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**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)**

**2022 ANNUAL RESULTS ANNOUNCEMENT  
AND  
DECLARATION OF 2023 FIRST INTERIM DIVIDEND**

The board of directors (the “Board”) of China Shineway Pharmaceutical Group Limited (the “Company” or “Shineway”) is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2022 as follows:

**FINANCIAL HIGHLIGHTS**

For the year ended 31 December 2022, the operating results of the Group were as follows:

- Turnover amounted to RMB3,950,636,000, an increase of 22.6% as compared to last year;
- Gross profit margin was 74.4% as compared to 74.8% of last year;
- Profit for the year amounted to RMB722,773,000, an increase of 29.8% as compared to last year;
- Earnings per share amounted to RMB96 cents;
- Declared 2023 first interim dividend of RMB31 cents per share;
- Net assets per share amounted to RMB7.72 (equivalent to HK\$8.72); and
- Net cash per share amounted to RMB6.08 (equivalent to HK\$6.87).

## CHAIRMAN'S STATEMENT

Dear Shareholders,

Facing with the severe environment and complex market conditions derived from the resurgent pandemics, the Group progressed our business in a stable manner in 2022. We managed vigorously on the prevention and control of the pandemic while ensuring smooth production and operation, and addressing challenges such as rising production costs and tight supply of raw materials. We gradually elevated production capacity and staffing in line with the market demand, strictly guarding each process of medication quality, while working overtime to ensure market supply. At the same time, we implemented our strategic plans to attain the established objectives. Accordingly, the Group comprehensively pushed on our innovations and optimization in response to the changes of the market and achieved a series of encouraging results in the areas of marketing reform, market development, quality and efficiency improvements, operational innovation and brand building with great perseverance. All our operating performance indicators advanced significantly over the previous year, with sales revenue increasing by 22.6% to a record high of RMB3.95 billion for the year. Earnings per share also increased by 29.7% over last year to RMB96 cents.

TCM formula granules continued to be the locomotive of the Group's business growth during the year with sales surpassing RMB1.1 billion, up 59.3% from last year. This makes us ranked among the top five listed companies in the TCM formula granules industry across the country in terms of sales revenue. The Group owns a number of intellectual property rights and invention patents in respect of TCM formula granules and had undertaken many relevant national and provincial scientific research projects over the years. The Group was also one of the participants on establishing national standards for TCM formula granules. During the year, our "Research on the Intelligent Manufacturing and Quality Control of Traditional Chinese Medicine Formula Granules" received the "Second Prize for Scientific and Technological Progress of China Association of Chinese Medicine in 2022". As the market opens up, the use of TCM formula granules is extending from hospitals of class two and above of traditional Chinese medicine to all eligible medical institutions. The "14th Five-Year Plan for the Development of Traditional Chinese Medicine" encourages medical institutions at all levels to provide TCM services. With the gradual increase in the number of TCM formula granules of national standard varieties, prescription demand of medical institutions will be addressed more comprehensively, and the market scale of TCM formula granules will continue to expand. As of the end of 2022, the Group's TCM formula granules were made available for online procurements in 2 capital municipalities and 13 provinces. In 2023, the Group will prioritize our expansion to the national market of TCM formula granules steadily based on the strategy of "further exploring Hebei market, expanding its market share in Yunnan, developing the markets in four provinces, and increasing our presence in grass-roots medical institutions".

The Group has been always strengthening evidence-based medical research and academic promotion, providing strong academic support for our products. At the same time, the Group actively expanded our end-to-end coverage and marketing investment by entering more retail pharmacies and target hospitals. This, coupled with the government's supportive policies on revitalizing traditional Chinese medicine, drove the continuous growth of the Group's respiratory medications Qing Kai Ling Injection and

Qing Kai Ling Soft Capsule, and exclusive oral products such as Huamoyan Granule, Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Soft Capsule, driving a notable increase of 6.3%, 24.5% and 18.1% in the overall sales revenue of injections, soft capsules and granules respectively during the year.

The Group is committed to inventing exclusive products through in-house research and development. The development progress of the Group's new TCM in Phase III clinical studies was affected during the pandemic. As the pandemic is now under control, the Group is stepping up our pace to ensure that clinical trials of new drugs in pipeline can be completed by the target dates, so as to create another growth drive for the coming year. The Group is also working on a series of projects such as "Creation and Industrialization of Classical Prescriptions in the Forms of Modern Chinese Medicines", "Modern Chinese Medicine Extraction Capacity Enhancement and Expansion Project" and "Modern Chinese Medicine Advanced Manufacturing Technology Standard Enhancement and Industrialization" now to enhance our core competitiveness. In the coming year, we will further enhance the processing capability of Chinese medicinal herbs and continue to expand the production capacity of various dosage forms, in a bid to prepare for the opportunities brought by the "14th Five-Year Plan for the Development of Traditional Chinese Medicine".

The year 2023 is the time for the Group to leap forward on its development as the opening up of the national market for TCM formula granules and the pharmaceutical industry reforms will generate new opportunities and challenges. The Group will accelerate our strategic transformation and upgrade through innovations. We will invest intensively on technology to promote the digital transformation of marketing and to strengthen operating quality and terminal construction furiously, thereby to further advancing innovation in operation and strengthen the capability of mitigating market risks, with the aim to enhancing core competitiveness of the Group accordingly. Moreover, the Group will elevate our levels of automation, digitalization, and intelligence comprehensively, through which to enable our acceleration on the market deployment of TCM formula granules in other provinces and cities. Furthermore, we are committed to drive our growth of new businesses such as health supplements, e-commerce and Internet hospital, in hope to achieve a leap in both operating effectiveness and efficiency.

On behalf of the Board, I would like to express my heartfelt appreciation again to the management team and all staff personnel for their hard work amid the extremely challenging environment last year. They joined hands and worked hard to protect the health of the people. They worked tirelessly with overtime on production lines to ensure adequate medication supply for the needed, while making every effort on fighting against the COVID-19 pandemic. They had also actively shouldered the responsibility of ensuring medication supply for the society, and achieved excellent results with resolute actions. Let us continue to work hard together to contribute toward the future of our society and people's health.

**Li Zhenjiang**

*Chairman of the Board*

Hong Kong, 30 March 2023

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results Highlights

The country's "14th Five-Year Plan" explicitly calls for vigorous development of Traditional Chinese Medicine ("TCM"), comprehensively promote the construction of healthy China, and propel the high-quality development of TCM and the industry. Facing with the development opportunities of TCM and difficulties and challenges arising from the COVID-19 pandemic during 2022, the Group moved towards its established goals by making all-out effort to strengthen its end-to-end coverage of hospitals and pharmacies and enhance academic marketing across the board, and achieved a series of superb results. This year also saw the business of TCM formula granules surpassed a new high, while sales of our respiratory system medications and exclusive oral products reported rapid increases, resulting in historical new high of our sales revenue and a notable growth in profits.

For the year of 2022, the overall sales of the Group reached RMB3,950,636,000, representing an increase of 22.6% as compared to last year. Net profit was RMB722,773,000, representing an increase of 29.8% as compared to last year, with sales of all dosage forms surging. Among them, sales of TCM formula granules went up by 59.3%.

The Group's gross profit margin was 74.4% in 2022, which was about the same as compared to 74.8% of last year. Net profit margin increased from 17.3% in last year to 18.3%, with earnings per share increased by 29.7% to RMB96 cents as compared to last year.

During the year, the Group generated net cash from operating activities of RMB1,109,676,000. We have no bank borrowings and incurred capital expenditures such as construction of factory's and production line as well as purchasing equipment totalling RMB129,463,000. As such our group's free cash flow for the year of 2022 amounted to RMB980,213,000, which was equivalent to RMB1.19 per share.

After considering the dividend policy, the Board decided to declare the first interim dividend of 2023 amounting to RMB31 cents per share. Together with the 2022 second interim dividend amounting to RMB11 cents per share paid in September 2022, the total dividend relating to the profit for the financial year 2022 amounted to RMB42 cents, representing a dividend payout ratio of 43.8%.

As of 31 December 2022, as calculated based on the total issued shares of 827,000,000, net cash per share of the Group amounted to HK\$6.87, and net assets per share amounted to HK\$8.72.

## Oral Products Continued to be the Key Growth Drivers

The Group continued to focus on the development strategy of expanding oral products in 2022. Overall sales of oral products had increased by 34.1% year on year. The table below shows the sales and growth rates of each dosage form in 2022 as compared to last year:

	Year-on-year growth rate in 2022			RMB'000	
	First half	Second half	Full year	Full year sales	Percentage of sales
Injections	9.7%	3.2%	6.3%	1,423,254	36.0%
Soft capsules	7.6%	46.8%	24.5%	603,755	15.3%
Granules	8.2%	26.2%	18.1%	630,248	16.0%
TCM formula granules	46.0%	70.8%	59.3%	1,102,958	27.9%
Others	13.5%	6.4%	9.8%	190,421	4.8%
Oral products	<u>21.7%</u>	<u>46.0%</u>	<u>34.1%</u>	<u>2,527,382</u>	<u>64.0%</u>
Total	<u>16.8%</u>	<u>27.9%</u>	<u>22.6%</u>	<u>3,950,636</u>	<u>100.0%</u>

In 2022, facing the challenges for production and operations derived from the recurrence of COVID-19 pandemic, the Group implemented our strategic plans steadily on optimizing our sales models as well as continued to comprehensively enhance end-to-end coverage and investments in academic promotion, so as to facilitate the stable development of all business lines. Each dosage form of products including injections, soft capsules, granules and TCM formula granules achieved growth, and their respective overall sales increased by 6.3%, 24.5%, 18.1% and 59.3% as compared with last year. The proportion of oral products sales now reached 64.0% of the Group's overall sales.

In early 2022, due to the pandemic outbreaks, the so-called "four types of medications", i.e. febrifuge, cough suppressants, antivirals and antibiotics, was limited or prohibited for sale by online and offline retail pharmacies in many places across the country. Therefore, soft capsule and granule products had not achieved a higher magnitude of overall growth in the first half of the year. Subsequently, restrictions for their sale were lifted in early May. The growth momentum of soft capsule and granule products became significant in the second half of the year. Among which, sales of Qing Kai Ling Soft Capsule, the Group's exclusive respiratory system oral medication which was recommended in the national "Diagnosis and Treatment Program for Influenza" for several times, increased by 18.8% in the first half of the year and 154.4% in the second half, with full year sales up by 79.8% to RMB81,770,000. In addition, the sales of Huo Xiang Zheng Qi Soft Capsule turned from a decrease of 13.5% in the first half of the year to an increase of 208.3% in the second half, with full year sales up by 39.9% to RMB151,860,000.

For granule products, as driven by the Group's exclusive oral products such as Huamoyan Granule and Qi Huang Tong Mi Granule, the overall sales of granules recorded a significant increase.

Meanwhile, the Group's sales of injection products continued to grow steadily in 2022, with a total sales increased by 6.3% to RMB1,423,254,000 for the year. Injection products currently accounted for only 36.0% of the Group's total sales. The growth rate of the injection products slowed down in the second half of 2022, mainly due to the high base of the Group's two medications for cardiovascular, namely Shen Mai Injection and Shu Xie Ning Injection, as a result of the centralized procurement in the second half of 2021 and the lag in the actual procurement time of the centralized procurement in 2022. With the slowdown of the use of medications for cardiovascular in the graded hospitals and grass-root medical institutions due to the COVID-19 pandemic, the sales revenue of these two products decreased by 7.6% and 18.8%, with sales of RMB186,824,000 and RMB207,114,000, respectively during the year. On the other hand, Qing Kai Ling Injection, a respiratory system medication, recorded sales of RMB485,897,000, an increase of 45.4% for the Year.

### **Sales of TCM Formula Granules Surpassed RMB1.1 Billion**

TCM formula granules continued to develop rapidly in 2022 and recorded sales of RMB1,102,958,000 during the year, representing a significant increase of 59.3% as compared to last year and accounting for 27.9% of the Group's total sales. For the first two months of 2023, our TCM formula granules saw a 45.6% of growth in sales according to the latest unaudited data.

During the year, the Group had been generating sales revenue outside Hebei Province and Yunnan Province (the two provinces where productions occurred), with sales in the grass-root markets surged by 196.0% as compared to last year. The majority of the Group's sales of TCM formula granules in 2022 continued to come from Hebei Province, where sales increased by 49.0% during the year, while the Group's sales of TCM formula granules in Yunnan Province also increased by 84.0% as compared to last year.

Presently, the Group has completed all filings of the entire TCM formula granule varieties prescribed by their national standards as promulgated during 2022 for the market launch. The provincial filings were also completed for 29 provinces. The Group is now making every effort to speed up the filings with key provinces outside the Hebei Province for TCM formula granule varieties prescribed by their provincial standards. As of the end of 2022, the Group has completed the listing on the online procurement portals for TCM formula granules varieties complied with both the national and provincial quality standards in 2 municipalities including Beijing and Tianjin as well as 13 provinces including Hebei, Yunnan, Anhui, Fujian, Shandong, Gansu, and Inner Mongolia. In 2023, the Group's TCM formula granules business team will make every effort to accelerate the personnel deployments on national grade medical institutions and the grass-root markets, while continue to increase efforts to further develop the provinces of Hebei and Yunnan. Meanwhile, the Group will give priority to the market development in Beijing, Tianjin, Shandong and Anhui, and strive to achieve "five ensuring" encompassing of: ensuring that the registered production varieties meet the clinical requirements, ensuring product supply, ensuring product quality, ensuring the best sales incentive policy, and ensuring the best after-sales services.

During the year, the Group also completed the expansion of production capacity of TCM formula granules to an annual production value of RMB5 billion, laying a strong foundation for the Group to develop the TCM formula granule market in China. In the future, the Group will continue to implement its production capacity expansion based on market development status.

The rapid development of the Group's TCM formula granule business was attributable to the Group's adherence to academic promotion, scientific and technological innovation as well as product quality and safety over the years. The Group actively facilitated the academic promotion for all terminals especially on striving cooperation between hospitals and enterprises, so as to motivate the clinical application of TCM formula granules by medical institutions. During the year, the Group, together with Yunnan University of Chinese Medicine and TCM Hospital of Chuxiong Yi Autonomous Prefecture in Yunnan had jointly applied for a major special plan of science and technology named "Research on the Production Process, Quality System and Equivalence of Characteristic TCM Formula Granules in Yunnan Province Based on Standard Decoctions". With a focus on the specialty TCM in Yunnan Province, the project carries out effectiveness evaluation and achievement transformation in respect of the standard decoctions of formula granules, quality standards and production technology. Subsequently, the Group also held a kick-off meeting for "Comparative Study on the Efficacy of TCM Formula Granules and Clinical Decoctions in the Treatment of Acute and Chronic Eczema of the Skin". Working with experts and leaders of three hospitals, including TCM Hospital of Chuxiong Yi Autonomous Prefecture, Yunnan, TCM Hospital of Chuxiong and TCM Hospital of Nanhua County, the project carries out evidence-based medical research on the clinical application of TCM formula granules in related skin diseases. During the year, the "Research Project on Intelligent Manufacturing and Quality Control of TCM Formula Granules" of the Group also won the second prize of the Science and Technology Progress Award granted by the China Association of Chinese Medicine.

The liberalization of the national market will drive further expansion of the TCM formula granule industry. The use of TCM formula granules has been relaxed from class two and above TCM hospitals to all qualified medical institutions in China. With that, the sales channel is expected to expand from Chinese medicine hospitals as permitted in the pilot period to millions of medical institutions that can provide Chinese medicine services. Besides, many provinces have now included TCM formula granules into their health insurance schemes. According to the projections by a number of research institutes, the market size of TCM formula granules industry is expected to surpass RMB100 billion by 2025, which is almost several times of the presence.

After years of development, in term of sale revenue the Group has become the top five listed companies in the TCM formula granule industry nationwide. As one of the leading enterprises in the industry, the Group will seize the opportunities from the opening up of national market and grow steadily towards the goal of building a national network of TCM formula granules.

## **Rapid Growth of Exclusive Products**

During the year, the Group actively carried out its evidence-based medical researches on exclusive products and had increased investments in all terminal sales points as well as boosting academic promotion to market them. This drove rapid growth in the sales of exclusive products such as Huamoyan Granules, Qi Huang Tong Mi Soft Capsules, Jiang Zhi Tong Luo Soft Capsules and Dan Deng Tong Nao Capsules the Group.

Sales of Huamoyan Granules increased by 34.1% to RMB231,012,000 in 2022. Huamoyan Granules is the only innovative Chinese patent medicine for the treatment of synovitis approved by the State Food and Drug Administration at present, and it has been listed into the National Reimbursement Drug List and National Essential Drug List. It is mainly used for the treatment of osteoarthritis as osteoarthritis, rheumatoid arthritis, arthritis caused by sports injury, gouty arthritis and postoperative recovery of osteoarthritis. There is a large population suffering osteoarthritis, which represents a huge market potential. The number of patients with rheumatoid arthritis exceeds 50 million currently in China, with about 5 million new cases emerging each year. The choices of medicine for clinical treatment currently are rather limited (mainly oral non-steroidal anti-inflammatory analgesics). There is a big market potential for new clinical medication such as Huamoyan Granules as it is the only innovative drug for osteoarthritis that targets synovitis in China.

The sales of Qi Huang Tong Mi Soft Capsule recorded an increase of 45.8% to RMB68,359,000 in 2022. Qi Huang Tong Mi Soft Capsule has been included in the National Medical Insurance Drug List (2020 Edition) by the National Medical Insurance Bureau and also being listed in the Pharmacopoeia of the PRC in 2020. It is a new generation of modern Chinese medicine for the treatment of functional constipation. The product is efficient in curing senile constipation and habitual constipation, especially in the slow transmission type (deficient constipation) and mixed functional constipation. Qi Huang Tong Mi Soft Capsule can quickly relieve key symptoms such as dry stool, difficulty in defecation and loss in defecation frequency. After ceasing the intake for two weeks, the symptoms do not worsen. Hence, the effect is long-lasting and this successfully addresses the safety and efficacy problems of comparable generic drugs in the market. This product is indeed the only new generation of modern Chinese medicine on the market for treating functional constipation of the elderly that is laxative without causing diarrhea, while also being sustainable and effective.

The sales of Jiang Zhi Tong Luo Soft Capsule recorded an increase of 82.8% to RMB35,904,000 in 2022. Jiang Zhi Tong Luo Soft Capsule, an exclusive product developed by the Group, has been listed as a state protected Chinese medicine, a national key new product and a high-tech product. Clinical researches had proven that it is effective and safe in the treatment of hyperlipidemia. The product received a number of invention patents, and had won awards such as the First Prize of Scientific and Technological Advancement in the Pharmaceutical Industry of Hebei Province and the Scientific and Technological Advancement Award of the China Association of Chinese Medicine. In addition, it has been included in the National Medical Insurance Drug Reimbursement List (2020 Edition) by the National Healthcare Security Administration.



Dan Deng Tong Nao Capsule is an exclusive innovative ethnic medicine of the Group with national patents. It was included in the National Medical Insurance Drugs Reimbursement List (2020 Edition) by National Healthcare Security Administration and also being listed in the Chinese Pharmacopoeia in 2020. During 2022, its sales increased by 71.9% to RMB31,088,000. A number of clinical researches showed that Dan Deng Tong Nao Capsule is effective for the treatment of patients with cerebral ischemic stroke and TIA, transient ischemic attacks, migraine and other clinical diseases, as well as to treating acute cerebral infarction effectively and safely. Clinical Western medicines such as Antiplatelet currently plays a dominant role in treating cerebral ischemic strokes. But they may cause bleeding and other risks. Dan Deng Tong Nao Capsule is an exclusive and proved traditional Yi-Clan medicine prescription with anti-platelet and neuroprotective effects.

### **Vigorously Developing Ethnic Medicine Market**

In addition to Dan Deng Tong Nao Capsule, the Group continued to carry out market promotions for numerous ethnic medicines including Xiao Jie An Capsule (and Oral Liquid), Guan Tong Shu Capsule (and Oral Liquid), Run Yi Rong Capsule (and Oral Liquid), and Hawthorn Nei Jin Oral Liquid during the year.

Xiao Jie An Capsule (and Oral Liquid) is used for intramammary nodules caused by qi stagnation and blood stasis, breast lobular hyperplasia, ovarian cysts, and uterine fibroids. Hyperplasia of mammary glands, one of the most common diseases for women, has seen increasing incidence. Xiao Jie An Capsule is an effective drug for hyperplasia of mammary glands with proven effect.

Guan Tong Shu Capsule (and Oral Liquid) is used for joint pain caused by wind-cold-dampness arthralgia, unfavorable flexion and extension, as well as lumbar muscle strain and traumatic low back and leg pain.

Run Yi Rong Capsule (and Oral Liquid) is used for acne and chloasma caused by wind-heat. Hawthorn Nei Jin Oral Liquid is used for infantile malnutrition caused by indigestion, loss of appetite, abdominal distention and pain, indigestion, and defecation disorders.

The Group is actively fostering ethnic medicines to become another growth drives for in the coming year.

## **Research and Development of Innovative Drug is Under Steady Progress**

The Group's well established "Shineway Pharmaceutical Research Institute" possesses strong scientific research capability to provide a unique and innovative team for R&D of new medications. Currently, there is a total of 48 R&D personnel. With postdoctoral research workstation and academician workstation, the Shineway Pharmaceutical Research Institute has long-term scientific research cooperation with Tsinghua University, Peking University and China Academy of Chinese Medical Sciences. Currently, a number of research projects are being carried out pharmaceutical and clinical trials successively, among which three exclusive innovative drugs, such as Sailuotong Capsule, Q-B-Q-F Condensed Pill and JC Soft Capsule, are still undergoing phase III clinical trials. The progress of these clinical trials has inevitably been affected during the past three years of the pandemic. As the pandemic is under controlled, phase III clinical trials of innovative drugs in pipeline of the Group is now proceeding steadily.

The Group's key research initiative "Sailuotong Capsule", a modern compound TCM and developed for treatment of vascular dementia, is now under phase III clinical trials. Compared with traditional Chinese medicine, compound TCM originates from traditional medicinal materials and comes out with clear chemical composition and clear mechanism of action, which is consistent with clinical efficacy, marking a major breakthrough in the modernization of TCM. Dementia is the fourth leading cause of death after heart disease, cancer and stroke, while vascular dementia is the second most common cause of dementia following Alzheimer's disease. At present, there are no effective therapeutic drugs for dementia, and the drugs commonly used in clinical application can only delay the course of the disease and slow down the functional degeneration. According to a report released by the World Health Organization ("WHO"), the total number of people with dementia worldwide is expected to double every 20 years, reaching 65.7 million in 2030, with approximately 46% of them in Asia. Nearly 7.7 million new cases of dementia occur every year, or one new person every four seconds. With reference to the analysis in UK's report on dementia, the WHO report estimates the proportion of different subtypes of dementia, with Alzheimer's disease accounting for 41% and vascular dementia for 32%. Upon success on its research and development, Sailuotong Capsule will bring flush of dawn to dementia patients.

Q-B-Q-F Condensed Pill, for curing mycoplasma pneumonia in children, are currently at its Phase III clinical trial through the green channel. Mycoplasma has no cell wall. Therefore, the penicillin family of antibiotics that destroy cell wall synthesis are ineffective in this regard. Mycoplasma pneumoniae is a pathogenic microorganism differing from any bacteria or viruses. Mycoplasma pneumoniae due to infection of such bacterium has an incidence rate of pneumonia of 30%, ranking first among all types of atypical pneumonia. Mycoplasma pneumoniae is common among children and adolescents that it accounts for approximately 70% among pediatric community-acquired pneumonia. Clinical symptoms of mycoplasma pneumonia include severe intractable cough. Moreover, children with compromised immune system may have mixed infections induced, characterized by a number of chronic carriage of recurrent complications. At present, macrolides (including azithromycin), are generally mainly used in clinical treatment for mycoplasma pneumonia on children. Due to repeated clinical uses, resistance of these medications has increased significantly. A study conducted by National Natural Science Foundation shows that their drug resistant rate has reached 59.4%. Once drug resistance occurs, the disease may become untreatable. The entering of Q-B-Q-F Condensed Pill into the market will break the monopoly position of azithromycin for the treatment for mycoplasma pneumonia and ease the clinical dilemma where drug-resistant mycoplasma pneumoniae infection turning incurable.

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 exterior pathogen 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 exterior-releasing formula, but none of those in the market are available for exterior pathogen.

The Group is actively pursuing the research and development and registration of a number of classical Chinese medicine recipes in accordance with the national policy and aims to complete the registration and registration of the first batch of classical Chinese medicine recipes by the end of 2023.

### **Continual Promulgation of Supportive Policies and Regulations by the PRC Government to Revitalize Traditional Chinese Medicine**

During the COVID-19 pandemic, traditional Chinese medicine has become a mainstay of the country, accelerating the pace of inheritance and innovative development. The national support for TCM has been gradually transitioning from the top-level design of policies to the implementation stage. The revitalization of TCM has been pushed to new heights following the release of a series of major policies for the TCM sector to further support and promote the development of TCM with a focus on promoting the revitalization of TCM.

In March 2022, the General Office of the State Council issued the “14th Five-Year Plan for the Development of Traditional Chinese Medicine”. The key development targets include the increase in the number of TCM medical institutions from over 70,000 to over 90,000 and the number of Chinese medicine hospitals from over 5,000 to over 6,000, as well as the increase in the number and coverage of TCM physicians by 2025. Its overall requirements also include clearly adhering to the equal emphasis on traditional Chinese medicine and western medicine, promoting the complementary and coordinated development of traditional Chinese medicine and western medicine, and providing strong support for comprehensively promoting the construction of a healthy China and better protecting people’s health.

In early June 2022, the National Administration of Traditional Chinese Medicine also issued the “Notice on the Development Plan for Promoting the High-quality Integration of Traditional Chinese Medicine and the Joint Construction of the Belt and Road Initiative (2021-2025)”, which stipulates the focus on the heritage and innovative development of TCM with promoting the modernization, industrialization and globalization of TCM as development goals.

In the same month, the Expert Advisory Committee for Strategic Decision Making of Traditional Chinese Medicine Management was established by National Medical Products Administration to further build and improve the review and approval systems in line with the characteristics of TCM to ensure and promote the scientific and authoritative levels of major decisions on the supervision of traditional Chinese medicine.

In February 2023, the General Office of the State Council issued “the Notice on the Implementation Plan of the Major Projects for the Revitalization and Development of Traditional Chinese Medicine”, which spells out the objectives, the tasks, the supporting measures and division of labor of eight major projects to be completed by 2025. Among which, it stipulated the establishment about 130 major TCM hospitals of the municipal level, with prominent TCM characteristics, significant curative effects and can become distinctive role models. In addition, grass-root medical and health institutions shall strengthen the progress on the construction of Chinese medical clinics, and to establish Chinese medical clinics in all community health service centers and township hospitals. The Implementation Plan also calls for following the “Internet + medical health” initiative, and measures shall be implemented to construct smart TCM hospitals, and actions shall be taken to promote TCM culture, and progressively build a number of TCM culture educational institutions that meet the national standards.

With the continuous elevation of the policy status on the development of TCM, the relevant policies has been gradually shifting from framework setting to actual implementation and refinement. Upon the outbreak of the COVID-19, the development of TCM has entered into a new stage. The unique value of TCM will escalate speedily with the change of people’s health concepts and medical models. The Group will certainly make our full efforts to contribute more to people’s health and social development.

## **Financial Analysis**

### ***Turnover***

In 2022, the Group recorded an increase in turnover of 22.6% from last year. Sales of injection products reached approximately RMB1,423,254,000, up approximately 6.3% as compared with 2021. Sales of injection products accounted for approximately 36.0% of the Group's turnover. Sales of soft capsule products were approximately RMB603,755,000, up approximately 24.5% from last year. Soft capsule products accounted for approximately 15.3% of the Group's turnover. Sales of granule products amounted to approximately RMB630,248,000, up approximately 18.1% from last year. Granule products accounted for 16.0% of the Group's turnover. Sales of TCM formula Granules were approximately RMB1,102,958,000, representing an increase of 59.3% from last year and accounting for 27.9% of the Group's turnover. Sales of the Group's products in other formats were approximately RMB190,421,000 which accounted for approximately 4.8% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers combined of the Group were 4.8% and 19.3% respectively of the Group's turnover for the year.

### ***Cost of Sales***

Cost of sales in 2022 was approximately RMB1,012,322,000 representing approximately 25.6% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 59.9% (2021: 58.7%), 16.4% (2021: 16.7%) and 23.7% (2021: 24.6%) of total cost of sales respectively.

### ***Gross Margin***

In 2022, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 74.2% (2021: 75.9%), 73.7% (2021: 71.2%), 77.3% (2021: 77.4%) and 74.8% (2021: 73.7%) respectively. Overall gross margin was 74.4% (2021: 74.8%).

### ***Other Income***

Other income mainly includes government subsidies of RMB106,379,000 (2021: RMB79,023,000). 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, interest income from structured deposits and investments in financial products of RMB92,357,000 (2021: RMB95,066,000), RMB74,000 (2021: Nil) and RMB6,668,000 (2021: RMB9,073,000) respectively.

### ***Other gains and losses***

In 2022, other gains and losses mainly comprised of net exchange loss arose from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars of approximately RMB8,515,000 (2021: RMB2,901,000).

### ***Impairment Losses on Financial Assets***

In 2022, respective impairment of RMB10,432,000 (2021: RMB5,424,000) and reversal of impairment of RMB1,604,000 (2021: impairment of RMB1,597,000) 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.

### ***Selling and Distribution Costs***

Selling and distribution costs comprise of advertising expenses, distribution and promotion expenses, wages of sales persons and other market promotion and development expenses. In 2022, the distribution costs increased by approximately 21.3% as compared to last year and accounted for approximately 46.0% of turnover in 2022 (2021: 46.5%). It was mainly due to the increase in market promotion expenses and salaries of sales staff of 25.0% and 25.9% respectively as compared to last year. Market promotion expenses and salaries of sales staff accounted for 36.6% (2021: 35.9%) and 4.3% (2021: 4.2%) of the Group's turnover respectively.

### ***Administrative Expenses and Research and Development Costs***

In 2022, administrative expenses increased by 9.1% as compared to last year, representing approximately 7.1% (2021: 8.0%) of the Group's turnover. The increase in administrative expenses was mainly attributable to rise in salaries of administrative staff in a range of 4% to 6% during the year. 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 1.4% and 1.9% of the Group's total turnover in 2022 respectively. Research and development expenses increased by approximately 4.2% from last year, accounted for approximately 3.0% (2021: 3.5%) of the Group's turnover in 2022.

### ***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% (2021: 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 2021 and 2022. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2022, the effective tax rate of the Group was 21.2% (2021: 22.7%).

### ***Profit for the Year***

The Group's profit attributable to shareholders of the Company for 2022 was RMB722,773,000, representing an increase of 29.8% from 2021. The increase in profit was mainly attributable to the increase in overall sales revenue of the Group of 22.6% and the overall improvement in the Group's operating results.

### ***Liquidity and Financial Resources***

As at 31 December 2022, bank balances and cash and structured deposits of the Group amounted to approximately RMB5,046,495,000 (2021: RMB4,205,722,000), of which approximately RMB4,831,946,000 (2021: RMB4,094,854,000) were denominated in RMB, others being equivalent to approximately RMB129,406,000, RMB81,618,000 and RMB3,525,000 (2021: RMB64,308,000, RMB43,307,000 and RMB3,253,000) 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.

## ***Property, Plant and Equipment***

As at 31 December 2022, property, plant and equipment amounted to approximately RMB1,216,937,000, decreased by approximately 2.8% 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 RMB80,915,000 in total, and there were also new additions to owned properties, plant and machineries, office equipment and motor vehicles of approximately RMB52,981,000 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 RMB109,407,000, RMB1,428,000, RMB1,187,000 and RMB1,941,000 as at 31 December 2022.

The depreciation of property, plant and equipment expenses for the year amounted to RMB166,784,000 (2021: RMB167,170,000).

## ***Intangible Assets***

Intangible assets represent patents and production licenses with finite useful lives. During the year, the amortisation of intangible assets was approximately RMB19,078,000.

## ***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 last year.

## **DIVIDENDS**

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 and resolved to declare the first interim dividend of RMB31 cents per share amounting to RMB234,174,000 in respect of the year ending 31 December 2023 which are calculated on the basis of 827,000,000 shares issued less 71,600,000 shares held for share award scheme as at 31 December 2022, which will be paid on 17 May 2023 to the shareholders whose names appear on the Company's register of members on 4 May 2023.

The above interim dividend will be payable in cash in Hong Kong dollars and will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:00 a.m. on 30 March 2023 (RMB1=HK\$1.140). Accordingly, the amount payable on 17 May 2023 will be HK\$0.353 per share.



## RESULTS

The Company is pleased to present the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2022 with comparative figures as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

		2022	2021
	NOTES	RMB'000	RMB'000
Revenue	3	3,950,636	3,223,550
Cost of sales		<u>(1,012,322)</u>	<u>(813,214)</u>
Gross profit		2,938,314	2,410,336
Other income		113,368	102,227
Investment income	4	99,099	104,139
Other gains and losses		(8,388)	(19,374)
Impairment losses on financial assets under expected credit loss model, net of reversal		(8,828)	(7,021)
Selling and distribution costs		(1,818,652)	(1,499,682)
Administrative expenses		(279,804)	(256,557)
Research and development costs		(117,454)	(112,711)
Finance costs		<u>(630)</u>	<u>(1,254)</u>
Profit before taxation	5	917,025	720,103
Taxation	6	<u>(194,252)</u>	<u>(163,429)</u>
Profit and total comprehensive income for the year		<u>722,773</u>	<u>556,674</u>
Earnings per share	8		
– Basic (RMB)		<u>96 cents</u>	<u>74 cents</u>
– Diluted (RMB)		<u>96 cents</u>	<u>74 cents</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		1,216,937	1,251,999
Intangible assets		47,348	66,426
Goodwill		165,956	165,956
Deferred tax assets		19,221	20,465
		<u>1,449,462</u>	<u>1,504,846</u>
Current assets			
Inventories		657,659	587,956
Trade receivables	9	673,380	424,457
Trade receivables backed by bank bills	9	301,682	400,726
Prepayments, deposits and other receivables		103,183	80,251
Structured deposits		20,230	—
Bank balances and cash		5,026,265	4,205,722
		<u>6,782,399</u>	<u>5,699,112</u>
Current liabilities			
Trade payables	10	308,540	228,620
Trade payables backed by bank bills	10	205	—
Other payables and accrued expenses		1,063,519	666,232
Contract liabilities		153,118	85,885
Lease liabilities		6,530	7,587
Amounts due to related companies		13,784	13,784
Deferred income		12,103	31,167
Tax payable		107,794	65,096
		<u>1,665,593</u>	<u>1,098,371</u>
Net current assets		<u>5,116,806</u>	<u>4,600,741</u>
Total assets less current liabilities		<u>6,566,268</u>	<u>6,105,587</u>

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Non-current liabilities		
Lease liabilities	<b>912</b>	7,324
Deferred tax liabilities	<b>18,844</b>	25,188
Deferred income	<b>163,986</b>	171,594
	<u><b>183,742</b></u>	<u>204,106</u>
Net assets	<u><b>6,382,526</b></u>	<u>5,901,481</u>
Capital and reserves		
Share capital	<b>87,662</b>	87,662
Reserves	<b>6,294,864</b>	5,813,819
Total equity	<u><b>6,382,526</b></u>	<u>5,901,481</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

### 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 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 Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Amendments to IFRS Standards	<i>Annual Improvements to IFRS Standards 2018 – 2020</i>

The application of the amendments to IFRS Standards in the current year has 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.

## 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 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1	Non-current Liabilities with Covenants <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2024.

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 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.

### *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. 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:

	<b>2022</b>	2021
	<b><i>RMB’000</i></b>	<i>RMB’000</i>
Injections	<b>1,423,254</b>	1,339,241
Soft capsules	<b>603,755</b>	484,841
Granules	<b>630,248</b>	533,469
Traditional Chinese medicine formula granules	<b>1,102,958</b>	692,565
Others	<b>190,421</b>	173,434
	<b><u>3,950,636</u></b>	<u>3,223,550</u>

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.

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.

### 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 excluding deferred tax assets are located in the PRC including Hong Kong.

### Information about major customers

For each of the years ended 31 December 2022 and 2021, there was no customer with revenue accounted for more than 10% of the Group's total revenue.

## 4. INVESTMENT INCOME

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on bank deposits	92,357	95,066
Interest on structured deposits ( <i>note</i> )	74	–
Investment income from short-term financial products ( <i>note</i> )	–	337
Investment income from financial products ( <i>note</i> )	<u>6,668</u>	<u>8,736</u>
	<u><b>99,099</b></u>	<u>104,139</u>

*Note:* The structured deposits, financial products and short-term financial products are measured at fair value through profit or loss. The redemption amounts (including the return) of such products are linked to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the differences between initial investment amounts and redemptions amounts. In the opinion of the directors of the Company, 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.

## 5. PROFIT BEFORE TAXATION

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments	11,849	10,319
Other staff costs	371,024	338,868
Other staff's pension costs	39,963	34,780
Share-based payments expense for other staff	—	34
	<u>422,836</u>	<u>384,001</u>
Less: Capitalised in inventories	<u>(134,389)</u>	<u>(125,952)</u>
	<u>288,447</u>	<u>258,049</u>
Depreciation of property, plant and equipment	166,784	167,170
Amortisation of intangible assets	<u>19,078</u>	<u>15,216</u>
Total depreciation and amortisation	185,862	182,386
Less: Capitalised in inventories	<u>(127,176)</u>	<u>(118,725)</u>
	<u>58,686</u>	<u>63,661</u>
Auditor's remuneration	2,336	2,116
Cost of inventories recognised as an expense (included in cost of sales)	1,012,322	813,214
(Gain) loss on disposal and written off of property, plant and equipment (included in other gains and losses)	(127)	18,173
Gain on early termination of lease contracts	(67)	—
Net exchange losses (included in other gains and losses)	8,515	2,901
Gain on disposal of a subsidiary (included in other gains and losses)	—	(1,700)
Government subsidies (included in other income) ( <i>note</i> )	<u>(106,379)</u>	<u>(79,023)</u>

*Note:* The government subsidies represent the amounts received from the local government by the subsidiaries of the Company.

During the year ended 31 December 2022, government subsidies of (a) RMB76,040,000 (2021: RMB53,890,000) 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) RMB30,339,000 (2021: RMB10,079,000) represent recognition of deferred income upon completion of related research activities and development projects; and (c) nil (2021: RMB15,054,000) represented recognition of deferred income in relation to disposal of property, plant and equipment in 邛崃醫藥產業園 (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.



## 6. TAXATION

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
The charge comprises:		
PRC Enterprise Income Tax (“EIT”):		
Current tax	187,123	146,304
Overprovision in prior years	(8,121)	(9,616)
Withholding tax on distributed profits	<u>20,350</u>	<u>12,250</u>
	199,352	148,938
Deferred tax	<u>(5,100)</u>	<u>14,491</u>
	<u><u>194,252</u></u>	<u><u>163,429</u></u>

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 the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The State Taxation Administration announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses as Super Deduction from 1 January 2018 to 31 December 2020, which was announced in March 2021 to be further extended to 31 December 2023. In September 2022, the State Taxation Administration further announced that these entities would be entitled to claim 200% of their research and development expenses as Super Deduction for the period from 1 October 2022 to 31 December 2022. The Group made its best estimate for the Super Deduction to be claimed for the Group’s PRC subsidiaries in ascertaining their assessable profits for the years ended 31 December 2022 and 2021.

According to a joint circular of the State Taxation Administration, Cai Shui 2011 No. 1, PRC withholding income tax of 10% shall be levied on the dividend declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding company of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. Those immediate holding company of the Group's PRC subsidiaries were entitled to 5% withholding tax rate during the years ended 31 December 2022 and 2021.

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

	<b>2022</b> <b>RMB'000</b>	2021 <b>RMB'000</b>
Profit before taxation	<u><b>917,025</b></u>	<u>720,103</u>
Tax at the applicable tax rate of 25% (2021: 25%)	<b>229,256</b>	180,026
Tax effect of expenses not deductible for tax purposes	<b>74,697</b>	54,224
Tax effect of income not taxable for tax purposes	<b>(4,979)</b>	(5,481)
Tax effect of tax losses not recognised	<b>9,948</b>	15,016
Utilisation of tax losses previously not recognised	<b>(2,501)</b>	(2,840)
Income tax on concessionary rates	<b>(120,398)</b>	(94,156)
Withholding tax on distributed profits of subsidiaries operating in the PRC	<b>20,350</b>	12,250
Withholding tax on undistributed profits of subsidiaries operating in the PRC	<b>(4,000)</b>	14,000
Overprovision in prior years	<b>(8,121)</b>	(9,616)
Others	<u>–</u>	<u>6</u>
Taxation charge for the year	<u><b>194,252</b></u>	<u>163,429</u>

## 7. DIVIDENDS

	<b>2022</b> <b>RMB'000</b>	2021 <b>RMB'000</b>
Dividends recognised as distributions during the year:		
– 2020 final dividend of RMB21 cents per share	–	158,466
– 2021 interim dividend of RMB39 cents per share	–	294,606
– 2022 first interim dividend of RMB21 cents per share	<b>158,634</b>	–
– 2022 second interim dividend of RMB11 cents per share	<b>83,094</b>	–
	<u><b>241,728</b></u>	<u>453,072</u>

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Dividends declared subsequent to the reporting period:		
– 2022 first interim dividend of RMB21 cents per share	–	158,634
– 2023 first interim dividend of RMB31 cents per share	<u>234,174</u>	<u>–</u>
	<u>234,174</u>	<u>158,634</u>

The 2023 first interim dividend of RMB31 cents per share, in the amount of an aggregate of RMB234,174,000, has been declared by the directors of the Company on 30 March 2023 and will be paid out on 17 May 2023, to the shareholders of the Company whose names appear on the register of members of the Company on 4 May 2023. The aggregate amount of RMB234,174,000 (2021: RMB158,634,000) has been calculated on the basis of 827,000,000 (2021: 827,000,000) shares in issue less 71,600,000 (2021: 71,600,000) shares held for share award scheme as at 31 December 2022.

## 8. 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:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	<u>722,773</u>	<u>556,674</u>
	<b>Number of shares</b>	
	<b>2022</b>	<b>2021</b>
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic and diluted earnings per share	<u>755,400,000</u>	<u>755,141,096</u>

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 (2021: 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 years ended 31 December 2022 and 2021.

## 9. TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BANK BILLS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	699,065	439,710
Less: Allowance for expected credit loss (“ECL”)	<u>(25,685)</u>	<u>(15,253)</u>
	<u>673,380</u>	<u>424,457</u>
Trade receivables backed by bank bills	302,790	403,438
Less: Allowance for ECL	<u>(1,108)</u>	<u>(2,712)</u>
	<u>301,682</u>	<u>400,726</u>
	<u><u>975,062</u></u>	<u><u>825,183</u></u>

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

As at 1 January 2021, trade receivables and trade receivables backed by bank bills from contracts with customers amounted to RMB311,792,000 and RMB448,868,000, respectively.

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.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 6 months	811,052	739,996
Over 6 months but less than 1 year	117,855	65,569
Over 1 year but less than 2 years	40,546	17,574
More than 2 years	<u>5,609</u>	<u>2,044</u>
	<u><u>975,062</u></u>	<u><u>825,183</u></u>

## 10. TRADE PAYABLES AND TRADE PAYABLES BACKED BY BANK BILLS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	308,540	228,620
Trade payables backed by bank bills ( <i>Note</i> )	<u>205</u>	<u>—</u>
	<u><b>308,745</b></u>	<u><b>228,620</b></u>

*Note:* These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement of trade payables. The Group continues to recognise these trade payables as the Group is obliged to make payments on due dates of the bills.

An aged analysis of the Group's trade payables presented based on invoice date at the end of the reporting period is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 6 months	298,906	221,939
Over 6 months but less than 1 year	3,793	2,661
Over 1 year but less than 2 years	2,363	573
Over 2 years but less than 3 years	254	719
Over 3 years	<u>3,429</u>	<u>2,728</u>
	<u><b>308,745</b></u>	<u><b>228,620</b></u>

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

## **OTHER INFORMATION**

### **ANNUAL GENERAL MEETING**

The forthcoming Annual General Meeting will be held on 30 May 2023 and the Notice of Annual General Meeting will be published and despatched in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in due course.

### **CLOSURE OF SHARE TRANSFER REGISTRATION**

The register of members of the Company will be closed from Wednesday, 3 May 2023 to Thursday, 4 May 2023 (both days inclusive) for the purpose of determining Shareholders’ entitlement to the 2023 first interim dividend, during which period no transfer of shares will be registered. In order to qualify for the first interim dividend for the year ending 31 December 2023, 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 Tuesday, 2 May 2023.

The register of members of the Company will be closed from Tuesday, 23 May 2023 to Tuesday, 30 May 2023, both days inclusive, for the purpose of determining Shareholders’ eligibility to attend, act and vote at the Annual General Meeting, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the Annual General Meeting, 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 for registration no later than 4:30 p.m. on Monday, 22 May 2023.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year ended 31 December 2022, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

### **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

Throughout the year ended 31 December 2022, 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 C.2.1 as described below.

The code provision C.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.

## **COMPLIANCE WITH MODEL CODE**

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 2022, they had complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the audited financial results of the Group for the year ended 31 December 2022.

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 30 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## **PUBLICATION OF FURTHER INFORMATION**

The annual report of the Company inclusive of the Directors' Report and Audited Consolidated Financial Statements for the year ended 31 December 2022 and Corporate Governance Report will be published on the Company's website ([www.shineway.com.hk](http://www.shineway.com.hk)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) in due course.

By Order of the Board  
**China Shineway Pharmaceutical Group Limited**  
**Li Zhenjiang**  
*Chairman*

Hong Kong, 30 March 2023

*As at the date of this announcement, the executive Directors are Mr. Li Zhenjiang, Ms. Xin Yunxia, Mr. Li Huimin and Mr. Liu Tiejun; the non-executive Director is Mr. Zhou Wencheng and the independent non-executive Directors are Ms. Cheng Li, Mr. Liu Shun Fai and Mr. Yew Yat On.*