from 1 January 2021. The transaction amount and cap amount of such transaction for the year ended 31 December 2021 are RMB1,064,964 and RMB5,000,000 respectively.

The proposed annual caps for Training Agreement for the two years ending 31 December 2023 are RMB5,000,000.

As one or more applicable percentage ratios (other than the profits ratio) in respect of the value of the right-of-use assets and annual caps for the transactions contemplated under each of (1) the General Services Agreement I, (2) the General Services Agreement II, (3) the Hotel Services Agreement in respect of the hotel service of the Hotel, (4) the Training Agreement, (5) Land Lease Agreement I and (6) the Equipment Lease Agreement on an annual basis, exceeds 0.1% but is less than 5%, the transactions contemplated under the aforesaid agreements are subject to the reporting and announcement requirements under the Listing Rules. As all the applicable percentage ratios in respect of the value of the right-of-use assets under each of (1) The hotel services agreement in respect of the room rentals, (2) the Land Lease Agreement II and (3) the Car Lease Agreement are less than 0.1%, the transactions are exempted from the reporting, announcement and circular. All transaction above are exempted from shareholders' approval requirements.

The INEDs have reviewed the continuing connected transactions disclosed above and confirmed that the transactions have been entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The management has monitored and ensured that (a) the connected transactions have been conducted in accordance with the pricing policies or mechanisms (if applicable) under the agreements, including the pricing range, the process for estimating the prices for the goods or services, and the procedures for obtaining quotations or tenders, as appropriate; and (b) the Company's internal control procedures are adequate and effective to ensure that connected transactions are so conducted.

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

The related party transactions in note 35 to the consolidated financial statements of this annual report fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosures requirements in accordance with Chapter 14A of the Listing Rules.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualification and competence. Details of the share option scheme and share award scheme adopted by the Company are set out in the sections "Share Option Scheme" and "Share Award Scheme" above.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

DIRECTORS' REPORT

The Directors' fees, basic salaries, housing allowances, other allowances and benefits in kind are disclosed in note 11 to the consolidated financial statements.

The contributions to pension schemes for Directors for the financial year are disclosed in note 11 to the consolidated financial statements.

Pursuant to the Directors' service contracts with the Company, all executive Directors may be entitled to a discretionary bonus to be determined by the Board (or its duly appointed remuneration committee) at its absolute discretion having regard to the performance of the Group, provided that the aggregate amount of the bonus payable to those Directors in respect of any financial year shall not exceed 5% of the audited consolidated net profit after taxation but before extraordinary items of the Company for the relevant financial year.

There was no compensation paid during the financial year ended 31 December 2021 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance.The Company's governance report is set out page 37 to 49 which contains the details of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility and Sustainability Committee.

PENSION SCHEMES

The pension schemes of the Group are primarily in the form of contributions to the Hong Kong Mandatory Provident Fund and China's statutory public welfare fund. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries and such contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the schemes. The retirement benefit scheme cost charged to profit or loss and other comprehensive income represents contributions payable by the Group to the funds.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year of 2021 as required under the Listing Rules.

DIRECTORS' REPORT

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the controlling shareholders of the Company and any of their respective close associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

CHARITABLE DONATIONS

During the year, the Group has devoted 766 hours and donated RMB2.8054 million to charitable activities which will be disclosed in "Community Contribution" in the Environmental, Social and Governance Report to be published.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from 5 May 2022 to 6 May 2022 (both days inclusive). In order to qualify for the interim dividend for the year ending 31 December 2022, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 4 May 2022.

AUDITOR

A resolution will be proposed at the AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Li Zhenjiang
Director

Hong Kong, 29 March 2022

CORPORATE GOVERNANCE REPORT

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

The Group is firmly committed to statutory and regulatory corporate governance standards and adhere to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board believes that good corporate governance practices are essential elements in guiding the growth and management of the business of the Group. Therefore the Board reviews its corporate governance practices from time to time to ensure that they protect the shareholders' interest, comply with legal and professional standards and reflect the latest local and international circumstances and development. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year ended 31 December 2021, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules for the time being in force, except for code provision A.2.1 as described below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of inside information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that, in respect of the year ended 31 December 2021, they had complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

As at 31 December 2021, the Board comprises four executive Directors, three INEDs and one NED. The names of the Directors and their respective biographies are set out on pages 19 to 20 of this annual report.

The Company had arranged for appropriate liability insurance for the directors and officers of the Group for indemnifying their liabilities arising from corporate activities.

The Board oversees the Group's strategic development, and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance in pursuit of the Group's strategic objectives. All Board members have access to appropriate business documents and information about the Group on a timely basis. All Directors and board committees have access to external legal counsel and other professionals for independent advice at the Group's expense if they require it. The Board represents shareholders in overseeing the Group's business. The Directors recognise their responsibilities to enhance shareholders' value and to conduct themselves in accordance with their duty of care and loyalty.

CORPORATE GOVERNANCE REPORT

Four board committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the Corporate Social Responsibility and Sustainability Committee (the "CSR and sustainability Committee"), have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's businesses to the management of the Company and its subsidiaries respectively. Major corporate matters that are specifically delegated by the Board to the management include the preparation of financial statements for board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements, rules and regulations.

The Board had met four times during the year to review the financial performance of the Group, major issues (whether or not required by the Listing Rules) and also on other occasions when Board decisions were required. The views of INEDs were actively solicited by the Group if they were unable to attend meetings of the Board.

The major issues which were brought before the Board for their decisions during the year include:

1. formulation of operational strategies and review of its financial performance and results and the internal control system;

2. discussion and review of the board composition; and

3. the declaration of interim dividend and recommendation to shareholders on final dividend.

From April 2012 onwards, all Directors have been provided, on a monthly basis, with the Group's management information updates to give them aware of the Group's affairs and facilitates them to discharge their duties under the relevant requirements of the Listing Rules.

The Board held four Board meetings and one AGM in 2021. Details of the attendance of the Board are as follows:

	Attended/Held	
	Board Meeting	**AGM**
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	4/4	1/1
Ms. Xin Yunxia	4/4	1/1
Mr. Li Huimin	4/4	1/1
Mr. Chen Zhong	4/4	1/1
Independent Non-executive Directors		
Ms. Cheng Li	4/4	1/1
Prof. Luo Guoan	4/4	1/1
Mr. Liu Shun Fai (appointed on 1 November 2021)	1/1	0/0
Mr. Cheung Chun Yue Anthony (ceased on 1 November 2021)	3/3	1/1
Non-executive Director		
Mr. Zhou Wencheng	4/4	1/1

CORPORATE GOVERNANCE REPORT

The Directors acknowledged that they are responsible for the preparation of the accounts which give a true and fair view of the affairs of the Group. The auditor is responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

The Board has the overall responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Company's assets. The internal audit department has been conducting regular review of the system's effectiveness and reports to the Directors and the audit committee on its material findings.

Every newly appointed Director will be given an induction so as to ensure that he/she has appropriate understanding of the Group's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Throughout the year ended 31 December 2021, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision A.2.1 as described below.

The code provision A.2.1 stipulates that the roles of chairman (the "Chairman") and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing. The Company does not use the title "Chief Executive Officer". The duty of chief executive officer has been assumed by the president of the Company (the "President").

Mr. Li Zhenjiang has been both the Chairman and the President. 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 President 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.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2021. During the year ended 31 December 2021, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2021, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

	Attending training course	Self-study of relevant materials and/or regulatory updates
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Mr. Chen Zhong	✓	–
Independent Non-executive Directors		
Ms. Cheng Li	✓	✓
Prof. Luo Guoan	✓	✓
Mr. Liu Shun Fai (appointed on 1 November 2021)	✓	✓
Mr. Cheung Chun Yue Anthony (ceased on 1 November 2021)	✓	✓
Non-executive Director		
Mr. Zhou Wencheng	✓	✓

TERM OF OFFICE AND RE-ELECTION

INED Mr. Liu Shun Fai and NED Mr. Zhou Wencheng have been appointed for a term of two years. INEDs Ms. Cheng Li and Prof. Luo Guoan do not have service contracts with the Company.

Pursuant to Article 87(1), at each annual general meeting, one third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to and not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three year.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee with written terms of reference as disclosed on the Company's websites and the website of the Stock Exchange. The primary duties of the Remuneration Committee include the following:

1. to make recommendation to the Board on (a) the Company's policy and structure for all remuneration of Directors and senior management, and (b) the Company's establishment of a formal and transparent procedure for developing policy on such remuneration;

2. to determine the specific remuneration packages of all executive Directors, and senior management, including benefits in kind, pension rights, and compensation payments (including any compensation for loss or termination of office or appointment);

3. to make recommendation to the Board on the remuneration of the INEDs and NED;

4. to have due consideration of all relevant factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

6. to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. to review and approve the compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

As at the date of this annual report, the Remuneration Committee comprises two INEDs, Ms. Cheng Li, Mr. Liu Shun Fai (from date of appointment on 1 November 2021), Mr. Cheung Chun Yue Anthony (ceased to be a member of the Remuneration committee with effect from 1 November 2021) and one executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met four times during the year to assess the performance of executive Directors and to discuss renewal of service contracts of Directors and has duly discharged the above duties.

Individual attendance of each Remuneration Committee member was as follows:

	Attendance
Ms. Cheng Li *(Chairman)*	4/4
Ms. Xin Yunxia	4/4
Mr. Liu Shun Fai (appointed on 1 November 2021)	1/1
Mr. Cheung Chun Yue Anthony (ceased to be a member of the Remuneration committee on 1 November 2021)	3/3

The emolument policy of the employees of the Group was set up by the Remuneration Committee on the basis of their merit, qualification and competence.

The remuneration packages, including emoluments, of the Directors and senior management are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics. The Committee make recommendations to the board on the remuneration packages of mainland executive directors and senior management.

Further details on the emolument policy and basis of determining the emolument payable to the Directors are disclosed on pages 34 to 35 of this annual report.

The Group's share option scheme and share award scheme as described on pages 28 to 30 of this annual report are adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the Code. As at the date of this annual report, the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang, and two Independent Non-executive Directors, Prof. Luo Guoan, Mr. Liu Shun Fai (from date of appointment on 1 November 2021) and Mr. Cheung Chun Yue Anthony (ceased to be a member of the Nomination committee with effect from 1 November 2021).

Individual attendance of each Nomination Committee member during the year ended 31 December 2021 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Prof. Luo Guoan	2/2
Mr. Liu Shun Fai (appointed on 1 November 2021)	0/0
Mr. Cheung Chun Yue Anthony (ceased to be a member of the Nomination committee on 1 November 2021)	2/2

Mr. Li Zhenjiang is the chairman of the Nomination Committee. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, appointment, reappointment of Directors and Board succession and assessing the independence of the INEDs.

BOARD DIVERSITY POLICY

In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspective, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Company considers that the current composition of the Board, two out of its eight members being women, is characterized by diversity, whether considered in terms of gender, professional background and skills. The current Directors have extensive experience and skills in, including but not limited to, operation, sales management and business management of Chinese medicine enterprises, quality control on production and technology management activities as well as legal, finance and asset management etc.

The Nomination Committee is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain a high standard of operation.

The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. In particular, the Nomination Committee will identify and make recommendations to the Board to implement programmes that will assist in the development of a broader and more diverse pool of skilled and experienced employees that, in time, will prepare them for Board positions. At present, the Board has not set any measurable objectives. The Company's existing composition of Board and senior management are highly diverse in terms of gender, age, cultural and educational background, knowledge and professional experience. It reflects an appropriate mix of skills and experience that are relevant to the Group's strategy and business.

NOMINATION POLICY

A nomination policy has been adopted. The nomination policy sets out the selection process on the selection of individual nominated for directorship. The Nomination Committee may search extensively for candidate as director of the Company from the Group or the human resources market and should take into consideration of the structure, size and composition of the Board and from the perspective of board diversity.

The Nomination Committee shall gather information about the occupation, academic qualifications, position served, detailed work experience and all the concurrent posts of the candidate and seek the candidate's consent for nomination. After reviewing the qualifications of the candidate on the criteria for director of the Company, the Nomination Committee then makes recommendation to the Board regarding the candidate as director of the Company and submits the relevant information to the Board prior to the appointment of new director.

All Directors are appointed for a fixed term. The Articles of Association required that one-third of the Directors (including executive Directors and INEDs) shall retire each year. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Liu Shun Fai (from date of appointment on 1 November 2021), Ms. Cheng Li, Prof. Luo Guoan and Mr. Cheung Chun Yue Anthony (up to date of cessation on 1 November 2021).

All of the members of the Audit Committee are INED. Mr. Liu Shun Fai (from date of appointment on 1 November 2021), who has appropriate professional qualifications or accounting or related financial management expertise, is the chairman of the Audit Committee. No member of this committee is a member of the former or external auditor of the Company. The committee members possess diversified industry experience.

The Audit Committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Company has adopted terms of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the Audit Committee is available on the Company's websites and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2021 was as follows:

	Attendance
Mr. Liu Shun Fai (Chairman from 1 November 2021)	0/0
Mr. Cheung Chun Yue Anthony (Chairman until 31 October 2021)	4/4
Ms. Cheng Li	4/4
Prof. Luo Guoan	4/4

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 50 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITTEE

The Company has established a Corporate Social Responsibility and Sustainability Committee on 4 March 2019.

Mr. Liu Shun Fai (from date of appointment on 1 November 2021) is the chairman of the Corporate Social Responsibility and Sustainability Committee. As at the date of this annual report, the members of the Corporate Social Responsibility and Sustainability Committee comprise one executive Director, Ms. Xin Yunxia and two INEDs Ms. Cheng Li and Prof. Luo Guoan.

The Corporate Social Responsibility and Sustainability Committee's primary responsibilities include formulate and review the Group's responsibilities, visions, strategies, frameworks, principles and policies of corporate social responsibility and sustainable development (including but not limited to environmental, social and governance issues) and implement relevant policies approved by the Board. The Company has adopted terms of reference of the Corporate Social Responsibility and Sustainability Committee. The terms of reference of the Corporate Social Responsibility and Sustainability Committee is available on the Company's websites and the website of the Stock Exchange.

The Corporate Social Responsibility and Sustainability Committee met two times during the year to formulate and review the Group's corporate social responsibility and sustainable development.

Individual attendance of each Corporate Social Responsibility and Sustainability Committee during the year ended 31 December 2021 was as follows:

	Attendance
Mr. Liu Shun Fai (Chairman from 1 November 2021)	1/1
Mr. Cheung Chun Yue Anthony (Chairman until 31 October 2021)	1/1
Ms. Cheng Li	2/2
Prof. Luo Guoan	2/2
Ms. Xin Yunxia	2/2

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

During 2021, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that appropriate and effective risk management and internal control systems are established and maintained within the Group. The main features of the Group's risk management and internal control systems include the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, to protect its assets against unauthorised use or disposition, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the group's operational systems and in the achievement of the group's business objectives.

The process used by the Group to identify, evaluate and manage significant risks is summarised as follows:

(1) Risk identification: identify risks that may pose a potential impact on the Group's business and operations through the management and the internal control department;

(2) Risk evaluation: evaluate the identified risks based on the likelihood of the occurrence and impact level of the risk; and

(3) Response to risk: according to the evaluation results on the magnitude of the risk, risk management strategies are determined by the internal control department, and through appropriate mechanisms of the Company to ensure the effective implementation of internal control procedures to prevent and reduce the risks.

In relation to the handling and dissemination of inside information in accordance with the Listing Rules and the SFO, the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

The Board and the Audit Committee have delegated the Group's internal audit department to conduct quarterly review of the effectiveness and adequacy of the risk management and internal control systems of the Group covering all material controls, including financial, operational and compliance controls as well as risk management functions. The internal control department of the Group plays a major role in monitoring the risk management and internal controls of the group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities, risk management and internal controls.

Based on the assessments made during the year by the Group's internal audit department, the Board considered that the risk management and internal control systems of the Group are effective and adequate and the Audit Committee has found no material deficiencies on the risk management and internal controls based on the assessments made by the Group's internal audit department.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration paid to the members of senior management by bands during the year is set out below:

Remuneration Bands (RMB)	Number of individuals
0 – 1,000,000	0
1,000,001 – 2,000,000	4
2,000,001 – 3,000,000	0
3,000,001 – 4,000,000	0
4,000,001 – 5,000,000	0
Total	4

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$2,200,000 (2020: HK$2,080,000), and in addition to a total of HK$430,000 (2020: HK$638,000) for other non-audit services, including the review of interim financial statements and tax services.

ACCOUNTABILITY AND AUDIT

The Directors acknowledged their responsibility to present a balanced, clear and understandable assessment of the Group's performance, position and prospects in the consolidated financial statements of the annual and interim reports. They are not aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 51 to 55.

In preparing the consolidated financial statements for the year ended 31 December 2021, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

The Group has announced its annual and interim results in a timely manner within the limits of three months and two months respectively after the end of the relevant financial periods, as laid down in the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2021, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

To foster effective communication, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its websites and the website of the Stock Exchange.

Since October 2005, to enable the shareholders to better evaluate the operations and performance of the Group, the Group has been announcing quarterly financial information on turnover in due course after the relevant period ended.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communication between the Board and shareholders. Directors and senior management will make an effort to attend the annual general meeting. The chairman of the Board, as well as the respective chairmen of the Audit Committee and the Remuneration Committee and external auditor will usually be available during the annual general meeting to address shareholders' queries. All shareholders are given at least 20 clear business days' notice of the annual general meeting and they are encouraged to attend the annual general meeting and other shareholders' meetings. Questions from the shareholders at such meetings are encouraged and welcomed.

SHAREHOLDERS' RIGHTS

(i) Procedures for members to convene an extraordinary general meeting ("EGM")

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Board or the Company Secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the Shareholder(s) concerned himself (themselves) may do so in the same manner.

If the requisition is in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the shareholders concerned at an EGM varies according to the nature of the proposal, as follows:

- not less than twenty-one clear days' notice in writing if the proposal constitutes a special resolution of the Company; and
- not less than fourteen clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

(ii) Procedures for putting enquiries to the Board

Shareholder(s) may at any time put forward their enquiries to the Board by sending letter to: Company Secretary
China Shineway Pharmaceutical Group Limited
Suite 3109, 31/F
Central Plaza
18 Harbour Road
Wanchai, Hong Kong

(iii) Procedures for putting forward proposals at shareholders' meetings

According to our articles of association, any shareholder(s) duly qualified to attend and vote at general meetings of the Company wish(es) to propose a person (other than himself) for election as a director (the "Candidate") at a general meeting of the Company, the following documents must be lodged at the head office or registered office: (i) a written notice of such proposed duly signed by the shareholder(s) concerned; and (ii) a written consent duly signed by the Candidate indicating his/her willingness to be elected. The period for lodgment of the above documents (being a period of at least seven days) shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

INVESTOR RELATIONS

During the year, there is no significant change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

CODE OF CONDUCT

Employees of the Group have maintained high levels of ethical standards. The Group published an employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. Trainings on the contents of the employee handbook have been held regularly. The employees at all levels are expected to act in an honest, diligent and responsible manner.

AUDIT COMMITTEE REPORT

Dear Shareholders,

The Audit Committee formally met four times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2021 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Liu Shun Fai (Chairman) (appointed on 1 November 2021)
Mr. Cheung Chun Yue Anthony (ceased on 1 November 2021)
Ms. Cheng Li
Prof. Luo Guoan

29 March 2022

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
CHINA SHINEWAY PHARMACEUTICAL GROUP LIMITED
中國神威藥業集團有限公司
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 140, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS Standards") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
We identified the impairment assessment on goodwill as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amount of the a cash-generating unit to which goodwill has been allocated. At 31 December 2021, the Group has goodwill with cost of RMB165,956,000 relating to cash-generating units of manufacturing and trading of pharmaceutical products. Based on the assessment made by management of the Group, no impairment was recognised during the year ended 31 December 2021. Details are disclosed in note 16 to the consolidated financial statements. The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.	Our procedures in relation to the impairment assessment on goodwill included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions; • Assessing the reasonableness of the key assumptions made by the management, including long-term growth rate and gross profit margin by comparing the prior year cash flow projections with the current year actual cash flows; • Testing the appropriateness of key inputs applied by the management in preparing the cash flow forecasts against historical performance, including revenue, cost of sales and operating expenses; • Assessing the key factors in determining the discount rates, including the Group's debt and equity ratio, return on investments and other risk factors, and comparing to discount rates adopted in the pharmaceutical industry for reasonableness; and • Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the value in use.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

The engagement partner on the audit resulting in the independent auditor's report is Li Chi Tong.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Revenue	5	**3,223,550**	2,655,701
Cost of sales		**(813,214)**	(667,855)
Gross profit		**2,410,336**	1,987,846
Other income		**102,227**	86,056
Investment income	6	**104,139**	132,659
Other gains and losses		**(19,374)**	112
Impairment losses on financial assets under expected credit loss model, net of reversal	7	**(7,021)**	(6,915)
Impairment loss on property, plant and equipment	14	**–**	(4,073)
Impairment loss on intangible assets	15	**–**	(168,734)
Impairment loss on goodwill	16	**–**	(56,794)
Selling and distribution costs		**(1,499,682)**	(1,185,469)
Administrative expenses		**(256,557)**	(273,359)
Research and development costs		**(112,711)**	(99,705)
Finance costs	8	**(1,254)**	(16,600)
Profit before taxation	9	**720,103**	395,024
Taxation	10	**(163,429)**	(99,991)
Profit and total comprehensive income for the year		**556,674**	295,033
Earnings per share	13		
– Basic (RMB)		**74 cents**	39 cents
– Diluted (RMB)		**74 cents**	39 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,251,999**	1,394,771
Intangible assets	15	**66,426**	36,959
Goodwill	16	**165,956**	102,497
Deposit for acquisition of a subsidiary		**–**	137,140
Deferred tax assets	17	**20,465**	23,104
		1,504,846	1,694,471
Current assets			
Inventories	18	**587,956**	442,999
Trade receivables	19	**424,457**	311,792
Trade receivables backed by bank bills	19	**400,726**	448,868
Prepayments, deposits and other receivables	19	**80,251**	72,320
Tax recoverable		**–**	48
Pledged bank deposits	20	**–**	300,000
Bank balances and cash	20	**4,205,722**	3,943,010
		5,699,112	5,519,037
Current liabilities			
Trade payables	21	**228,620**	164,377
Other payables and accrued expenses	21	**666,232**	501,628
Contract liabilities	21	**85,885**	67,672
Bank borrowings	22	**–**	369,319
Lease liabilities	23	**7,587**	7,791
Amounts due to related companies	24	**13,784**	14,784
Deferred income	25	**31,167**	10,749
Tax payable		**65,096**	58,372
		1,098,371	1,194,692
Net current assets		**4,600,741**	4,324,345
Total assets less current liabilities		**6,105,587**	6,018,816

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 *RMB'000*
Non-current liabilities			
Lease liabilities	23	**7,324**	15,028
Deferred tax liabilities	17	**25,188**	5,297
Deferred income	25	**171,594**	204,309
		204,106	224,634
Net assets		**5,901,481**	5,794,182
Capital and reserves			
Share capital	26	**87,662**	87,662
Reserves		**5,813,819**	5,706,520
Total equity		**5,901,481**	5,794,182

The consolidated financial statements on pages 56 to 140 were approved and authorised for issue by the Board of Directors on 29 March 2022 and are signed on its behalf by:

Li Zhenjiang
DIRECTOR

Li Huimin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Share options reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2020	87,662	422,140	83,758	396,926	154,760	7,406	(548,275)	5,172,550	5,776,927
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	295,033	295,033
Transfers	–	–	–	2,114	–	–	–	(2,114)	–
Release upon deregistration of a subsidiary	–	–	–	(3,684)	–	–	–	3,684	–
Purchase of shares under share award scheme	–	–	–	–	–	–	(36,437)	–	(36,437)
Dividends paid (note 12)	–	–	–	–	–	–	–	(241,472)	(241,472)
Recognition of equity-settled share-based payments	–	–	–	–	–	131	–	–	131
At 31 December 2020	**87,662**	**422,140**	**83,758**	**395,356**	**154,760**	**7,537**	**(584,712)**	**5,227,681**	**5,794,182**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**556,674**	**556,674**
Transfers	**-**	**-**	**-**	**49,752**	**-**	**-**	**-**	**(49,752)**	**-**
Release upon disposal of a subsidiary	**-**	**-**	**-**	**(2,500)**	**-**	**-**	**-**	**2,500**	**-**
Disposal of shares under share award scheme	**-**	**-**	**-**	**-**	**-**	**-**	**6,063**	**(2,400)**	**3,663**
Dividends paid (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(453,072)**	**(453,072)**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**34**	**-**	**-**	**34**
At 31 December 2021	**87,662**	**422,140**	**83,758**	**442,608**	**154,760**	**7,571**	**(578,649)**	**5,281,631**	**5,901,481**

Notes:

(a) Merger reserve of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") represents the difference between the net asset value of the subsidiaries and the nominal amount of the Company's shares which were issued as consideration for the subsidiaries at the time of the group reorganisation in preparation for the listing of the Company's shares.

(b) Statutory surplus reserve fund and discretionary surplus reserve fund are appropriated each year by certain subsidiaries in the People's Republic of China (the "PRC") on the basis of 10% of the profit after taxation as determined by the board of directors of the relevant subsidiaries and at the rate decided by the shareholders annually in accordance with the Articles of Associations ("Articles") of the relevant subsidiaries. According to the provision of the Articles, in normal circumstances, this reserve should only be used for making up losses, capitalisation into capital and expansion of production and operation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
Operating activities		
Profit before taxation	**720,103**	395,024
Adjustments for:		
Depreciation of property, plant and equipment	**167,170**	165,838
Amortisation of intangible assets	**15,216**	42,574
Impairment loss on financial assets under expected credit loss model, net of reversal	**7,021**	6,915
Impairment loss on property, plant and equipment	**–**	4,073
Impairment loss on intangible assets	**–**	168,734
Impairment loss on goodwill	**–**	56,794
Loss (gain) on disposal and write-off of property, plant and equipment	**18,173**	(2,062)
Gain on disposal of a subsidiary	**(1,700)**	–
Unrealised exchange loss	**6,514**	6,183
Interest income	**(95,066)**	(87,826)
Investment income from short-term financial products	**(337)**	(927)
Investment income from financial products	**(8,736)**	(43,906)
Government grant recognised as other income	**(25,133)**	(8,500)
Interest expenses	**1,254**	16,600
Share-based payments expense	**34**	131
Operating cash flows before movements in working capital	**804,513**	719,645
Increase in inventories	**(140,132)**	(12,196)
Increase in trade receivables	**(66,966)**	(93,264)
Decrease in prepayments, deposits and other receivables	**14,001**	82,919
Increase (decrease) in trade payables	**55,385**	(25,068)
Increase in other payables and accrued expenses	**162,709**	65,278
Increase in contract liabilities	**18,213**	20,401
Cash generated from operations	**847,723**	757,715
PRC Enterprise Income Tax paid	**(132,323)**	(96,149)
Withholding tax paid	**(12,250)**	(23,000)
Net cash from operating activities	**703,150**	638,566

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 RMB'000	2020 RMB'000
Investing activities			
Placement of financial products		**(370,000)**	(2,494,930)
Proceeds from redemption of financial products		**378,736**	2,538,836
Net proceeds from short-term financial products	6	**337**	927
Placement of pledged bank deposits		**–**	(300,000)
Withdrawal of pledged bank deposits		**300,000**	538
Interest received		**75,747**	83,982
Government grants received		**12,836**	42,019
Proceeds from disposal and write-off of property, plant and equipment		**81,599**	26,204
Purchase of property, plant and equipment		**(93,633)**	(66,027)
Net cash inflow on acquisition of a subsidiary	28	**8,510**	–
Net cash inflow on disposal of a subsidiary	29	**879**	–
Deposit for acquisition of a subsidiary		**–**	(137,140)
Net cash from (used in) investing activities		**395,011**	(305,591)
Financing activities			
New borrowings raised		**–**	732,771
Proceeds from disposal of shares held for share award scheme		**3,663**	–
Repayment of bank borrowings		**(369,319)**	(761,844)
Dividends paid		**(453,072)**	(241,472)
Repayment to related companies		**(1,000)**	(1,151)
Repurchase of shares held for share award scheme		**–**	(36,437)
Repayment of lease liabilities		**(7,714)**	(4,661)
Interest paid		**(1,493)**	(16,994)
Net cash used in financing activities		**(828,935)**	(329,788)
Net increase in cash and cash equivalents		**269,226**	3,187
Cash and cash equivalents at beginning of the year		**3,943,010**	3,946,006
Effect of exchange rate changes of cash and cash equivalents		**(6,514)**	(6,183)
Cash and cash equivalents at end of the year, representing bank balances and cash		**4,205,722**	3,943,010

1. GENERAL INFORMATION

The Company is a listed company registered as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 14 August 2002 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The immediate holding and its ultimate holding company is Forway Investment Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability. Its ultimate controlling party is Mr. Li Zhenjiang, who is also the Chairman of the Group. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

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

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are engaged in research and development, manufacturing and trading of Chinese pharmaceutical products.

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

Amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

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

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

The application of the amendments to IFRS Standards in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS") *(Continued)*

New and amendments to IFRS Standards in issue but not yet effective

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

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

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

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

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"

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

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS") *(Continued)*

Amendments to IAS 1 "Classification of Liabilities as Current or Non-current" *(Continued)*

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2021, the application of the amendments will not result in reclassification of the Group's liabilities.

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of Accounting Policies"

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS STANDARDS") *(Continued)*

Amendments to IAS 8 "Definition of Accounting Estimates"

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in IAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

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

3.1 Basis of preparation of consolidated financial statements

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

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation of consolidated financial statements *(Continued)*

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisitions *(Continued)*

Business combinations (Continued)

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date;

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Goodwill

Goodwill arising from an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment

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

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

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets *(Continued)*

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss and is included in the “investment income” line item.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

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

The Group always recognises lifetime ECL for trade receivables. ECL is assessed separately for receivables fully backed by bank bills and not backed by bank bills. To measure the ECL, trade receivables not backed by bank bills are assessed for debtors with significant balances or credit-impaired balances are assessed individually, the remaining trade receivables not backed by bank bills are assessed on a collectively basis. Debtors with trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

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

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

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

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

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

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(v) Measurement and recognition of ECL

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

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

Lifetime ECL for certain trade receivables not backed by bank bills are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

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

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables, bank borrowings and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure (Continued)

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

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

Intangible assets acquired in a business combination

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

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

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

Impairment on property, plant and equipment (including right-of-use assets) and intangible assets (other than goodwill)

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment (including right-of-use assets) and intangible assets (other than goodwill) *(Continued)*

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Impairment on property, plant and equipment (including right-of-use assets) and intangible assets (other than goodwill) *(Continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Revenue from contracts with customers

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

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

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

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

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

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

The Group recognises revenue on sale of pharmaceutical products at a point in time when control of the goods has transferred, being when the goods are delivered to the customer. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities.

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

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the most likely amount, which better predicts the amount of consideration to which the Group will be entitled.

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

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

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Revenue from contracts with customers *(Continued)*

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease components, and instead accounts for the lease components and any associated non-lease components as a single lease component.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

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

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

The Group presents right-of-use assets in "property, plant and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease liabilities

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

The lease payments represent fixed payments (including in-substance fixed payment) less any lease incentives receivable.

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

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans/state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Share award scheme

The consideration paid by the trustee for purchasing the Company's shares from the market is presented as "shares held for share award scheme" and the amount is deducted from total equity.

When the trustee disposed of the Company's shares, the related costs of the disposed shares are credited to "shares held for share award schemes" and gain or loss from the disposal are recognised in "accumulated profits".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation

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

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

Current and deferred tax are recognised in profit or loss.

Borrowing costs

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

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

Foreign currencies

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Significant accounting policies *(Continued)*

Foreign currencies *(Continued)*

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances of which results in downward revision of future cash or upward revision of discount rate, a material impairment loss or a further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations for research and development, manufacturing and trading of Chinese pharmaceutical products.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of goodwill *(Continued)*

As at 31 December 2021, the carrying amount of goodwill is RMB165,956,000 (2020: RMB102,497,000) (net of accumulated impairment loss of RMB56,794,000 (2020: RMB56,794,000)). Details of the recoverable amount calculation are disclosed in note 16.

Estimated impairment of property, plant and equipment and intangible assets

When there is indication that property, plant and equipment and intangible assets with finite useful lives may be impaired, the Group estimates the recoverable amount of the relevant assets or the cash-generating unit to which the asset belongs. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash or upward revision of discount rate, a material impairment loss or a further impairment loss may arise. Furthermore, the estimated cash flows and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the Covid-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations for research and development, manufacturing and trading of Chinese pharmaceutical products.

As at 31 December 2021, the carrying amounts of property, plant and equipment and intangible assets subject to impairment assessment are RMB1,251,999,000 and RMB66,426,000 (2020: RMB1,394,771,000 and RMB36,959,000), respectively, after taking into account the impairment losses of RMB4,073,000 and RMB168,734,000 (2020: RMB4,073,000 and RMB168,734,000) in respect of property, plant and equipment and intangible assets that have been recognised, respectively.

5. REVENUE AND SEGMENT INFORMATION

Operating segments

The Group is engaged in a single segment in research and development, manufacturing and trading of Chinese pharmaceutical products. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the Chairman of the Board of Directors of the Group, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. No other discrete financial information is provided other than the Group's results and financial position as a whole. Accordingly, only entity-wide disclosures are presented.

Revenue from major products

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

	2021 **RMB'000**	2020 RMB'000
Injections	**1,339,241**	1,102,444
Soft capsules	**484,841**	462,090
Granules	**533,469**	405,960
Traditional Chinese medicine formula granules	**692,565**	556,327
Others	**173,434**	128,880
	3,223,550	2,655,701

The Group sells pharmaceutical products to the wholesale market and directly to customers. Revenue is recognised at a point in time when control of the products has transferred to customers, being at the point the products are delivered to the customer. The normal credit term is six months to one year upon delivery while certain customers make advanced payment before delivery. Only products with quality defects are allowed to be returned to the Group within a specified period of time upon receipt by the customers. The transaction price has been estimated taking into account of variable consideration such as discount and rebates.

Contracts with customers with unsatisfied performance obligations have original expected duration of one year or less. As permitted under IFRS 15, the aggregate amount of transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

Sales of the Group to external customers were substantially made in the PRC including Hong Kong.

All non-current assets of the Group including goodwill except deferred tax assets are located in the PRC including Hong Kong.

Information about major customers

For each of the year ended 31 December 2021 and 2020, there was no customer with revenue accounted for more than 10% of the Group's total revenue.

6. INVESTMENT INCOME

	2021	2020
	RMB'000	RMB'000
Interest on bank deposits	**95,066**	87,826
Investment income from short-term financial products *(note)*	**337**	927
Investment income from financial products *(note)*	**8,736**	43,906
	104,139	132,659

Note: The financial products and short-term financial products are measured at at FVTPL for both years. The redemption amount (including the return) of such products is related to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the difference between initial investment amounts and redemptions amounts. In the opinion of the directors of the Company, the short-term financial products are large in amounts, with quick turnover and short maturities ranging from one to three months. Accordingly, the cash receipts and payments for these short-term financial products are presented on a net basis in the consolidated statement of cash flows.

7. IMPAIRMENT LOSSES ON FINANCIAL ASSETS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2021 **RMB'000**	2020 RMB'000
Impairment losses on trade receivables	**5,424**	5,800
Impairment losses on trade receivables backed by bank bills	**1,597**	1,115
	7,021	6,915

Details of impairment assessment are set out in note 34.

8. FINANCE COSTS

	2021 **RMB'000**	2020 RMB'000
Interest on loans related to bills discounted with recourse	**–**	8,631
Interest on bank loans	**274**	7,766
Interest on lease liabilities	**980**	203
	1,254	16,600

9. PROFIT BEFORE TAXATION

	2021 **RMB'000**	2020 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments *(See note 11)*	**10,319**	9,153
Other staff costs	**338,868**	284,358
Other staff's pension costs	**34,780**	32,947
Share-based payments expense for other staff	**34**	131
	384,001	326,589
Less: Capitalised in inventories	**(125,952)**	(111,223)
	258,049	215,366
Depreciation of property, plant and equipment	**167,170**	165,838
Amortisation of intangible assets	**15,216**	42,574
Total depreciation and amortisation	**182,386**	208,412
Less: Capitalised in inventories	**(118,725)**	(159,252)
	63,661	49,160
Auditor's remuneration	**2,116**	1,751
Cost of inventories recoginsed as an expense (included in cost of sales)	**813,214**	667,855
Loss (gain) on disposal and write-off of property, plant and equipment (included in other gains and losses)	**18,173**	(2,062)
Net exchange loss (included in other gains and losses)	**2,901**	1,950
Gain on disposal of a subsidiary (included in other gains and losses)	**(1,700)**	–
Government subsidies (included in other income) (note)	**(79,023)**	(74,988)

9. PROFIT BEFORE TAXATION *(Continued)*

Note: The government subsidies represent the amounts received from the local government by the subsidiaries of the Company. During the year ended 31 December 2021, government subsidies of (a) RMB53,890,000 (2020: RMB66,170,000) represent incentives received in relation to engagement of the subsidiaries of the Company in high technology business. The grants were unconditional, approved and received during the year; (b) RMB10,079,000 (2020: RMB8,500,000) represent recognition of deferred income upon completion of related research activities and development projects (note 25); (c) RMB15,054,000 (2020: nil) represent recognition of deferred income in relation to disposal of property, plant and equipment in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC due to a land resumption by local government, which associated with a government grant received in 2011; and (d) nil (2020: RMB318,000) represent Covid-19-related subsidies in relation to Employment Support Scheme provided by the Hong Kong government.

10. TAXATION

	2021 **RMB'000**	2020 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**146,304**	116,297
Overprovision in prior years	**(9,616)**	(1,306)
Withholding tax on distributed profits	**12,250**	23,000
	148,938	137,991
Deferred tax *(note 17)*	**14,491**	(38,000)
	163,429	99,991

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%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. As the Company and its subsidiaries operating in Hong Kong do not have assessable profits for both years, no provision for Hong Kong Profits Tax has been made in the consolidated financial statements.

10. TAXATION *(Continued)*

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. Certain subsidiaries which are recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15% for both years. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

According to a joint circular of the Ministry of Finance and State Administration of Taxation, Cai Shui 2011 No. 1, only the profits earned by foreign-investment enterprise prior to 1 January 2008, when distributed to foreign investors, can be grandfathered and exempted from withholding tax. Whereas, dividend distributed out of the profits generated thereafter, shall be subject to the Enterprise Income Tax at 5% or 10% and withheld by the PRC entities, pursuant to Articles 3 and 27 of the New Law and Article 91 of its Detailed Implementation Rules.

Under the applicable corporate tax law in Australia, income tax is charged at 26% (2020: 27.5%) of the estimated assessable profits. No provision for Australian income tax has been made in the consolidated financial statements as the subsidiary operating in Australia has no assessable profits for both years.

The taxation charge for the year can be reconciled to the profit before taxation as follows:

	2021 **RMB'000**	2020 RMB'000
Profit before taxation	**720,103**	395,024
Tax at the applicable tax rate of 25% (2020: 25%)	**180,026**	98,756
Tax effect of expenses not deductible for tax purposes	**54,224**	40,896
Tax effect of income not taxable for tax purposes	**(5,481)**	(3,352)
Tax losses not recognised	**15,016**	10,922
Utilisation of tax losses previously not recognised	**(2,840)**	(2,142)
Income tax on concessionary rates	**(94,156)**	(56,793)
Withholding tax on distributed profits of subsidiaries operating in the PRC	**12,250**	13,000
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**14,000**	–
Overprovision in prior years	**(9,616)**	(1,306)
Others	**6**	10
Taxation charge for the year	**163,429**	99,991

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the CO, is as follows:

	Fees RMB'000	Salaries and allowance RMB'000	Pension costs RMB'000	Total remuneration RMB'000
Year ended 31 December 2021				
Executive directors:				
Li Zhenjiang	631	3,872	8	4,511
Xin Yunxia	980	1,505	15	2,500
Li Huimin	65	1,071	15	1,151
Chen Zhong	654	980	15	1,649
Non-executive director:				
Zhou Wencheng	127	–	–	127
Independent non-executive directors:				
Luo Guoan	127	–	–	127
Cheng Li	127	–	–	127
Liu Shun Fai (appointed on 1 November 2021)	21	–	–	21
Cheung Chun Yue, Anthony (resigned on 1 November 2021)	106	–	–	106
	2,838	7,428	53	10,319

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

	Fees RMB'000	Salaries and allowance RMB'000	Pension costs RMB'000	Total remuneration RMB'000
Year ended 31 December 2020				
Executive directors:				
Li Zhenjiang	650	3,263	15	3,928
Xin Yunxia	375	1,882	15	2,272
Li Huimin	67	892	15	974
Chen Zhong	156	1,382	15	1,553
Non-executive director:				
Zhou Wencheng (appointed on 1 October 2020)	33	–	–	33
Independent non-executive directors:				
Luo Guoan	131	–	–	131
Cheng Li	131	–	–	131
Cheung Chun Yue, Anthony	131	–	–	131
	1,674	7,419	60	9,153

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The non-executive director and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Of the five individuals with the highest emoluments in the Group, three (2020: three) were directors, including Mr. Li Zhenjiang as the chief executive of the Company, whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining two (2020: two) highest paid individuals in the capacity as an employee are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other benefits	**2,791**	2,749
Pension costs	**30**	30
	2,821	2,779

The emoluments were within the following band:

	Number of employees 2021	 2020
HKD1,500,001 to HKD2,000,000	**2**	2

During both years, no remuneration was paid by the Group to the directors or highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during both years.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the Group's operating results, individual performance and market statistics.

12. DIVIDENDS

	2021 RMB'000	2020 RMB'000
Dividends recognised as distributions during the year:		
Final dividend paid for 2020 of RMB21 cents (2020: paid for 2019 of RMB12 cents) per share	**158,466**	90,552
Special dividend of nil (2020: paid for 2019 of RMB9 cents) per share	**–**	67,914
Interim dividend paid for 2021 of RMB39 cents (2020: RMB11 cents) per share	**294,606**	83,006
	453,072	241,472

	2021 RMB'000	2020 RMB'000
Proposed 2020 final dividend of RMB21 cents per share (2021: nil)	**–**	158,466
2022 interim dividend of RMB21 cents per share (2020: nil)	**158,634**	–
	158,634	158,466

The 2022 interim dividend of RMB21 cents per share, in an aggregate amount of RMB158,634,000, has been declared by the Company on 29 March 2022 and will be paid out on 18 May 2022, to the shareholders whose names appear on the register of members of the Company on 6 May 2022. The aggregate amount of RMB158,634,000 (2020: RMB158,466,000) has been calculated on the basis of 827,000,000 (2020: 827,000,000) shares in issue less 71,600,000 (2020: 72,400,000) shares held for share award scheme as at 31 December 2021.

13. EARNINGS PER SHARE

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

	2021 **RMB'000**	2020 RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**556,674**	295,033

	Number of shares	
	2021	2020
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of diluted earnings per share	**755,141,096**	756,747,221

The computation of diluted earnings per share does not assume the exercise of all the Company's options at exercise prices of HK$8.39 and HK$7.21 (2020: HK$8.39 and HK$7.21) because the exercise prices of those options were higher than the average market price for shares for the year ended 31 December 2021.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets										
	Leasehold land	Leased properties	Leased motor vehicles	Leased machineries	Sub-total	Owned properties	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2020	173,209	5,351	–	–	178,560	1,279,818	1,225,359	86,735	2,638	118,926	2,892,036
Additions	7,761	4,194	3,559	5,821	21,335	1,645	50,559	6,872	1	14,486	94,898
Disposals	(14,793)	–	–	–	(14,793)	(11,185)	–	(230)	–	(425)	(26,633)
Reclassifications	–	–	–	–	–	1,106	16,281	105	–	(17,492)	–
At 31 December 2020	166,177	9,545	3,559	5,821	185,102	1,271,384	1,292,199	93,482	2,639	115,495	2,960,301
Additions	–	–	–	–	–	1,055	38,675	8,819	–	32,075	80,624
Acquisition of a subsidiary (note 28)	10,200	–	–	–	10,200	17,511	15,474	478	77	–	43,740
Disposals and write-off	(54,121)	(631)	–	–	(54,752)	(52,860)	(65,495)	(2,822)	(2,093)	–	(178,022)
Reclassifications	–	–	–	–	–	6,857	10,399	146	–	(17,402)	–
At 31 December 2021	122,256	8,914	3,559	5,821	140,550	1,243,947	1,291,252	100,103	623	130,168	2,906,643
DEPRECIATION AND IMPAIRMENT											
At 1 January 2020	7,055	1,699	–	–	8,754	486,788	833,627	66,557	2,384	–	1,398,110
Charge for the year	6,740	2,222	–	–	8,962	61,217	90,224	5,358	77	–	165,838
Impairment loss recognised in profit or loss (note 16)	–	–	–	–	–	–	3,503	488	82	–	4,073
Eliminated on disposals	(1,330)	–	–	–	(1,330)	(1,038)	–	(123)	–	–	(2,491)
At 31 December 2020	12,465	3,921	–	–	16,386	546,967	927,354	72,280	2,543	–	1,565,530
Charge for the year	6,260	2,251	1,186	1,940	11,637	59,110	88,618	7,788	17	–	167,170
Eliminated on disposals and write-off	(11,997)	(369)	–	–	(12,366)	(17,556)	(43,766)	(2,367)	(2,001)	–	(78,056)
At 31 December 2021	6,728	5,803	1,186	1,940	15,657	588,521	972,206	77,701	559	–	1,654,644
CARRYING VALUES											
At 31 December 2021	115,528	3,111	2,373	3,881	124,893	655,426	319,046	22,402	64	130,168	1,251,999
At 31 December 2020	153,712	5,624	3,559	5,821	168,716	724,417	364,845	21,202	96	115,495	1,394,771

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated over their estimated useful lives after taking into account their estimated residual values using the straight-line method as follows:

Leasehold land/leased properties/leased motor vehicles/leased machineries	Over the shorter of the term of the lease or 3 to 50 years
Owned properties	20 years or over the unexpired lease terms, whichever is shorter
Plant and machineries	3 to 10 years
Office equipment	5 years
Motor vehicles	3 years

The Group as lessee

Right-of-use assets (included in the property, plant and equipment)

	2021 **RMB'000**	2020 RMB'000
Expense relating to short-term leases	**1,480**	1,254
Total cash outflow for leases	**10,174**	6,118

For both years, the Group leases various offices, hotel rooms, staff quarter, motor vehicles, machineries and lands for its operations. Lease contracts are entered into for fixed term of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

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

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group as lessee *(Continued)*

Right-of-use assets (included in the property, plant and equipment) *(Continued)*

In addition, the Group own several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold land. Lump sum payments were made upfront to acquire these property interests.

15. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2020 and 31 December 2020	430,157
Acquisition of a subsidiary (note 28)	44,683
At 31 December 2021	474,840
AMORTISATION AND IMPAIRMENT	
At 1 January 2020	181,890
Charge for the year	42,574
Impairment loss recognised in profit or loss (note 16)	168,734
At 31 December 2020	393,198
Charge for the year	15,216
At 31 December 2021	408,414
CARRYING VALUES	
At 31 December 2021	66,426
At 31 December 2020	36,959

The intangible assets represent patents with finite useful lives which were acquired from third parties or purchased as a part of a business combination in prior years. Such intangible assets are amortised on a straight-line basis over the useful lives from 2 to 20 years.

16. GOODWILL

	RMB'000
COST	
At 1 January 2020 and 31 December 2020	159,291
Additions (note 28)	63,459
At 31 December 2021	222,750
IMPAIRMENT	
At 1 January 2020	–
Impairment loss recognised in profit or loss	56,794
At 31 December 2020 and 2021	56,794
CARRYING VALUES	
At 31 December 2021	165,956
At 31 December 2020	102,497

For the purpose of impairment testing, goodwill has been allocated to the cash-generating units including subsidiaries with principal activities of research and development, manufacturing and trading of pharmaceutical products.

	2021 RMB'000	2020 RMB'000
Cash-generating unit A ("Unit A")	**102,497**	102,497
Cash-generating unit B ("Unit B")	**–**	–
Cash-generating unit C ("Unit C")	**63,459**	–
	165,956	102,497

16. GOODWILL *(Continued)*

In addition to goodwill above, property, plant and equipment and intangible assets (including allocation of corporate assets) that generate cash flows together with the related goodwill are also included in the respective cash-generating units for the purpose of impairment assessment.

Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2020: 5-year), and pre-tax discount rate of 11% (2020: 11%). Unit A's cash flows beyond the 5-year period (2020: 5-year) are extrapolated using the estimated constant growth rate of 1% (2020: 1%) which do not exceed the average growth rate for the relevant industry.

During the year ended 31 December 2021 and 31 December 2020, management of the Group determines that there is no impairment on Unit A. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Unit A to exceed the recoverable amount of Unit A. If the discount rate was increased by 5% (2020: 5%), while other parameters remain constant, the recoverable amount of Unit A would still exceed its carrying amount.

Unit B

During the year ended 31 December 2020, considering the related product of Unit B would be removed from various provincial drug reimbursement lists in 2022 or before due to the change in drug reimbursement policy effective in 2020, the directors of the Company considered the demand of the products would decrease and had revised Unit B's cash flow projection and had consequently determined impairment of goodwill directly related to Unit B amounting to RMB56,794,000. Goodwill related to Unit B amounting to RMB56,794,000 had been fully impaired and impairment amounting to RMB4,073,000 and RMB168,734,000 had been allocated pro-rata to property, plant and equipment and intangible assets, respectively, during the year ended 31 December 2020 to the extent the carrying amount of the asset was not reduced below the highest of its fair value less costs of disposal, its value in use and zero. No impairment had been recognised for its leasehold land and owned properties of RMB1,590,000 and RMB11,883,000 as at 31 December 2020, respectively, since their recoverable amounts which was determined using fair value less cost of disposal is higher than their carrying amounts.

The recoverable amount of this unit had been determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a 5-year period, and pre-tax discount rate of 18.2%. Unit B's cash flows beyond the 5-year period were extrapolated using the estimated constant growth rate of 2.6% which did not exceed the average growth rate for the relevant industry.

16. GOODWILL *(Continued)*

Unit C

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2020: N/A), and pre-tax discount rate of 19% (2020: N/A). Unit C's cash flows beyond the 5-year period (2020: N/A) are extrapolated using the estimated constant growth rate of 2% which do not exceed the average long-term growth rate for the relevant industry (2020: N/A).

During the year ended 31 December 2021, management of the Group determines that there is no impairment on Unit C. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Unit C to exceed the recoverable amount of Unit C. If the discount rate was increased by 5%, while other parameters remain constant, the recoverable amount of Unit C would still exceed its carrying amount.

17. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2021 **RMB'000**	2020 RMB'000
Deferred tax assets	**20,465**	23,104
Deferred tax liabilities	**(25,188)**	(5,297)
	(4,723)	17,807

17. DEFERRED TAXATION *(Continued)*

The followings are the major deferred tax assets (liabilities) recognised and movement thereon during the current and prior years:

	Accelerated tax depreciation	Deferred income	Fair value adjustment arising from acquisition of subsidiaries	Withholding tax on undistributed profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	4,256	18,530	(36,200)	(10,000)	3,221	(20,193)
(Charge) credit to profit or loss	(138)	(1,086)	31,692	–	(2,468)	28,000
Withholding tax paid	–	–	–	10,000	–	10,000
At 31 December 2020	4,118	17,444	(4,508)	–	753	17,807
(Charge) credit to profit or loss	(138)	(4,629)	2,140	(14,000)	2,136	(14,491)
Acquisition of a subsidiary	–	–	(8,039)	–	–	(8,039)
At 31 December 2021	3,980	12,815	(10,407)	(14,000)	2,889	(4,723)

At the end of the reporting period, the Group has unused tax losses of RMB338,719,000 (2020: RMB331,595,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB207,499,000 (2020: RMB204,060,000) that will expire in 5 years (2020: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries 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 undistributed profits of the PRC subsidiaries amounting to RMB4,406,980,000 (2020: RMB4,818,796,000) 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.

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**173,586**	108,471
Work in progress	**203,094**	155,167
Finished goods	**211,276**	179,361
	587,956	442,999

19. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**439,710**	321,621
Less: Allowance for ECL	**(15,253)**	(9,829)
	424,457	311,792
Trade receivables backed by bank bills	**403,438**	449,983
Less: Allowance for ECL	**(2,712)**	(1,115)
	400,726	448,868
	825,183	760,660

The trade receivables and trade receivables backed by bank bills are from contracts with customers.

As at 1 January 2020, trade receivables and trade receivables backed by bank bills (before allowance for ECL) from contracts with customers amounted to RMB264,055,000 and RMB414,285,000, respectively.

19. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows a credit period normally ranging from six months to one year to its trade customers. The following is an aged analysis of trade receivables and trade receivables backed by bank bills, net of allowance for ECL, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2021 **RMB'000**	2020 RMB'000
Within 6 months	**739,996**	708,332
Over 6 months but less than 1 year	**65,569**	42,134
Over 1 year but less than 2 years	**17,574**	9,852
More than 2 years	**2,044**	342
	825,183	760,660

As at 31 December 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB86,993,000 (2020: RMB49,582,000) which are past due as at the reporting date. Out of the past due balances, RMB39,058,000 (2020: RMB20,214,000) has been past due 90 days or more and is not considered as in default based on repayment records of those customers and continuous business with the Group.

As at 31 December 2021, total bills received with carrying amount amounting to RMB400,726,000 (2020: RMB448,868,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables of RMB27,300,000 (2020: RMB7,981,000), prepayments of RMB35,059,000 (2020: RMB43,988,000), consideration receivable for disposal of a subsidiary of RMB920,000 (2020: nil) and value added tax recoverable of RMB12,649,000 (2020: RMB15,036,000).

Details of impairment assessment of trade and other receivables are set out in note 34.

20. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

At 31 December 2020, bank deposits of RMB300,000,000 were pledged to banks to secure bank borrowings of the Group amounting to RMB299,319,000 (2021: nil). The pledged bank deposits were non-interest bearing. The pledged bank deposits had been released upon the settlement of the relevant bank borrowings during the year ended 31 December 2021.

At the end of the reporting period, bank balances and cash of RMB4,099,298,000 (2020: RMB3,897,864,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The effective interest rate on bank balances ranged from 0.01% to 4.18% (2020: 0.01% to 3.19%) per annum as at 31 December 2021.

Details of impairment assessment of bank balances are set out in note 34.

21. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2021 **RMB'000**	2020 RMB'000
Trade payables	**228,620**	164,377

An aged analysis of the Group's trade payables at the end of the reporting period is as follows:

	2021 **RMB'000**	2020 RMB'000
Within 6 months	**221,939**	158,903
Over 6 months but less than 1 year	**2,661**	1,117
Over 1 year but less than 2 years	**573**	1,607
Over 2 years but less than 3 years	**719**	989
Over 3 years	**2,728**	1,761
	228,620	164,377

The average credit period taken for trade purchase ranges from two months to six months.

21. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES *(Continued)*

Other payables and accrued expenses of the Group mainly represent payables for acquisition of property, plant and equipment of RMB68,244,000 (2020: RMB81,253,000), accrued expenses payable of RMB433,133,000 (2020: RMB277,112,000), deposits received of RMB102,366,000 (2020: RMB88,930,000) and value added tax payable of RMB36,292,000 (2020: RMB27,232,000).

The Group has recognised the following revenue-related contract liabilities:

	2021 **RMB'000**	2020 RMB'000
Contract liabilities	**85,885**	67,672

The Group receives certain amount of the contract values as receipt in advance upon receiving the purchase orders from customers. The receipt in advance results in contract liabilities being recognised until the customer obtains control of the goods.

As at 1 January 2020, contract liabilities amounted to RMB42,271,000. The contract liabilities as at 1 January 2020 and 1 January 2021 were fully recognised as revenue during the year ended 31 December 2020 and 31 December 2021, respectively.

22. BANK BORROWINGS

	2021 **RMB'000**	2020 RMB'000
Bank loans, unsecured	**–**	70,000
Loans related to bills discounted with recourse	**–**	299,319
	–	369,319

22. BANK BORROWINGS *(Continued)*

As at 31 December 2020, the bank loans of RMB70,000,000 were unsecured and repayable within one year and carried a fixed interest rate at 2.05% per annum (2021: nil).

As at 31 December 2020, the loans related to bills discounted with recourse of RMB299,319,000 were related to intercompany bills discounted, pledged by bank deposits and repayable within one year and carried a fixed interest rate at 2.72% per annum (2021: nil).

23. LEASE LIABILITIES

	2021 **RMB'000**	2020 RMB'000
Lease liabilities payable:		
Within one year	**7,587**	7,791
Within a period of more than one year but not more than two years	**7,324**	7,704
Within a period of more than two years but not more than five years	**–**	7,324
	14,911	22,819
Less: Amount due for settlement with 12 months shown under current liabilities	**(7,587)**	(7,791)
Amount due for settlement after 12 months shown under non-current liabilities	**7,324**	15,028

The weighted average incremental borrowing rates applied to lease liabilities is at range from 4.75% to 5.35% (2020: from 4.75% to 5.35%).

	2021 **RMB'000**	2020 RMB'000
Lease obligations that are denominated in currency other than the functional currency of the relevant group entity are set out below:		
HK$	**615**	1,599

24. AMOUNTS DUE TO RELATED COMPANIES

	2021 RMB'000	2020 RMB'000
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**4,776**	5,776
	13,784	14,784

Shineway Sanhe and Shineway Medical are ultimately controlled by the controlling shareholder of the Company.

The amounts due to related companies are non-trade, unsecured, interest-free and repayable on demand.

25. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
At 1 January	**215,058**	181,539
Addition during the year	**12,836**	42,019
Recognised as other income	**(25,133)**	(8,500)
At 31 December	**202,761**	215,058
Analysed for reporting purpose as		
Current liabilities	**31,167**	10,749
Non-current liabilities	**171,594**	204,309
	202,761	215,058

Included in the deferred income at 31 December 2021 are government subsidies amounting to RMB123,469,000 (2020: RMB115,109,000) in relation to research and development expenses on certain new products which are not yet recognised. The subsidies are recognised as deferred income until the conditions attaching to the subsidies have been fulfilled. During the year, the Group received RMB12,836,000 (2020: RMB42,019,000) government subsidies in relation to research and development expenses and recognised RMB4,476,000 (2020: RMB2,017,000) in profit or loss.

25. DEFERRED INCOME *(Continued)*

Included in the deferred income at 31 December 2021 is a government subsidy amounting to RMB30,938,000 (2020: RMB48,845,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB17,907,000 (2020: RMB3,733,000) is transferred to profit or loss during the year.

Included in the deferred income at 31 December 2021 is a government subsidy amounting to RMB48,354,000 (2020: RMB51,104,000) received in 2018 and 2019 in relation to a development project, including the construction of production facilities, in 楚雄州 (Chuxiong Prefecture) in Yunnan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2020 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB2,750,000 (2020: RMB2,750,000) is transferred to profit or loss during the year.

26. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 31 December 2021	**5,000,000**	HK$500,000
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 31 December 2021	**827,000**	HK$82,700
Shown in the financial statement as		RMB87,662

There were no changes in the Company's authorised, issued and fully paid share capital during both years.

During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market (2020: 7,032,000 shares were purchased by the trustee from the market). Detail are set out in note 27.

27. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company has a share option scheme (the "2015 Scheme") which was adopted at the extraordinary general meeting of the Company held on 29 May 2015 for a period of 10 years. The primary purpose of the 2015 Scheme is to provide incentives to:

(a) director or employee of any members of the Group;

(b) any discretionary object of a discretionary trust established by any substantial shareholder of the Company or employee of any member of the Group;

(c) any consultant, professional and other advisers to any member of the Group;

(d) any chief executive or substantial shareholder of any member of the Group;

(e) any associate of any director, chief executive or substantial shareholder of any member of the Group; and

(f) any employee (whether full-time or part-time) of substantial shareholder of any member of the Group to take up options.

The 2015 Scheme will expire on 28 May 2025.

As at 31 December 2021, number of shares in respect of which options has been granted and remained outstanding under the 2015 Scheme was 4,000,000 (2020: 4,000,000), representing 0.48% (2020: 0.48%) of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the 2015 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive director or a company beneficially owned by any substantial shareholder or independent non-executive director of the Company) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

Options granted must be taken up within 14 days from the date of offer, upon payment of HK$1 per grant. The exercise period of option granted shall not be more than ten years from the date of grant. The exercise price was determined by the directors of the Company, and would not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options granted under the 2015 Scheme are as follows:

Date of grant	Vesting period	Vesting proportion	Exercise period*	Exercise price
				HK$
1.6.2016	1.6.2016 – 31.5.2017	20%	1.6.2017 – 31.5.2022	8.39
	1.6.2016 – 31.5.2018	20%	1.6.2018 – 31.5.2022	8.39
	1.6.2016 – 31.5.2020	20%	1.6.2020 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39
30.8.2017	30.8.2017 – 29.8.2018	100%	30.8.2017 – 29.8.2027	7.21
17.12.2018	17.12.2018 – 16.12.2020	20%	17.12.2020 – 16.12.2024	9.56
	17.12.2018 – 16.12.2021	20%	17.12.2021 – 16.12.2024	9.56
	17.12.2018 – 16.12.2021	20%	17.12.2021 – 16.12.2024	9.56
	17.12.2018 – 16.12.2022	20%	17.12.2022 – 16.12.2024	9.56
	17.12.2018 – 16.12.2023	20%	17.12.2023 – 16.12.2024	9.56

* The share options will be exercisable upon achievement of the relevant performance targets.

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by employees and directors pursuant to the 2015 Scheme during the year:

Date of grant	Exercise price HK$	Number of share options		
		Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2021				
Employees				
1.6.2016	**8.39**	**1,000,000**	**–**	**1,000,000**
30.8.2017	**7.21**	**3,000,000**	**–**	**3,000,000**
		4,000,000	**–**	**4,000,000**
Exercisable at end of the year				**–**
Weighted average exercise price (HK$)		**7.51**	**–**	**7.51**

Date of grant	Exercise price HK$	Number of share options		
		Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
For the year ended 31 December 2020				
Employees				
1.6.2016	8.39	1,000,000	–	1,000,000
30.8.2017	7.21	3,000,000	–	3,000,000
		4,000,000	–	4,000,000
Exercisable at end of the year				–
Weighted average exercise price (HK$)		7.51	–	7.51

27. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share option scheme *(Continued)*

The Group recognised a total expense of RMB34,000 (2020: RMB131,000) for the year ended 31 December 2021 in relation to share options granted by the Company.

Share award scheme

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. The Scheme does not constitute a share option scheme or an arrangement analogous to a share option scheme for the purpose of Chapter 17 of the Listing Rules. Unless terminated earlier by the Board of Directors pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

Pursuant to the Scheme, the Board of Directors may, from time to time, at its absolute discretion cause to be paid to the trustee sums of money from the Company's resources for the purchase of shares to be held on trust in accordance with the Scheme and the trust deed. Such sums of money shall be applied towards the purchase of the specific number of shares from the open market according to the written instructions of the Board of Directors. The Board of Directors shall not make any further award which will result in the number of shares awarded by the board of directors under the Scheme exceeding 10% of the issued share capital of the Company as at the adoption date. The maximum aggregate number of the awarded shares which may be awarded to a selected employee under the Scheme shall not exceed 1% of the issued share capital of the Company as at the adoption date.

During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market at an average price of approximately HK$5.50 (equivalent to RMB4.58) per share. The proceeds from disposal of those shares amounted to HK$4,403,000 (equivalent to RMB3,663,000). The difference of HK$2,885,000 (equivalent to RMB2,400,000) between the cost of the shares and the proceeds was credited to accumulated profits. During the year ended 31 December 2020, 7,032,000 shares were purchased by the trustee from the market at an average price of approximately HK$5.70 (equivalent to RMB5.18) per share, with an aggregate amount of HK$40,080,000 (equivalent to RMB36,437,000). No shares were granted to eligible employees pursuant to the share award scheme. At the end of the reporting period, there are 71,600,000 (2020: 72,400,000) shares held by the trustee.

28. ACQUISITION OF A SUBSIDIARY

On 20 February 2021, the Company entered into a sales and purchase agreement with an independent third party pursuant to which the Company agreed to purchase the entire interest in Shineway Pharmaceutical (Kunming) Company Limited (formerly known as Yunnan Liangfang Pharmaceutical Co., Ltd.) (the "Kunming Shineway") at a cash consideration of RMB137,140,000. Kunming Shineway is engaged in manufacturing and trading of Chinese pharmaceutical products. The transaction was completed during the year ended 31 December 2021 and has been accounted for as acquisition of business using the acquisition method. The primary reason for the acquisition is for the expansion of the Group's business and to increase returns to its shareholders.

	RMB'000
Fair value of identified assets acquired and liabilities recognised at the date of acquisition was as follows:	
Property, plant and equipment	43,740
Intangible assets	44,683
Inventories	4,825
Trade and other receivables	6,370
Bank balances and cash	8,510
Trade and other payables	(24,001)
Tax payable	(2,407)
Deferred tax liabilities	(8,039)
	73,681
Consideration transferred	137,140
Less: Net assets acquired	(73,681)
Goodwill arising on acquisition	63,459
Analysis of net cash inflow in respect of acquisition of a subsidiary:	
Cash consideration	(137,140)
Deposit for acquisition of a subsidiary	137,140
Bank balances and cash acquired	8,510
	8,510

28. ACQUISITION OF A SUBSIDIARY *(Continued)*

The receivables acquired (which principally comprised trade and other receivables) with a fair value of RMB6,370,000 at the date of acquisition had gross contractual amounts of RMB76,560,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB70,190,000.

Goodwill arose on the acquisition of Kunming Shineway because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Kunming Shineway. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

During the year ended 31 December 2021, Kunming Shineway contributed RMB13,774,000 to the Group's revenue and made a profit of RMB1,528,000 for the period between the date of acquisition and the end of the reporting period.

Had the acquisition of Kuming Shineway been completed on 1 January 2021, revenue for the period of the Group would have been RMB3,225,930,000, and profit for the year would have been RMB554,484,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2021, nor is it intended to be a projection of future results.

29. DISPOSAL OF A SUBSIDIARY

In October 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of entire equity interests in Shineway Pharmaceutical (Chengdu) Company Limited ("Chengdu Shineway"), a wholly-owned subsidiary of the Group, at a cash consideration of RMB9,200,000.

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Other receivables	99
Bank balances and cash	7,401
Assets disposal of	7,500
Gain on disposal of subsidiary:	
Consideration received and receivable	9,200
Assets disposed of	(7,500)
Gain on disposal	1,700
Net cash inflow arising on disposal:	
Cash consideration	8,280
Less: Bank balances and cash disposed of	(7,401)
	879

30. RETIREMENT BENEFITS PLANS

The employees of the Group's PRC subsidiaries participate in retirement and medicare insurances in accordance with the PRC laws and related regulations. When an employee joins the Group, he is enrolled with the local retirement plan. Contributions to the retirement insurance, borne by the Group and the employee jointly at the proportions stipulated by the local Municipal Government, are paid to the social insurance institutions monthly. When the employee retires, he receives his retirement funds from the insurance company directly and is also entitled to enjoy medical benefits after retirement provided by the insurance company. Other than the contributions, the Group has no forfeited contribution nor obligation for any related retirement benefits.

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualified employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, with maximum of HK$1,500 per employee per month, to the MPF Scheme, which contribution is matched by employees.

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB34,833,000 (2020: RMB33,007,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

31. CAPITAL COMMITMENTS

	2021 **RMB'000**	2020 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**152,216**	147,191

32. RECONCILIATION OF LIABILITY ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flow used in financing activities.

	Bank borrowings	Lease liabilities	Accrued interest expenses	Dividends payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	398,392	6,145	633	–	405,170
Financing cash flow	(29,073)	(4,864)	(16,791)	(241,472)	(292,200)
Dividends declared	–	–	–	241,472	241,472
New leases entered	–	21,335	–	–	21,335
Interest expenses	–	203	16,397	–	16,600
At 31 December 2020	369,319	22,819	239	–	392,377
Financing cash flow	(369,319)	(8,694)	(513)	(453,072)	(831,598)
Dividends declared	–	–	–	453,072	453,072
Early termination of a lease contract	–	(194)	–	–	(194)
Interest expenses	–	980	274	–	1,254
At 31 December 2021	–	14,911	–	–	14,911

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which includes bank borrowings, lease liabilities, and amounts due to related companies, disclosed in notes 22, 23 and 24, respectively, equity attributable to owners of the Company, comprising issued share capital and reserves.

The Group actively and regularly reviews and manages its capital structure and makes adjustments to it in light of the changes in the Group's business and economic conditions.

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 RMB'000	2020 RMB'000
Financial assets		
Financial assets at amortised cost	**5,059,175**	5,012,288
Financial liabilities		
Amortised cost	**413,014**	718,663

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, other receivables, pledged bank deposits, bank balances and cash, trade and other payables, bank borrowings, amounts due to related companies and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Company and certain subsidiaries have foreign currency bank balances, which expose the Group to foreign currency risk.

Included in bank balances of the Group are the following amounts denominated in currencies other than the functional currencies of the relevant group entities to which they relate.

	2021 RMB'000	2020 RMB'000
Functional currency against foreign currency		
RMB against Hong Kong Dollars ("HKD")	**46,053**	586
HKD against United States Dollars ("USD")	**3,256**	3,363
HKD against RMB	**24**	207,518

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to HKD as disclosed above with the functional currencies of those entities in RMB. The Group is also exposed to RMB and USD as disclosed above with the functional currency of that entity in HKD. Under the pegged exchange rate system, the financial impact on exchange difference between HKD and USD will be immaterial, and therefore no sensitivity analysis has been prepared.

The following table details the Group's sensitivity to a 5% (2020: 5%) increase and decrease in RMB against HKD. 5% (2020: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2020: 5%) change in HKD. A positive number below indicates an increase in profit for the year where RMB strengthens 5% (2020: 5%) against HKD. For a 5% (2020: 5%) weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

	2021 **RMB'000**	2020 RMB'000
(Decrease) increase in profit for the year	**(1,922)**	8,639

In management's opinion, the sensitivity analysis is unrepresentative of the foreign currency risk as the year end exposure does not reflect the exposure during the year.

Other price risk

The Group is exposed to price risk through its investments from short-term financial products and financial products measured at FVTPL. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. No sensitivity analysis was presented as all investments in short-term financial products and financial products are redeemed at the end of the reporting period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank borrowings (see note 22 for details) and lease liabilities (see note 23 for details). The Group is also exposed to cash flow interest rate risk which relates to bank balances. The Group currently does not have an interest rate hedging policy. The directors of the Company continuously monitor interest rate exposure and will consider enter into interest rate hedging should the need arise. The directors considered the Group's exposure of the bank balances to interest rate risk is not significant and therefore no sensitivity analysis is presented.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, pledged bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that settlement of certain trade receivables are backed by bills issued by reputable financial institutions.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management and the related impairment assessment, if applicable, are summarised as below:

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Limits and credit quality of customers are reviewed every year. The Group only accepts bills issued or guaranteed by reputable PRC banks if trade receivables are settled by bills. In this regard, the management consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2020: 100%) of the total trade receivables as at 31 December 2021.

In addition, the Group performs impairment assessment under ECL model. The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for trade receivables.

Management assessed the expected loss on trade receivables not backed by bank bills individually or collectively by estimation based on internal credit rating, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

Trade receivables not backed by bank bills with significant outstanding balances or credit-impaired with gross carrying amounts of RMB58,356,000 and RMB1,239,000 (2020: RMB28,622,000 and RMB1,805,000) respectively as at 31 December 2021 are assessed individually and the remaining balances with gross carrying amount of RMB380,115,000 (2020: RMB291,194,000) are assessed collectively based on internal credit rating as at 31 December 2021 within lifetime ECL (not credit-impaired). Impairment of RMB5,424,000 (2020: RMB5,800,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

The Group's internal credit rating comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low	The customers have a low risk of default and do not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Normal	The customers have a normal risk of default and regularly repay on time	Lifetime ECL – not credit-impaired	12m ECL
High	The customers frequently repay but usually settle after due date	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The table below details the credit risk exposures of the Group's trade receivables not backed by bank bills, which are subject to ECL assessment:

Internal credit rating	2021 Average loss rate	2021 Gross carrying amount RMB'000	2020 Average loss rate	2020 Gross carrying amount RMB'000
Low	**2.14%**	**261,485**	1.57%	238,782
Normal	**4.62%**	**75,751**	3.35%	1,097
High	**11.16%**	**42,879**	8.17%	51,315

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. Due to greater financial uncertainty triggered by the Covid-19 pandemic, the Group has increased the expected loss rates in the current year as there is higher risk that a prolonged pandemic could led to increased credit default rates. During the year ended 31 December 2021, the Group provided RMB5,990,000 (2020: RMB4,972,000) impairment allowance for trade receivables not backed by bank bills under lifetime ECL (not credit-impaired).

As at 31 December 2021, the Group assessed the ECL of trade receivables backed by bank bills with a gross carrying amount of RMB252,969,000 (2020: RMB370,347,000) backed by banks with external credit rating ranged from A1 to Ba1 (2020: Aa3 to Ba1) at the loss rates ranged from 0.07% to 0.40% (2020: 0.06% to 0.35%) and the remaining balances with a gross carrying amount of RMB149,969,000 (2020: RMB79,636,000) backed by banks that do not have external crediting rating at the loss rate of 1.13% (2020: 1.00%). During the year ended 31 December 2021, the Group provided RMB1,097,000 (2020: RMB1,115,000) impairment allowance for trade receivables backed by bank bills under lifetime ECL (not credit-impaired).

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivable not backed by bank bills and trade receivables backed by bank bills under simplified approach:

	Lifetime ECL (not-credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2020	3,052	977	4,029
Changes due to financial instruments recognised as at 1 January 2021:			
– Impairment loss recognised	470	–	470
– Impairment loss reversed	(2,623)	(856)	(3,479)
New financial assets originated or purchased	8,240	1,684	9,924
As at 31 December 2020	9,139	1,805	10,944
Changes due to financial instruments recognised as at 1 January 2021:			
– Impairment loss recognised	571	496	1,067
– Impairment loss reversed	(7,583)	(1,657)	(9,240)
– Transfer to credit-impaired	(4)	4	–
New financial assets originated or purchased	14,103	1,091	15,194
As at 31 December 2021	16,226	1,739	17,965

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

Changes in the loss allowance for trade receivables are mainly due to:

	2021 (Decrease) increase in lifetime ECL		2020 (Decrease) increase in lifetime ECL	
	Not credit-impaired RMB'000	**Credit-impaired RMB'000**	Not credit-impaired RMB'000	Credit-impaired RMB'000
Settlement in full of trade receivables with a gross carrying amount of RMB749,280,000 (2020: RMB667,126,000)	**(7,583)**	**(1,657)**	(2,623)	(856)
New trade receivables with gross carrying amount of RMB820,825,000 (2020: RMB760,390,000)	**14,103**	**1,091**	8,240	1,684

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier.

Other receivables

For other receivables with gross carrying amount of RMB28,270,000 (2020: RMB8,618,000), the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2021 and 2020, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

Pledged bank deposits and bank balances

As at 31 December 2021, included in pledged bank deposits and bank balances are bank balances with gross carrying amount of RMB4,206,568,000 (2020: RMB4,246,958,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2020: Aa3 to Baa3)). The remaining bank balances with gross carrying amount of RMB3,585,000 (2020: RMB34,000) are placed in local banks that do not have external credit rating. The Group has applied 12m ECL approach to assess the impairment loss on bank balances and determines the credit rating of these local banks based on the scale, the operation risk and the supervision risk of the banks.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Pledged bank deposits and bank balances (Continued)

As at 31 December 2021, the Group assessed the ECL of bank balances with a gross carrying amount of RMB4,206,568,000 (2020: RMB4,246,958,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2020: Aa3 to Baa3) at the loss rates ranged from 0.07% to 0.30% (2020: 0.06% to 0.28%) and bank balances with a gross carrying amount of RMB3,585,000 (2020: RMB34,000) placed in banks that do not have external crediting rating at the loss rate of 1.13% (2020: 1.00%). For the year ended 31 December 2021 and 2020, the Group assessed the ECL for pledged bank deposits and bank balances were insignificant and thus no loss allowance was recognised.

The following table shows the movement in 12m ECL that has been recognised for pledged bank deposits and bank balances:

	12m ECL RMB'000
As at 1 January 2020, and 31 December 2020 and 2021	4,618

Liquidity risk

The directors of the Company have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for financial liabilities are based on the agreed repayment dates.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than two years RMB'000	More than two years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2021							
Trade payables	–	–	228,620	–	–	228,620	228,620
Other payables	–	–	170,610	–	–	170,610	170,610
Amounts due to related companies	–	13,784	–	–	–	13,784	13,784
Lease liabilities	4.98%	–	8,179	7,552	–	15,731	14,911
Total		13,784	407,409	7,552	–	428,745	427,925

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than two years RMB'000	More than two years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2020							
Trade payables	–	–	164,377	–	–	164,377	164,377
Other payables	–	–	170,183	–	–	170,183	170,183
Bank borrowings	2.59%	–	371,477	–	–	371,477	369,319
Amounts due to related companies	–	14,784	–	–	–	14,784	14,784
Lease liabilities	4.98%	–	8,778	8,298	7,552	24,628	22,819
Total		14,784	714,815	8,298	7,552	745,449	741,482

Fair value measurement of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost approximate their fair values.

35. RELATED PARTY DISCLOSURES

Other than as disclosed elsewhere in the consolidated financial statements, the Group has following transactions and balances with related parties:

Name of related parties	Nature of balances/transactions	**As at/ For the year ended 31 December 2021 RMB'000**	As at/ For the year ended 31 December 2020 RMB'000
Shineway Medical	Interest expenses on lease liabilities	**603**	35
	Service fee	**9,836**	10,833
	Lease liabilities	**9,435**	13,815
Shineway Sanhe	Interest expenses on lease liabilities	**145**	28
	Service fee	**2,411**	2,546
	Lease liabilities	**2,272**	3,326
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	**166**	35
	Hotel service fee	**515**	325
	Lease liabilities	**2,590**	3,792
Shijiazhang Municipal Luancheng Country Shineway Training School ("Shineway Training School")	Service fee	**1,065**	1,827

Kang Yue Hotel and Shineway Training School are ultimately controlled by the controlling shareholder of the Company.

Compensation of key management personnel

Key management personnel is deemed to be the members of the Board of Directors of the Company which has responsibility for planning, directing and controlling the activities of the Group. Remuneration paid for key management personnel is disclosed in note 11.

36. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2020, the Group entered into new lease agreements for the use of staff quarter, land, hotel rooms, motor vehicles and machineries for 2 to 3 years. On the lease commencement, the Group recognised right-of-use assets and lease liabilities of RMB21,335,000 and RMB21,335,000, respectively (2021: nil).

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 **RMB'000**	2020 RMB'000
Non-current asset		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Other receivables	**53**	105
Amounts due from subsidiaries*	**286,806**	576,298
Bank balances and cash	**46,053**	586
	332,912	576,989
Current liabilities		
Other payables	**3,486**	3,271
Amounts due to subsidiaries	**1,511**	1,557
	4,997	4,828
Net current assets	**327,915**	572,161
Net assets	**391,514**	635,760
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (note)	**303,852**	548,098
Total equity	**391,514**	635,760

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Reserves RMB'000
At 1 January 2020	433,986
Profit and total comprehensive income for the year	391,890
Recognition of equity-settled share-based payments	131
Purchase of shares under share award scheme	(36,437)
Dividends paid	(241,472)
At 31 December 2020	548,098
Profit and total comprehensive income for the year	205,129
Recognition of equity-settled share-based payments	34
Disposal of shares under share award scheme	3,663
Dividends paid	(453,072)
At 31 December 2021	303,852

* The management of the Company considered that the expected loss on amounts due from subsidiaries is insignificant after assessing the financial position of these subsidiaries.

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2021 and 2020 are as follows:

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2021	2020	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Shineway Pharmaceutical Group Limited (note b) 神威藥業集團有限公司	PRC 30 December 2003	Registered capital – US$136,000,000	**100%**	100%	Research and development, manufacturing and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Company Limited (note b) 河北神威藥業有限公司	PRC 30 December 2003	Registered capital – US$12,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2021	2020	Principal activities
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited (note b) 西藏神威藥業有限公司	PRC 7 November 2006	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Company Limited (note b) 神威藥業(海南)有限公司	PRC 21 May 2007	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Chengdu Shineway (notes a and c) 神威藥業(成都)有限公司	PRC 25 December 2009	Registered capital – RMB5,000,000	**-**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited (note c) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Sichuan) Limited) (note c) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB405,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (note c) 神威藥業(石家莊)中藥飲片有很公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products and agricultural products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (note c) 神威藥業(民樂)現代農業有很公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Hebei Tongshun Bioenergy Technology Limited (note c) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2021	2020	Principal activities
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical Group (Shandong) Company Limited (note c) 神威藥業集團(山東)有限公司	PRC 27 April 1993	Registered capital – RMB28,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Yunnan Shineway Spirin Pharmaceutical Company Limited (note c) 雲南神威施普瑞藥業有限公司	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Beijing Wanter Bio-Pharmaceutical Co., Ltd. (note c) 北京萬特爾生物製藥有限公司	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products
Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited (note c) 京津冀聯創藥物研究(北京)有限公司	PRC 19 January 2017	Registered capital – RMB10,000,000	**100%**	100%	Research and development products
Kunming Shineway (notes c and d) 神威藥業(昆明)有限公司	PRC 4 June 1997	Registered capital – RMB1,000,000	**100%**	–	Manufacturing and trading of Chinese pharmaceutical products
Chuxiong Shineway Spirin Medicine Research Limited (note c) 楚雄神威施普瑞药物研究有限公司	PRC 1 June 2018	Registered capital – RMB5,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shi Jia Zhuang Ji Zhong Feed Technology Limited (note c) 石家莊市冀中飼料技術開發有限公司	PRC 4 March 2014	Registered capital – RMB500,000	**100%**	100%	Inactive

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Notes:

(a) Disposed during the year ended 31 December 2021.

(b) Being foreign wholly-owned enterprises.

(c) Being PRC domestic enterprises.

(d) Acquired during the year ended 31 December 2021.

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.