康哲药业
CHINA MEDICAL SYSTEM

康哲®

2022 ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE: 867)

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling

Independent Non-Executive Directors

Mr. LEUNG Chong Shun
Ms. LUO Laura Ying
Mr. FUNG Ching Simon

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee

Mr. FUNG Ching Simon (Chairman)
Mr. LEUNG Chong Shun
Ms. LUO Laura Ying

Remuneration Committee

Mr. LEUNG Chong Shun (Chairman)
Ms. LUO Laura Ying
Mr. FUNG Ching Simon

Nomination Committee

Ms. LUO Laura Ying (Chairman)
Mr. LAM Kong
Mr. LEUNG Chong Shun
Mr. FUNG Ching Simon

Environmental, Social and Governance Committee

Ms. CHEN Yanling (Chairman)
Mr. LEUNG Chong Shun
Mr. FUNG Ching Simon

Auditors

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank Co., Ltd.
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

Unit 2106, 21/F
Island Place Tower
510 King's Road
North Point
Hong Kong

Principal Contact Address in the PRC

6F - 8F, Block B, Majialong Chuangxin Building
198 Daxin Road
Nanshan District
Shenzhen 518052
Guangdong Province
The PRC

Branch Share Registrar in Hong Kong

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

Stock Code

867

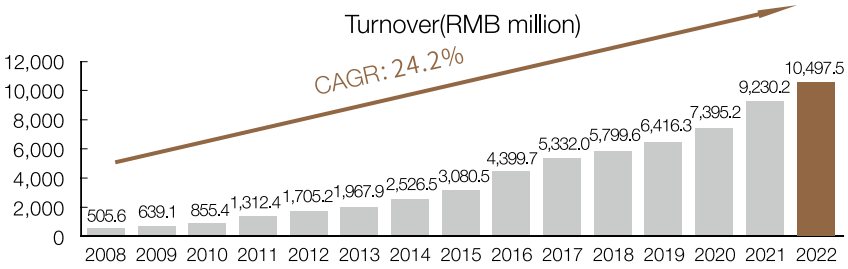
Company's Website

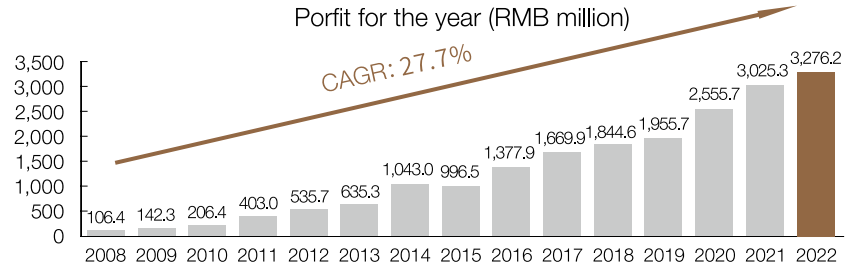
www.cms.net.cn

FINANCIAL HIGHLIGHTS

- Turnover up 9.8% to RMB9,150.3 million (2021: RMB8,337.2 million); in the case that all medicines were directly sold by the Group, turnover up 13.7% to RMB10,497.5 million (2021: RMB9,230.2 million)
- Gross profit up 12.6% to RMB7,035.8 million (2021: RMB6,246.9 million); in the case that all medicines were directly sold by the Group, gross profit up 14.4% to RMB6,910.5 million (2021: RMB6,039.2 million)
- Profit for the year up 8.3% to RMB3,276.2 million (2021: RMB3,025.3 million)
- Basic earnings per share up 8.6% to RMB1.3281 (2021: RMB1.2228)
- As at 31 December 2022, the Group's bank balances and cash amounted to RMB4,376.4 million while readily realizable bank acceptance bills amounted to RMB269.6 million
- Proposed final dividend of RMB0.2414 per share, bringing the total dividend for the year ended 31 December 2022 to RMB0.5344 per share, representing an increase of 8.8% over last year (2021: final dividend of RMB0.2269 and total dividend of RMB0.4910 per share)

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





Summary of Consolidated Statement of Financial Position

	As at 31 December				
	2018	2019	2020	2021	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	10,506,452	11,170,976	12,701,067	15,807,879	17,753,539
Total liabilities	2,102,377	1,654,844	1,598,352	2,960,892	3,016,462
Net assets	8,404,075	9,516,132	11,102,715	12,846,987	14,737,077

BUSINESS HIGHLIGHTS

During the Reporting Period, the Group maintained a steady growth, which was driven by its strong product competitiveness and commercialization capability. The Group continued to invest in innovation pipelines with differentiated advantages and accelerated the clinical development and registration of innovative products in China, 3 of which are soon to be approved for marketing. The independently operated dermatology and medical aesthetic business, ophthalmology business, and Southeast Asia business have made steady progress, where product layout and system construction have been continuously strengthened, bringing a broader growth potential for the Group.

Innovative Pipeline Continually Expanded

By joining hands with global innovation forces to continuously expand innovative pipeline that meet clinical needs, the Group has deployed 30 innovative products, mainly FIC and BIC, with differentiated advantages

- In December, collaborated with Incyte, a U.S.-based global biopharmaceutical company, and gained an exclusive license in China and 11 Southeast Asian countries for the development and commercialization of ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo
- In August, made equity investment in ETC, France, and gained an exclusive license in China and 11 Southeast Asian countries of EyeOP1® Glaucoma Treatment Device, an innovative ophthalmic medical device (including consumables) that has already been approved for marketing in China and some Southeast Asian countries
- In July, acquired the global assets of a class I innovative biological product VEGF/ANG2 tetravalent bispecific antibody, which is developed for ocular fundus neovascular diseases, from YZY Biopharma
- In March, entrusted a CRO for the customized development of CMS-D005, a class I innovative drug developed for the treatment of metabolic system related disease

Innovative Products R&D Proceeded Steadily in China

Relying on a scientific and efficient mechanism to manage the key stages of the entire life-cycle of innovative products, accelerated clinical development and registration related works

- Diazepam Nasal Spray, Tildrakizumab Solution for Injection, and Methotrexate Injection (psoriasis) were under NDA review, and the NDA of Methotrexate Injection was granted the priority review designation in January
- In April, Tildrakizumab Solution for Injection was approved for marketing in Hong Kong, China
- In December, Methylthioninium Chloride Enteric-coated Sustained-release Tablets has obtained positive results for its Phase III clinical trial, and its NDA was accepted in February 2023
- The Phase III clinical trials of Methotrexate Injection (RA) and Desidustat Tablets have completed their first subject dosing and progressed steadily

"CMS Aesthetics", Dermatology and Medical Aesthetic Business Has Taken Shape

The operation system and the talent team have been constructed gradually, and the product layout has taken shape with a key strategy to develop a product matrix consisting of full coverage of medicines for all dermatological diseases, dermatology-grade skincare products, and light medical aesthetic products

- The blockbusters in dermatological diseases: ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo; Tildrakizumab Solution for Injection targeting IL-23 is about to be approved for marketing soon; Both products will synergize with the marketed exclusive products, Hirudoid and Aethoxysklerol
- Dermatology-grade Skincare Products: acquired 60% equity interest of Heling, a R&D platform of dermatology-grade skincare products, and obtained Heling soothing product series that is a combination of cleansing and moisturizing, and suitable for sensitive skin; Heling will accelerate the product portfolio expansion and iteration
- Mainstream products in the field of light medical aesthetics: gained an exclusive license of the Korean type A botulinum toxin, which has a comparable efficacy and safety to Botox®, in Mainland China, Hong Kong, and Macao, and it will synergize with the marketed Korean hyaluronic acid product, Vmonalisa
- Focused ultrasound technology R&D platform: FUBA 5200 Focused Ultrasound Body Contouring System has obtained several patents authorization in China, and the subject enrollment of its clinical trial has kicked off

"CMS Vision", Ophthalmology Business Achieved Major Progress

The independent operation system has been improved, and the product portfolio has been broadened into ophthalmic medical devices and consumables from ophthalmic prescription medicines, while gradually strengthening commercialization capability for medicines and devices

- Obtained an exclusive license of the innovative medical devices (including consumables) EyeOP1® Glaucoma Treatment Device, which has already been approved for marketing in China and some Southeast Asian countries; It will synergize with the exclusive marketed product Augentropfen Stulln Mono Eye Drops
- Acquired the asset of the Class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody drug that was developed for the ocular fundus neovascular diseases

"Rxilient Health", Southeast Asia Business Advanced Progressively

Actively promoted the development of products that could meet the clinical needs in the Southeast Asian market with the aid of a competent and experienced local team, and progressively built a platform-based business structure that integrated product development, manufacturing, preparation CDMO, marketing and promotion

- Several innovative products of the Group have the Southeast Asian market rights: ruxolitinib cream, EyeOP1® Glaucoma Treatment Device; VEGF+ANG2 tetravalent bispecific antibody, CMS-D005; among them, EyeOP1® has already been approved for marketing in some Southeast Asian countries, it will synergize with Combizym, the marketed product of the Southeast Asia business
- Entered into an exclusive license of a wide range of quality and affordable insulin products with Tianmai Biotechnology, which is an initiative for insulin products of Mainland China to enter the Southeast Asian market

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

The year of 2022 has been an extraordinary one, marked by global stagflation caused by geopolitical tensions, interest rate hike, energy and climate crisis, and the ongoing pandemic. Facing the turbulent international environment, innovation has become the core development strategy. Only by taking a full perspective and establishing a bottom-line mindset with profound insights, can an enterprise comprehensively identify, assess and control risks, grasp the overall situation accurately, and travel crossing time cycles, to realize a steady growth.

The year 2022 marked the 30th anniversary of the establishment of China Medical System Holdings Co., Ltd. ("the Company"). Over the past 30 years, the values of innovation, integrity, pragmatism, perseverance, and win-win have become the core values of CMS. Throughout this journey, CMSers have stood at the forefront, adhering to doing the difficult yet right things and building a solid moat for the Company. In 2022, under the guidance of the innovative development strategy, the Company has made sustained efforts in various aspects such as product strength, commercialization capabilities, and refined management systems, and once again achieved satisfactory operating performance. On behalf of the Board of Directors of the Company (the "Board of Directors" or the "Board"), I would like to express my heartfelt gratitude to all employees, shareholders, and partners, and gladly present the Annual Report of the Company and its subsidiaries (the "Group" or "CMS") for the year ended 31 December 2022 (the "Reporting Period").

Succeed in the New Era with Innovative Strategies

China's pharmaceutical industry is in a critical period of the transition from old to new driving forces and reshaping competition patterns. To be part of this historical momentum, walking the path of justice, yet achieving success with innovation is the mission bestowed to CMS. Since 2018, CMS has shifted its product strategy from deploying original mature-products to innovative patented products. After 5 years of products investment and R&D efforts, CMS has become a platform company linking pharmaceutical innovation and commercialization with strong product lifecycle management capability, and it is expected to launch a number of innovative products soon.

Adapt to everchanging environment to achieve innovative results

Innovative R&D is the core proposition of the pharmaceutical industry, and biotechnology innovation is scattered, which means that, at the drug R&D stage before POC (proof of concept), the more focused the biotechnology companies are, the higher the innovation efficiency will be. CMS focuses on the specialty therapeutic fields, and needs a continuous supply of finer and wider source of innovation. Proven in decades of practices, we understand that our core strengths are strong commercialization capabilities, scale-efficient clinical resources, and unique product evaluation and investment capability on which we capitalized to collaborate extensively with global innovation forces, and clearly defined our innovative research strategy centering on "collaborative R&D and investment". We are responsible for clinical development, registration and commercialization, and our partners are responsible for preclinical research or overseas market R&D. Together, we exert respective strengths and collaborate to improve the efficiency of innovation with a win-win mentality.

The commercialization capability is the foundation of our innovative transformation and what sets us apart from our peers. Under the "collaborative R&D and investment" strategy, we leverage our commercialization ascendancy to guide the project establishment, rely on expert resources to unearth first-line needs, and gain full insights into exploring unmet clinical needs. The Group joins hands with global innovation forces to build a "laboratory without walls", and forms a CMS R&D ecosystem featuring "empowerment, partnership, sharing, and win-win" mindsets, so as to continuously supply innovative products with academic and commercial competitive edges to meet clinical needs.

We control the key nodes of innovative R&D, and efficiently promote clinical development process and trial enrollment of innovative products. It is expected that our innovative pipeline products will be approved for commercialized each and every year. Our growing innovation potential provides strong growth momentum for our subsequent business development.

Expanding the depth and breadth of our business

Commercialization capability is our core competitiveness. We have constantly iterated a compliant, efficient, refined, and digitalized management system, and built several business divisions with highly professional, confident, and self-motivated commercialization teams. While maintaining our core competitiveness in the fields of cardio-cerebrovascular and gastroenterology prescription medicines, we have been developing in depth and breadth into the specialty therapeutic fields such as dermatology and ophthalmology, and extending into related fields of medical aesthetics, ophthalmology devices and consumables. We continue to "go deeper and expand further" to add new momentum to the Group's steady growth.

Upholding its original aspiration of "using medical thinking to promote in-depth study of dermatology and aesthetics", CMS's dermatology and medical aesthetics business division CMS Aesthetics strives to deploy innovative products matrix covering all dermatological diseases, adopts a scientific mindset to deploy medical aesthetic product matrix of dermatology grade skincare products, light medical aesthetic products, etc., and builds brand value with a focus on customers, to meet diverse needs of patients for dermatological treatment, health, and beauty.

Through the independent operation, CMS' ophthalmology business division, "CMS Vision", has formed a product portfolio covering ophthalmic prescription medicines, medical devices and consumables, and continued to deploy products of innovative medicines and devices covering the entire field of ophthalmology. In the meantime, it continues to strengthen the commercialization capability of ophthalmic medicines and devices.

International strategy creating the second growth curve

Our 30 years of global investment, acquisition experience and proven commercialization capabilities are the cornerstone for our international development. As an emerging economy with great potential, the Southeast Asian market has a higher economic growth rate, considerable demographic dividends and a series of favorable industry policies. It has a huge demand for quality and cost-effective pharmaceutical products, and has become one of the most promising markets for the global biopharmaceutical development.

Independently operated by a professional and experienced local management team, CMS' Southeast Asia business division, Rxilient Health is gradually building a systematic and platform-based operation system integrating "innovative R&D, manufacturing, preparation CDMO, marketing and promotion". Rxilient Health has already possessed the Group's existing products that have Southeast Asian rights. At the same time, it actively explored potential products development collaboration opportunities with biotechnology companies or pharmaceutical companies in Europe, America, Japan, and China to accelerate the commercialization process, opening up a new second growth curve for the Group.

Being a Socially Responsible Corporate Citizen

The pharmaceutical industry is closely related to life and health of the people, and is one of the most important industries in the nation. The unique nature of the industry determines that fulfilling social responsibility is our natural mission. Committed to being a corporate citizen who bears social responsibilities, CMS has developed high-quality, cost-effective, and differentiated products that can meet unmet clinical needs. Meanwhile, we have been actively supporting community and industry welfare programs, and major public emergencies, to take responsibility for the sustainable development of society.

With the sustainable development vision of "committed to becoming the world's leading sustainable pharmaceutical enterprise", the Group strives to promote the deep integration of ESG governance and the Group's development strategies. We have reviewed and optimized our long-term corporate strategies around ESG topics such as healthcare accessibility, employee growth, responsible operation and environmental protection, etc., to promote the healthy, harmonious, and sustainable development of the society and environment.

Forging Ahead into a Promising Future

With a firm developmental goal and continuous innovation, the Group has ushered into a new historical opportunity. We will continue to be pragmatic, innovative and enterprising, adhering to the principle of compliance first, to deeply engage in specialty therapeutic fields and international developmental strategy. CMS will adhere to its developmental strategy of being a platform that links pharmaceutical innovation with commercialization, continue to provide quality medicines for patients, create more returns for our shareholders, and contribute more values to the society.

Chairman
Lam Kong
Hong Kong, China
16 March 2023

Company Overview

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

The Group has been deeply engaged in the pharmaceutical market for 30 years with proven commercialization capabilities. Based on profound market understanding and insights, expert resources in multiple specialty fields, as well as extensive network coverage, combined with its foresight on industry trends, the Group is able to locate differentiated innovative products with academic value, competitiveness, and commercial prospects. Leveraging on the resource advantages, the Group has formed innovation strategies centered on "collaborative R&D and investment" to empower the planning of innovative projects, and efficiently promoted the clinical development and commercialization of innovative products through the scientific and effective management system covering key stages of the product lifecycle. Meanwhile, the Group has deeply engaged in industry-academy-research collaboration, with the supports of research facilities and strengthened R&D capability and overall process management of innovative research, it fully involved in target selection and research path planning to customize the development of in-house innovative products. The Group has successfully built an innovative pipeline of 30 early-, mid-, and late-phase innovative products with competitive advantages, among which 3 are about to launch in China to benefit more patients.

The Group focuses on specialty therapeutic fields, such as cardio-cerebrovascular, gastroenterology, central nervous system, dermatology and medical aesthetics, as well as ophthalmology, etc., and has established a resource-sharing commercialization system with compliance and efficiency, which has gained leading academic and market positions for its major marketed products. The Group deeply rooted in the specialty areas while expanding its business boundaries, and it has promoted the rapid growth of independently operated business divisions such as "CMS Aesthetics" and "CMS Vision", aiming to gain "leading positions in specialty markets". At the same time, the Group entered Southeast Asian market, to broaden the breadth and depth of its business, and escorted its sustainable and healthy development under an appropriately-diverse business structure with scale-effect.

Business Review

During the Reporting Period, while continuing to acquire more innovative products and accelerating products' clinical development and registration, the Group strengthened the brand influences of its marketed products and further improved operation efficiency of its commercialization platform, and has achieved steady performance growth with several professional, self-driven, and dedicated commercialization teams. During the Reporting Period, the Group recorded a turnover of RMB9,150.3 million (2021: RMB8,337.2 million), representing an increase of 9.8% over the same period last year; in the case that all medicines were directly sold by the Group, the turnover would increase by 13.7% to RMB10,497.5 million (2021: RMB9,230.2 million). Profit for the year reached RMB3,276.2 million (2021: RMB3,025.3 million), representing an increase of 8.3% year on year.

I.Innovative R&D

The Group keeps up with the development trend of the pharmaceutical industry to locate the unmet clinical needs, and joins hands with global innovation forces to continuously expand its innovative pipeline with differentiated advantages. Under such collaboration models as equity investment, strategic collaboration, and customized development, the Group is responsible for the clinical development, registration, and commercialization of innovative products in China and other authorized regions, and its partners are responsible for preclinical research or clinical trial overseas. All parties in the collaboration could make the most of respective strengths and improve the innovative R&D efficiency, thus building a pharmaceutical innovation ecosystem in a collaborative and mutually beneficial setting.

The Group has formed a scientific and systematic mechanism to manage the entire development process of innovative products. Based on its standard product development system with scale effect, the Group plans the innovation strategy with a global insight, and involves multiple departments to conduct precise product evaluation. At the same time, the Group continuously improved its in-house clinical development system that covers medical and clinical research, pharmacovigilance, and quality assurance, and paid close attention to the medical strategies planning, clinical operations, product safety risk control, etc., to fully guarantee the clinical development efficiency of innovative products. Combining with the forward-looking analysis of the registration path, the Group fully escorts the innovative technologies transformation. Under the innovation model with CMS characteristics, featuring less average investment, shorter development cycle, and lower R&D risk, the Group has continuously supplied differentiated innovative products to each business divisions of specialty fields under its commercialization platform.

1. Continued expansion of innovative products

During the Reporting Period, the Group newly added 4 innovative products, including 1 innovative medical device that has already been approved for marketing in China and some Southeast Asian countries. As of 31 December 2022, the Group owned 30 innovative products, mainly first- or best-in-class covering multiple specialty therapeutic fields, including cardio-cerebrovascular, central nervous system, gastroenterology, ophthalmology, dermatology, medical aesthetic, etc.

1.1 Ruxolitinib cream - the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo

In December 2022, the Group entered into a Collaboration and License Agreement ("CLA") with Incyte ("Incyte"), a global biopharmaceutical company, for the development and commercialization of ruxolitinib cream. Under the CLA, CMS gained an exclusive license to develop and commercialize and a non-exclusive license to manufacture ruxolitinib cream, and potentially other future topical formulations of ruxolitinib, in autoimmune and inflammatory dermatologic diseases, including vitiligo and atopic dermatitis, for patients in mainland China, Hong Kong, Macau, Taiwan and certain countries in Southeast Asia. This collaboration will enrich the Group's dermatology product portfolio and leverage its in-depth development of treatments in the field of dermatologic diseases.

In July 2022, ruxolitinib cream was approved by the U.S. Food and Drug Administration (FDA) for the topical treatment of nonsegmental vitiligo in adults and pediatric patients aged 12 years of age and older. Two pivotal clinical studies showed that after 24 weeks of treatment, compared with vehicle, the facial and total body repigmentation of patients treated with ruxolitinib cream was significantly improved, and 52-week data showed continuous improvement in repigmentation with the extension of treatment.

Previously, ruxolitinib cream was approved by the FDA in September 2021 for the topical short-term and non-continuous chronic treatment of mild to moderate atopic dermatitis (AD) in non-immunocompromised adult and pediatric patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies or when those therapies are not advisable. Two pivotal studies showed that treatment with ruxolitinib cream resulted in a significant proportion of patients who achieved the primary efficacy endpoint of clear or almost clear and a significant reduction in pruritus compared to the vehicle group.

Ruxolitinib cream is an innovative treatment which, if approved in China and 11 Southeast Asian countries in accordance with all relevant regulatory requirements, will offer a new treatment option to non-segmental vitiligo and mild to moderate AD patients in those areas.

1.2 EyeOP1® Ultrasound Glaucoma Treatment Device - Ultrasound Cyclo Plasty (UCP), a simple, fast, safe and non-invasive treatment method for glaucoma

In August 2022, the Group entered into a License, Collaboration and Distribution Agreement with EYE TECH CARE ("ETC"), a medical company of France, for EyeOP1® ultrasound glaucoma treatment device; and (ii) made equity investment and acquired approximately 36.17% equity interest in ETC. The Group gained an exclusive license to import, export, develop, register, manufacture (subject to the terms and conditions as set out in the License Agreement) and commercialize the product in Mainland China, Hong Kong, Macao, Taiwan Region and the eleven Southeast Asian countries. This cooperation extends the ophthalmic product matrix from prescription drugs to devices and consumables, intensifying the deployment of the Group's ophthalmic portfolio.

The EyeOP1® Glaucoma Treatment Device was approved by the China National Medical Products Administration (NMPA) in 2017 as a Class III medical device for the treatment of glaucoma patients whose intraocular pressure cannot be controlled by drugs and surgery. It also obtained market approval in certain European and Southeast Asian countries. Its core technology is high-intensity focused ultrasound (HIFU), which has the characteristics of precise targeting of the ciliary epithelial area and precise temperature control. The surgical method of the product is called UCP, and the treatment process can be controlled within 5 minutes, reducing the pain and recovery time of patients. UCP has treated more than 20,000 patients worldwide, with an average reduction in intraocular pressure of 30% to 35% within 12 months after surgery and a success rate of 70% to 80% within 12 to 18 months after surgery. After repeated treatment, the success rate increased to more than 85% with good tolerance and safety. At present, the surgical methods for reducing intraocular pressure have the disadvantages of high recurrence rate, obvious surgical side effects or complicated operation and this product is expected to become an innovative and preferred surgical treatment for patients with glaucoma.

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

July 2022, the Group entered into an Asset Transfer Agreement with Wuhan YZY Biopharma Co., Ltd, ("YZY Biopharma") a biopharmaceutical company, to acquire the global assets related to VEGF/ANG2 tetravalent bispecific antibody for intravitreal injection (the "Bispecific Antibody Product"), including but not limited to (i) all necessary rights and assets to use, develop, register, manufacture, commissioned manufacture, sell, distribute, promote and commercialize the Bispecific Antibody Product in the Territory and (ii) all intellectual property and intellectual property rights relevant to the Bispecific Antibody Product owned or controlled by YZY Biopharma or its affiliates. The Bispecific Antibody Product will enrich the Group's innovative pipeline in the ocular fundus diseases treatment field, enhancing the competitiveness of the ophthalmology business.

VEGF/ANG2 Tetravalent Bispecific Antibody Product is a class I innovative biological product with a unique nanobody design for treatment of ocular fundus neovascular diseases, targeting VEGF (vascular endothelial growth factor) and ANG2 (angiopoietin 2), which effectively inhibits abnormal neovascularization and is in the preclinical stage. The Bispecific Antibody Product enjoys the advantages of high affinity, strong inhibitory activity, high preparation concentration, good stability and low dosing frequency. It can reduce the potential risks caused by frequent intravitreal injections that occur to the patients and improve medication compliance of patients, and will provide a safer and more effective treatment option for patients with ocular fundus neovascular diseases, possessing important clinical implications.

1.4 Customized development of Class I innovative drugs

In March 2022, the Group entrusted a CRO for the customized development of CMS-D005, a Class I innovative drug developed for the treatment of metabolic system related disease. According to the collaboration agreement, the Group owns the global intellectual property rights and related interests of CMS-D005, and the CRO is responsible for pre-clinical studies of the products until the product is granted approval for clinical trials from the NMPA. The Group is responsible for the clinical development and commercialization of the product.

2. Accelerated Clinical Development in China

During the Reporting Period, 3 innovative products were under marketing application technical review in China, among them, the New Drug Application (NDA) of 1 product was granted the priority review designation by the Center for Drug Evaluation (CDE). 1 innovative product obtained positive results from its bridging trials, and 2 products' bridging trials completed first subject dosing. 1 innovative product was approved for marketing in Hong Kong of China.

Diazepam Nasal Spray - an innovative medicine targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action (approved in the U.S.)

During the Reporting Period, the NDA of Diazepam Nasal Spray was under review by CDE in China, with the indication for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and older. The NDA is supported by its China bridging trial, which is a comparative pharmacokinetic (PK) study of diazepam spray and injection in healthy subjects with a total of 24 subjects enrolled. The study achieved the expected target and its result showed that the absorption of a single intranasal dose of Diazepam Nasal Spray was fast and complete, with bioavailability of diazepam and its active metabolite desmethyl diazepam reaching 77.55% and 80.13% respectively in the 15mg dose group, and 78.69% and 86.21% in the 20mg dose group. The product was also shown to be safe and well tolerated in healthy Chinese subjects.

Diazepam Nasal Spray is an intranasally administered, proprietary formulation of diazepam with relatively high bioavailability. Its formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which helps it to obtain unparalleled absorption, tolerability and reliability.

Tildrakizumab Solution for Injection - a monoclonal antibody specifically targeting IL-23 (approved in Hong Kong of China, the U.S., Europe, Australia, Japan, etc.)

In April 2022, Tildrakizumab Solution for Injection was approved for marketing in Hong Kong, China under the brand name of ILUMETRI, with the indication for the treatment of adults with moderate-to-severe plaque psoriasis who are candidates for systemic therapy. During the Reporting Period, the product's NDA in China was under review by CDE, which was supported by a randomized, double-blind, placebo-controlled, multi-center Phase III bridging trial in China, with 220 patients enrolled in total. The trial aims to evaluate the efficacy and safety of the product for treatment of Chinese patients with moderate-to-severe plaque psoriasis, and it has obtained positive results, with preliminary data showing the treatment of the product for 12 weeks significantly increased the proportion of subjects who have achieved at least 75% of improvement in psoriasis area and severity index (PASI 75) compared with placebo.

The results of extended research of Phase III clinical trial in China demonstrated that the product reached a plateau of efficacy at 28 weeks of treatment; At Week 52, the primary efficacy assessment indicator PASI 75 reached 91.3%, and it showed good long-term safety and tolerance.

Tildrakizumab Solution for Injection is a humanized IgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23 (IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. The product has the advantages of lower injection frequency and better patient compliance with good long-term efficacy and safety performance.

Methotrexate Injection

- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of psoriasis in China (approved in Europe)

During the Reporting Period, the NDA of Methotrexate Injection for the treatment of severe recalcitrant disabling psoriasis and other autoimmune diseases in China was under review by CDE. In January 2022, its NDA was granted priority review designation by the CDE. The product is a methotrexate (MTX) injection with multiple strengths in a small volume, expected to meet the basic treatment needs of psoriasis patients.

- expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China (approved in Europe)

During the Reporting Period, the China bridging trials of Methotrexate Injection was progressing steadily after completing first subject dosing. This study is a randomized, open, active-controlled, multi-center Phase III clinical trial, aiming to compare the efficacy and safety between the product and methotrexate tablets in the treatment of adult RA patients. With Peking Union Medical College Hospital, Chinese Academy of Medical Sciences being the leading hospital, the study is planned to enroll 140 subjects and will be conducted in around 17 sites nationwide.

MTX is internationally well accepted as the first-line gold standard and anchor medicine for the systemic treatment for RA, but there is currently no MTX pre-filled injection approved for the treatment of RA in China. The product is expected to address the gastrointestinal adverse effects of oral application of MTX and has advantages of relatively high bioavailability, improvement of clinical efficacious response, flexible dosage management and operation convenience, achieving a great balance of efficacy, safety, tolerability and compliance.

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

In February 2023, the NDA of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted by NMPA.

In December 2022, the product has obtained positive results for its Phase III clinical trial in China. The trial is a randomized, double-blind, placebo controlled, multi-center Phase III clinical trial, with 1,802 patients enrolled in total (only 6 months was taken), aiming to evaluate the efficacy of the product in improving the detection rate of histologically confirmed non-polypoid colorectal lesions in subjects undergoing colonoscopic screening or colonoscopic monitoring. The result of primary study endpoint of the clinical trial was the detection rate of non-polypoid colorectal lesions (the proportion of subjects with at least one histologically confirmed non-polypoid colorectal lesion) showed that it was 51% in the test group (the product was given) and 41.2% in the control group (placebo was given). The difference between the two groups was statistically significant ($P<0.0001$). The product significantly increased the detection rate of non-polypoid colorectal lesions, and the false positive was well controlled.

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

Desidustat Tablets - an oral HIF-PHI (approved in India)

During the Reporting Period, the Phase III China bridging trial of Desidustat Tablets was progressing steadily after completing the first subject dosing. The trial is randomized, double-blind, placebo controlled, multi-center clinical trial, aiming to evaluate the efficacy of Desidustat Tablets in the treatment of anemia caused by non-dialysis chronic kidney disease (CKD) based on changes in hemoglobin (Hb) level from baseline. With Peking Union Medical College Hospital, Chinese Academy of Medical Sciences being the leading hospital, the study is planned to enroll 150 subjects and will be conducted in around 28 sites nationwide.

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

PLENITY® - a safe and effective orally-administered weight management product made from naturally derived materials (approved in the U.S. and Europe)

During the Reporting Period, the marketing application of PLENITY® was under review by Center for Medical Device Evaluation (CMDE) in China. PLENITY® is used in combination with diet and exercise to aid in weight management in adults with a BMI of 25-40kg/m^2.

Based on proprietary hydrogel technology and made from two naturally derived materials, cellulose and citric acid, PLENITY® is an effective and safe, orally-administered, non-systemic and non-stimulant weight management product.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology (approved in the U.S., Australia and Canada)

During the Reporting Period, the Group actively communicated with its partner, Sun Pharmaceutical Industries Ltd. The product's Phase III bridging trial in China will be restarted when the new product batch for the clinical trial that meets our quality requirement is received.

Cyclosporine Eye Drops 0.09% is a nanotechnology-enabled formulation in clear solution, developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye). It uses a unique tiny structure called "micelle" as the vehicle to allow for greater tissue penetration and gentle side effect profile in a high concentration.

3.Innovative Pipeline

Launched Overseas or Under Overseas Marketing Application Review

Product	Rights Authorized Region***	Indication	Clinical Trial Approval	Clinical Trial for Registration	Marketing Application	Marketed	Major Marketed Regions			
							CN	US	EU	JP
Diazepam Nasal Spray		Intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older						✓		
Tildrakizumab Solution for Injection (Biological Agent)		Moderate-to-severe plaque psoriasis					✓ (HK)	✓	✓	✓
Methotrexate Injection		Severe recalcitrant disabling psoriasis and other autoimmune diseases							✓	
		Adult rheumatoid arthritis							✓	
Methylthioninium Chloride Enteric-coated Sustained-release Tablets*		An diagnostic agent to enhance visualisation of colorectal lesions in adult patients undergoing screening or surveillance colonoscopy							✓	
Desidustat Tablets		Anemia in patients with chronic kidney disease								
Cyclosporine Eye Drops 0.09%		Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)						✓		
PLENITY		An aid for weight management in adults with a BMI of 25-40 kg/m^2 when used in conjunction with diet and exercise						✓	✓	
Latanoprost Eye Drops		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						✓		
Ruxolitinib cream		Topical treatment of nonsegmental vitiligo in adults and pediatric patients aged 12 years of age and older						✓		
		Topical short-term and non-continuous chronic treatment of mild to moderate AD in non-immunocompromised adult and pediatric patients 12 years of age and older whose disease is not adequately controlled with topical prescription therapies or when those therapies are not advisable						✓		
Levetiracetam XR Tablet		Adjunctive therapy for the treatment of partial-onset seizures						✓		
BCG for Intravesical Instillation (Biological Agent)	**	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence							✓	
PoNS		Chronic balance deficit due to mild-to-moderate traumatic brain injury								

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

*In February 2023, the NDA of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted in China.
**Taiwan is not included in the rights authorized region of BCG for Intravesical Instillation
***CMS has NO development, commercialization and other related products' rights in any unauthorized region

Under R&D Stages

Product	Rights Authorized Region***	Indication	Pre-clinical	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Application
SDN-037		Eye pain and inflammation after cataract surgery						
PDP-716		Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension						
CF101		Psoriasis						
ACT017 (Biological Agent)		Acute phase of ischemic stroke						
CF102		Hepatocellular carcinoma						
		Non-alcoholic fatty liver disease / non-alcoholic steatohepatitis						
XF-73		Prevention of post-surgical staphylococcal infections						
		Infectious diseases						
BB2603		Onychomycosis and tinea pedis						
VXM01 (Biological Agent)		Recurrent glioblastoma						
VEGF/ANG2 Tetravalent Bispecific Antibody# (Biological Agent)		Intended to be used for ocular fundus neovascular diseases						
Fully Human Anti-SA HIα Antibody (Biological Agent)		Intended to be used to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially MRSA						
Fully Human Anti-HCMV Antibody (Biological Agent)		Intended to be used for prophylaxis of HCMV infection						
Fully Human Anti-COVID-19 Antibody (Biological Agent)		Intended to be used for prevention and treatment of COVID-19 infection						
Fully Human Anti-rabies Virus Antibody (Biological Agent)		Intended to be used for rapid passive immunization of patients bitten and scratched by rabies infected dogs or other animals susceptible to rabies infection						
CMS-D001		Autoimmune diseases						
CMS-D002		Gynecological diseases						
CMS-D003		Cardio-cerebrovascular diseases						
CMS-D004		Central nervous system diseases						
CMS-D005		Metabolic diseases						

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

#In February 2023, the IND application of VEGF/ANG2 Tetravalent Bispecific Antibody was accepted in China

***CMS has NO development, commercialization and other related products' rights in any unauthorized region

II. Commercialization System

As one of the core competitiveness of the Group, the commercialization capability is an important cornerstone for steady and sustainable business development, as well as a key carrier for achieving large-scale clinical application and economic return maximization of innovative products. With a focus on specialty therapeutic fields, the Group has gained proven success in market access, academic promotion, brand building, retail management, and government affairs over the past 30 years. By leveraging the highly qualified promotion team, extensive network coverage and expert resources, the Group continues to promote the scale development of its 3 major business divisions, including cardio-cerebrovascular and gastroenterology, dermatology and medical aesthetics, and ophthalmology. Through efficiently connecting and deploying innovation resources globally, the Group has continued to supply differentiated products to each business division and leveraged its commercialization platform, to achieve efficient transformation of product commercial value and continuous growth.

With academic value as the core and marketing strategy as the guide, the Group has been promoting post-marketing clinical studies for its marketed products to enrich the evidence-based medical evidence, while strengthening cross-regional and multi-level academic exchanges through resource integration, to expand hospital network and expert coverage, realizing the expansion and penetration of products' academic influence. Meanwhile, the Group customized its retail strategy based on product competition analysis, and enhanced the brand awareness to further increase traffic and penetration in the chain-pharmacies-based retail market with the support of new media promotion. At the same time, through conducting in-depth research and analysis of competition landscape, the Group actively planned the academic promotion and marketing strategies for its upcoming innovative products, thus laying a solid foundation for the rapid academic influence construction after their launches.

In addition, the Group adheres to the business operation principle of "compliance first", by utilizing continuously upgraded digital tools and information platforms to break the boundaries of time and space, it has realized refined management of all sales regions. Through conducting normalized employee behavior management, business execution tracking, evaluation and assessment, etc., coordinating with monitoring methods such as cost management, unannounced inspections, and special inspections, the Group has realized real-time supervision, effective early warning, and comprehensive control of business compliance risks. In addition, the Group upgraded its talent cultivation system with "customized training programs", and adopted diversified training models to empower management efficiency and improve team execution based on the operation needs, building several commercialization teams with high professionalism, strong self-drive and dedication.

As of 31 December 2022, the Group had over 4,300 professional marketing and promotion related personnel, and its promotion network covered over 50,000 hospitals and medical institutions, and more than 200 thousand retail pharmacies in China.

1. Marketed Products

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

Product Line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine available in Chinese market as at 31 December 2022
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant medicines in China according to 2022 IQVIA data
Gastroenterology Line	Ursofalk (Ursodeoxycholic Acid Capsules)	Cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis	Stably ranking the first in sales among products in Chinese cholagogue market according to 2022 IQVIA data
	Salofalk (Mesalazine)	Ulcerative colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease	Ranking the first in the market share of aminosalicylic acid, a first-line treatment for inflammatory bowel disease in China according to 2022 IQVIA data
	Bioflor (Saccharomyces Boulardii Sachets)	Diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance	Probiotics preparations with abundant medical evidence and high-level recommendations from authoritative domestic and overseas guidelines
	Combizym (Oryz-aspergillus Enzyme and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency
Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macular degeneration and all forms of asthenopia	The representative medicine for the treatment of asthenopia and the safe and convenient option for treatment of senile macular degeneration
	EyeOP1® Glaucoma Treatment Device	Glaucoma with intraocular pressure that cannot be controlled by drugs and surgery	For ultrasound Cyclo Plasty (UCP) treatment, a simple, fast, safe and non-invasive treatment method for glaucoma

Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with and without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions
	Aethoxysklerol (Polidocanol Injection)	Different specifications for sclerotherapy of different varicose veins, including spider veins, central veins of spider veins, and medium to large varicose veins	The international brand for the treatment of sclerotherapy of varicose veins with years of clinical application
Dermatology Grade Skincare Product	Atopic Piel Series (including 5 products)	Skin nourishing, moisturizing and dryness reliving	A combination of washing and moisturizing to repair the damaged skin barrier, relieve itching of sensitive skin
	Heling Soothing Product Series (including 3 products)	Skin soothing with a combination of cleansing and moisturizing which is suitable for sensitive skin	Composed of four core ingredients that can moisturize and soothe the skin, helping to repair the skin barrier
Light Medical Aesthetic Product	Vmonalisa (Modified Sodium Hyaluronate Filler for Injection)	Used for mid to deep dermal implantation for the correction of moderate to severe nasolabial folds	Painless, fashionable and accessible luxury medium-to-macro-particle HA filler from South Korea, featured with high safety, natural effect and good cost-effectiveness
	Strataderm/ Stratamark* (Self-drying Silicone Scar Therapy Gels)	Prevention and improvement of hypertrophic scars	An effective silicone gel indicated for prevention of hyperplasia and improvement of new and old scars for a wide population
	Mesoestetic-Mesohyal Series (including 5 products)	Skin firming, moisturizing, elasticity increasing, etc.	Matching therapies to provide customized medical aesthetic solutions
	Neauvia Hyaluronic Acid Series ** (including 4 products)	Superficial and deep skin filling, long-term moisturizing	Crossing with polyethylene glycol based on a unique cross linker technology SMART, the product has excellent rheology, high biocompatibility and good integrity

* Stratamark (the Australia-approved version) is sold on the Group's cross-border e-commerce platform.

** Neauvia Hyaluronic Acid Series are sold in Hongkong, China

During the Reporting Period, major products' revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB4,044.6 million, an increase of 7.6% compared with the same period last year. In the case that all medicines were directly sold by the Group, the revenue of products under cardio-cerebrovascular line would increase by 13.6% to RMB5,516.4 million compared with the same period last year, accounting for 52.5% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under gastroenterology line increased by 11.9% to RMB3,611.6 million compared with the same period last year, accounting for 34.4% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under ophthalmology line increased by 14.1% to RMB440.2 million, compared with the same period last year, accounting for 4.2% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under dermatology line increased by 10.1% to RMB344.3 million, compared with the same period last year, accounting for 3.3% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded revenue of RMB709.7 million, an increase of 8.9% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would increase by 30.4% to RMB585.0 million compared with the same period last year, accounting for 5.6% of the Group's revenue in the case that all medicines were directly sold by the Group.

III. Dermatology and Medical Aesthetic Business

After nearly two years of incubation and integration, the operating system of the Group's dermatology and medical aesthetic business, "CMS Aesthetics", has been fully established and formed a tripartite business structure consisting of dermatology prescription business unit, medical aesthetic products business unit, and new retail business unit. Through internal and external talent promotion and recruitment, and systematic empowerment training, its team has been increasingly refined. With an operation philosophy of "using medical thinking to promote in-depth study of dermatology and aesthetics", CMS Aesthetics has gained the insight into the diverse needs of customers for skin health and beauty, and adopted a scientific mindset to build the dermatology and medical aesthetic products matrix with dermatology prescriptions as the core via "in-house development and external collaboration", achieving full lifecycle skin-health management covering dermatological treatment, skincare and medical aesthetics. During the Reporting Period, CMS Aesthetics has achieved major breakthroughs in the product deployment of dermatology prescription medicines, dermatology-grade skincare products and light medical aesthetic products (including light medical aesthetic injection products and energy-based medical aesthetic devices). As of 31 December 2022, CMS Aesthetics had 2 major commercialized and about 7 major pipeline dermatology prescription products, and 6 major commercialized and about 5 major pipeline medical aesthetic products series.

At the same time, based on differentiated evidence-based medical evidence and recommendations from academic consensus of dermatology prescription products, CMS Aesthetics actively conducted academic conferences and doctor re-educations, together with activities of disease knowledge popularization, so as to deepen market recognition. For medical aesthetic products with both medical and consumer attributes, CMS Aesthetics synergized with the rich expert coverage in the dermatology field to deepen the interpretation of product efficacy from a professional perspective, explored the application of products under the compliance framework, and promoted innovative promotional concepts to achieve marketing breakthroughs; CMS Aesthetics also actively built a professional technical exchange center with scientific training management to provide continuous academic empowerment for professional aesthetic institutions and practitioners, and applied new retail operation model to accelerate the customers sales conversion from "recognition" to "purchase" by promoting brand visibility through multi-dimensional new media channels.

As of December 31 2022, the CMS Aesthetics team has reached over 600 people, covering nearly 10,000 hospitals and medical institutions in China.

1. The deployment of dermatology prescription products has taken shape

CMS Aesthetics accelerates the deployment of product matrix, and strives to gradually deploy innovative products covering all dermatological diseases. During the Reporting Period, it newly obtained ruxolitinib cream, the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo. The NDA of Tildrakizumab Solution for Injection (for treatment of moderate-to-severe plaque psoriasis), an innovative pipeline product targeting IL-23, was under marketing application review in China, and the product will be approved to launch soon. These two innovative products will synergize with existing marketed dermatology products of CMS Aesthetics, Hirudoid (the repair agent for skin barrier with multiple functions) and Aethoxysklerol (the international brand for the treatment of sclerotherapy of varicose veins with years of clinical application), to solidify its comprehensive competitiveness in the dermatology field.

2. The product portfolio expansion and iteration of dermatology-grade skincare product

CMS Aesthetics has rich dermatologist resources, laying a solid academic foundation for the promotion and sales of dermatology grade skincare products. Through the promotion and sales of the marketed products Atopic Piel Series (a combination of washing and moisturizing to repair the damaged skin barrier, relieve itching of sensitive skin), the Group accumulated relevant experiences in the operation of dermatology grade skincare products. In August 2022, the Group made equity investment in Heling Medical (Guangzhou) Company Limited (禾零醫藥(廣州)有限公司) ("Heling") and obtained 60% equity interest of Heling, which became a subsidiary of the Company; The Group also entered into an Exclusive License Agreement with Heling for Heling soothing moisturizing repair cream, Heling soothing repair lotion and Heling soothing moisturizing bath oil (the "Heling Soothing Dermatology-grade Skincare Product Series"), the product series could synergize with the Group's current dermatological products, providing consumers with skincare solutions combining excellent efficacy and safety. At the same time, as a dermatology-grade skincare products R&D platform, Heling will accelerate in product portfolio expansion and iteration for CMS Aesthetics.

Heling Soothing Dermatology-grade Skincare Product Series - Composed of four core ingredients that can moisturize and soothe the skin, helping to repair the skin barrier

Heling Soothing Dermatology-grade Skincare Product Series are composed of a variety of mild ingredients with Level-1 safety risk, without preservatives, mineral oil or alcohol, which are mild, non-irritating and suitable for sensitive skin. The cosmetic efficacy tests of the products were completed in cooperation with Guangdong Provincial Dermatology Hospital. The four preferred core ingredients of the products are 4-tert-butylcyclohexanol, butyrospermum parkii (shea butter) extract, saccharide isomerate and glycyrrhiza inflata root extract. The four ingredients play a synergistic role through reasonable combination, which can quickly moisturize and soothe the skin, helping to repair the skin barrier. With the advantage of the combination of cleansing and moisturizing, it could provide a variety of skincare options for consumers with different skin conditions.

3. Solidifying the deployment of mainstream products in the field of light medical aesthetics

The deployment of CMS Aesthetics' light medical aesthetic injection products has been gradually enriched. In addition to the existing marketed Korean hyaluronic acid product - Vmonalisa (the painless, fashionable and accessible luxury medium-to-macro-particle HA filler, featured with high safety, natural effect and good cost-effectiveness), in October 2022, the Group entered into an agreement with BMI KOREA CO., LTD. ("BMI"), a South Korean company, for the type A botulinum toxin 100 units vacuum dried powder for solution for injection (the "BMI Botulinum Toxin Product"), and gained an exclusive license to develop, register, import and commercialize the product in Mainland China, Hong Kong and Macao. The product will synergize with hyaluronic acid and other medical aesthetic products, providing comprehensive solutions to satisfy the needs of youth and beauty of the Chinese customers.

The BMI Botulinum Toxin Product - a South Korean type A botulinum toxin with comparable efficacy and safety to Botox®

The BMI Botulinum Toxin Product is developed to temporarily improve moderate to severe glabellar lines associated with corrugator and/or procerus muscle activity in adults aged 19 to 65. The Phase III clinical trial conducted in South Korea demonstrated that it has comparable efficacy and safety to Botox®. The Biologics License Application (BLA) for the Marketing Approval of the product has been submitted to the Ministry of Food and Drug Safety (MFDS) of South Korea in July 2022. The botulinum toxin product is a mainstream and core product in light medical aesthetic (non-surgery medical aesthetic) field and has become one of the most popular light medical aesthetics products among consumers in China.

4. "Carnation", a focused ultrasound technology R&D platform, continuously expanding the portfolio of cutting-edge energy-based medical aesthetic devices

During the Reporting Period, based on the market demands, "Carnation", a focused ultrasound technology R&D platform under CMS Aesthetics, continued to explore and upgrade the application of focused ultrasound technology, and expanded the portfolio of cutting-edge energy-based medical aesthetic devices. 3 major product series were developing, including: FUBA Focused Ultrasound Fat Reduction Device Series, LITU Focused Ultrasound Skin Treatment Series, MEBA Ultrasonic Transdermal Delivery Series. Among which, the major pipeline product FUBA 5200 Focused Ultrasound Body Contouring System, a non-invasive body shaping device with independent intellectual property right obtained 1 utility model patent and 2 appearance patent authorizations in China, and the subject enrollment of the product's clinical trial has kicked off and is advancing in an orderly manner during the Reporting Period.

5. Development of new retail business unit

During the Reporting Period, the Group continued to explore effective operating models to meet everchanging business needs. In order to accelerate the development of medicines, devices, and functional skincare products of CMS Aesthetics, the consumer healthcare business and the new retail business of CMS Aesthetics were merged into the new retail business unit, which is operated by CMS Aesthetics. Based on consumer demands, the new retail business unit rapidly promoted and developed the brand and retail channels construction of the products, and it has formed operation plans for multiple strategic brands, such as Hirudoid and Heling.

IV. Ophthalmology Business

The Group's ophthalmology business, "CMS Vision", relies on the sharing of Group's resources and services support, to constantly improve its organizational structure and operation system. Through extensive expert networks and channel resources in the field, it actively promotes the identification, development, and commercialization of urgently needed solutions to ophthalmic clinical practices. During the Reporting Period, "CMS Vision" newly added a series of ophthalmic products: (1) obtained the exclusive license of the innovative medical device EyeOP1® Glaucoma Treatment Device; (2) acquired the asset related to the Class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody drug (intended for ocular fundus neovascular diseases), which will synergize with its existing products —— the marketed product Augentropfen Stulln Mono Eye Drops (the professional representative medicine for the treatment of asthenopia and the safe and convenient option for treatment of senile macular degeneration), as well as the main pipeline product Cyclosporine Eye Drops 0.09% (a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology), to enhance the scale and the efficiency of ophthalmology business development.

During the Reporting Period, CMS Vision leveraged on years of network resource accumulated in the ophthalmology field, to continuously enhance academic platform for ophthalmic medicines and devices. It promoted hospital network expansion and introduced the sales traffic to the retail market by further exploring the academic competitive advantages of medicines. For the innovative medical device, CMS Vision proactively analyzed the products' market positioning and operation planning to explore the optimal market access strategy, and conducted various academic activities to deliver differentiated clinical advantages, focusing on rapidly establishing doctor recognition in the core markets and efficiently promoting the clinical application of innovative medical device. For the promotional needs of ophthalmic device and consumables, CMS Vision actively expanded its promotional team with professional backgrounds, and improved the teams' expertise and skills to strengthen its commercialization capability on medicines and devices.

As of December 31 2022, the CMS Vision team has reached over 300 people, covering nearly 9,000 hospitals and medical institutions in China.

V. Southeast Asia Business

As an emerging economy with promising potential, the Southeast Asian market has a relatively rapid economic development, considerable demographic dividend, sound business atmosphere, and a series of favorable policies supporting the industry, thus the development of its healthcare industry has shown vigorous vitality.

Focusing on unmet clinical needs in the Southeast Asian market, the Group's Southeast Asia business, "Rxilient Health", is independently operated by a professional and experienced local team. Capitalizing on the large-scale global product resources of the Group, Rxilient Health is able to quickly deploy quality products from Europe, America, Japan and China, and has gradually established a competitive product portfolio. During the Reporting Period, all 4 newly added innovative products of the Group have obtained the Southeast Asian market rights: (1) ruxolitinib cream (the first and only topical JAK inhibitor approved by the U.S. FDA, and the first and only FDA-approved product for repigmentation in vitiligo); (2) innovative medical device EyeOP1® Glaucoma Treatment Device; (3) class I innovative biological product VEGF+ANG2 tetravalent bispecific antibody (intended for ocular fundus neovascular diseases); (4) CMS-D005, a class I innovative drug developed for the treatment of metabolic system related disease. Among them, the EyeOP1® Glaucoma Treatment Device has already been approved for marketing in some Southeast Asian countries. Previously, for existing products that have Southeast Asian rights— Combizym (effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency), PLENITY® (a safe and effective orally-administered weight management product made from naturally derived materials) and Diazepam Nasal Spray (an innovative medicine targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action), etc., their related Southeast Asian rights have been authorized to Rxilient Health, among which Combizym has already been approved for marketing in some Southeast Asian countries.

In addition, in August 2022, the Group entered into a License, Collaboration and Supply Agreement with Hefei Tianmai Biotechnology Development Co., Ltd. ("HTBT"), a biopharmaceutical company for the second-generation insulin series products and the third-generation insulin analogue glargine insulin injection (the "Insulin Products"), and gained an exclusive license to register, market, sell and distribute the products in the eleven Southeast Asian countries. This collaboration is an initiative for insulin products of Mainland China to enter the Southeast Asian market and is expected to satisfy the huge clinical demand for the cost-effective insulin product in the Southeast Asian market.

The Insulin Products - a wide range of quality and affordable insulin treatment options

Insulin products are clinically used to treat diabetes. The products are derived from Israeli platform technology, produced by genetic engineering technology, and adopted to an efficient, environmental-friendly, and energy-saving active pharmaceutical ingredients production process, which can effectively control the quality and the costs. The second-generation insulin series products include mixed protamine human insulin injection (30R), human insulin injection, and isophane protamine human insulin injection, all of which have been approved by the NMPA and commercialized for years. The third-generation insulin analogue glargine insulin injection was under China marketing application review. Its process is stable, the expression level is high, and the pharmaceutical and clinical research shows that it's quality is in consistent with the original product. A wide range of quality and affordable Insulin Products can provide patients in Southeast Asia with personalized and differentiated choices.

During the Reporting Period, with the development goal of establishing a systematic platform, Rxilient Health aimed to build a business structure progressively that integrated product development, manufacturing, preparation CDMO (Contract Development and Manufacturing Organization), marketing and promotion. By extensively linking industry resources and developing forward-looking marketing strategy based on product characteristics, Rxilient Health rapidly developed its marketing and promotion segments and intended to gradually establish the brand image of the products and Rxilient Health itself.

At the same time, Rxilient Health actively explored potential industrial collaboration opportunities to accelerate its business development. As at December 31, 2022, Rxilient Health held 5.31% equity interest in Etana Biotechnologies, an Indonesian biopharmaceutical company. Etana Biotechnologies possess the quality local production capability of innovative products, covering the fields of metabolic, autoimmune, and other major life-threatening diseases (including cancer), and has rich experience in product registration and commercialization. It has established extensive connection and collaboration with local medical institutions, doctors' associations, regulators, etc.

Impacts of Significant Industrial Policies

In 2022, the National Volume Based Procurement ("National VBP") remains the most influential industry policy for the Group, and the policy has been conducted in a normalized and standardized manner. The chemical name of the Group's major marketed product Deanxit, Flupentixol and Melitracen Tablets Immediate-release Oral Dosage Forms, was included in the seventh National VBP catalog. In July, the tender of the seventh batch of National VBP officially kicked off and Deanxit was not selected; in November, the seventh batch began to be implemented successively in each province. In January 2023, the chemical names of the Group's major marketed products Plendil and Ursofalk, Felodipine Sustained-release and Controlled-release Tablets Dosage Forms and Ursodeoxycholic Acid Immediate-release Oral Dosage Forms, were included in the eighth National VBP catalog, and it is expected to be implemented in the second half of 2023.

Deanxit, Plendil and Ursofalk are original medicines with oral application for the treatment of relatively chronic diseases, with characteristics such as well-recognized brand, high academic recognition, and high retail market contribution. The Group will continue to strengthen the academic branding of the product, while deepening the development of the retail market, to mitigate the negative impact on the Group's performance after the National VBP's implementation. In addition, the Group will continue to deploy innovation pipelines with differentiated advantages globally, and make full efforts to promote their clinical development and commercialization in authorized territories such as China and Southeast Asia, and several innovative products will be marketed in China soon. Meanwhile, the Group will promote the healthy development of dermatology and medical aesthetic business and ophthalmology business that are featured with both consumer and medical attributes, and immunized to the National VBP, and promote the product deployment and financial contribution of the Southeast Asian business, to further empower the sustainable and steady growth of the Group.

Future Development

The Group firmly believes that innovation is the cornerstone of sustainable development. Over the past 30 years, we have accumulated and formed a highly distinctive business operation system and innovative R&D model with "CMS characteristics", as well as an innovative pipeline with competitive advantages.

The Group will continue to upgrade the capacity and efficiency of its commercialization platform, and actively explore innovative marketing models while promoting the professionalism and skill building of its team, to establish a foundation for maximizing the clinical and commercial value of innovative products. Meanwhile, the Group will optimize its organizational structure with refined management, upgrade the all-round management system leveraging digital tools, to escort the in-depth development of 3 major business divisions, cardio-cerebrovascular and gastroenterology, dermatology and medical aesthetics, and ophthalmology with dedicated commercialization teams, to empower the development and breakthrough of clinical practices in the industry.

The Group will focus on the differentiated innovative products driven by clinical needs, continue to deepen the multi-dimensional collaborations with global innovative forces supported by its innovative products incubation platform, and build an "empowerment, collaboration, and win-win" R&D ecosystem. At the same time, leveraging the effective management covering all stages of the innovative products development, the Group will make all efforts to promote the clinical development, registration, and commercialization of the product, steadily stepping into the harvesting period of innovation products.

Meanwhile, the Group will fully leverage its resources to accelerate its internationalization development strategy starting from Southeast Asian market. With the mindset of openness and collaboration, the Group will continue to deploy quality products that match local clinical needs, and customize operation strategies according to characteristics of different countries, while building a cross-regional sales network and localized production capability to promote business penetration and development, helping to open up a broader growth potential for the Group.

Only with dedication and perseverance can we achieve success. Persistent innovation and reform have created the "New CMS". We will continue to adhere to the principles of innovation, and chart a course for future high-speed growth with practicality and enterprising spirit.

Financial Review

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

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

Turnover

Turnover increased by 9.8% from RMB8,337.2 million for the year ended 31 December 2021 to RMB9,150.3 million for the year ended 31 December 2022. In the case that all medicines were directly sold by the Group, turnover increased by 13.7% to RMB10,497.5 million for the year ended 31 December 2022 from RMB9,230.2 million for the year ended 31 December 2021, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 12.6% from RMB6,246.9 million for the year ended 31 December 2021 to RMB7,035.8 million for the year ended 31 December 2022; in the case that all medicines were directly sold by the Group, gross profit increased by 14.4% to RMB6,910.5 million for the year ended 31 December 2022 from RMB6,039.2 million for the year ended 31 December 2021, primarily reflecting an increase in turnover. Gross profit margin increased by 2.0 percentage points to 76.9% for the year ended 31 December 2022 from 74.9% for the year ended 31 December 2021; in the case that all medicines were directly sold by the Group, gross profit margin increased by 0.4 percentage point to 65.8% for the year ended 31 December 2022 from 65.4% for the year ended 31 December 2021, primarily reflecting a change in sales structure of products.

Selling Expenses

Selling expenses increased by 7.1% from RMB2,540.1 million for the year ended 31 December 2021 to RMB2,721.3 million for the year ended 31 December 2022; selling expenses as a percentage of turnover decreased by 0.8 percentage point to 29.7% for the year ended 31 December 2022 from 30.5% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover decreased by 0.6 percentage point to 24.7% for the year ended 31 December 2022 from 25.3% for the year ended 31 December 2021, mainly due to an increase in efficiency of resources injected to develop business.

Administrative Expenses

Administrative expenses increased by 44.4% from RMB441.0 million for the year ended 31 December 2021 to RMB636.6 million for the year ended 31 December 2022; administrative expenses as a percentage of turnover increased by 1.7 percentage points to 7.0% for the year ended 31 December 2022 from 5.3% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 1.3 percentage points to 6.1% for the year ended 31 December 2022 from 4.8% for the year ended 31 December 2021, primarily reflecting an increase in human cost.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of innovative product pipelines, expenditures on development, registration and clinical trial of new products, salaries and related expenses of staff who were engaged in the aforesaid affairs. Research and development expenditures included the expensed research and development expenditures (i.e. research and development expenses) and capital payments (including payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights).

Total research and development expenditures decreased by 1.2% from RMB739.3 million for the year ended 31 December 2021 to RMB730.6 million for the year ended 31 December 2022. Total research and development expenditures as a percentage of turnover for the year ended 31 December 2022 was 8.0%, representing a decrease of 0.9 percentage point from 8.9% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover decreased by 1.0 percentage point to 7.0% for the year ended 31 December 2022 from 8.0% for the year ended 31 December 2021, primarily reflecting a decrease in acquisition of equity in research and development companies.

Research and development expenses increased by 9.3% from RMB114.8 million for the year ended 31 December 2021 to RMB125.4 million for the year ended 31 December 2022. Research and development expenses as a percentage of turnover for the year ended 31 December 2022 was 1.4%, same as 1.4% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover for the year ended 31 December 2022 was 1.2%, same as 1.2% for the year ended 31 December 2021.

Capital payments (set out in the table below) decreased by 3.1% from RMB624.5 million for the year ended 31 December 2021 to RMB605.2 million for the year ended 31 December 2022. Such capital payments as a percentage of turnover for the year ended 31 December 2022 was 6.6%, representing a decrease of 0.9 percentage point from 7.5% for the year ended 31 December 2021. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover decreased by 1.0 percentage point to 5.8% for the year ended 31 December 2022 from 6.8% for the year ended 31 December 2021.

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	98,577	463,028
Payment for acquisition and development of product rights	506,585	161,494
	605,162	624,522

Other Income

Other income increased by 35.1% from RMB146.9 million for the year ended 31 December 2021 to RMB198.6 million for the year ended 31 December 2022, mainly due to increases in interest income and government subsidies.

Other Gains and Losses

Other gains and losses decreased by 103.8% from a gain of RMB111.5 million for the year ended 31 December 2021 to a loss of RMB4.2 million for the year ended 31 December 2022, mainly due to increases in exchange loss and goodwill impairment loss.

Share of Result of Associates

Share of result of associates decreased by 13.7% from RMB75.4 million for the year ended 31 December 2021 to RMB65.1 million for year ended 31 December 2022, mainly reflecting an increase in research and development expenses and an impairment loss provided for intangible assets of an associate.

Finance Costs

Finance costs increased by 73.6% from RMB28.3 million for the year ended 31 December 2021 to RMB49.1 million for the year ended 31 December 2022, mainly due to increases in both the used bank borrowing and its interest rate.

Income Tax Expense

Income tax expense increased by 12.8% from RMB431.3 million for the year ended 31 December 2021 to RMB486.7 million for the year ended 31 December 2022, mainly reflecting an increase in profit of the Group.

Profit for the Year

Profit for the year increased by 8.3% from RMB3,025.3 million for the year ended 31 December 2021 to RMB3,276.2 million for the year ended 31 December 2022, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 1.0% from RMB472.6 million as at 31 December 2021 to RMB477.2 million as at 31 December 2022. Average inventory turnover days increased from 75 days for the year ended 31 December 2021 to 82 days for the year ended 31 December 2022, mainly reflecting a volatility of the safe inventories level of the Group.

Trade Receivables

Trade receivables increased by 3.3% from RMB1,395.8 million as at 31 December 2021 to RMB1,442.0 million as at 31 December 2022, primarily reflecting an increase in the Group's turnover. Average trade receivables turnover days increased to 70 days for the year ended 31 December 2022 from 65 days for the year ended 31 December 2021, mainly due to a relatively slow collection from some customers.

Trade Payables

Trade payables increased by 22.0% from RMB145.9 million as at 31 December 2021 to RMB178.0 million as at 31 December 2022. Average trade payables turnover days increased to 28 days for the year ended 31 December 2022 from 25 days for the year ended 31 December 2021, mainly reflecting the difference in time points of inventory purchases.

Liquidity and Financial Resources

As at 31 December 2022, the Group's bank balances and cash amounted to RMB4,376.4 million while readily realizable bank acceptance bills amounted to RMB269.6 million. As at 31 December 2021, the bank balances and cash amounted to RMB3,385.7 million while readily realizable bank acceptance bills amounted to RMB453.4 million.

As at 31 December 2022, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("US$"), Euro ("EUR"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Hong Kong Dollars ("HK$").

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

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Net cash from operating activities	3,553,243	2,493,852
Net cash used in investing activities	(1,178,202)	(1,519,525)
Net cash used in financing activities	(1,399,914)	(258,392)
Net increase in cash and cash equivalent	975,127	715,935
Cash and cash equivalent at beginning of the year	3,385,739	2,668,426
Effect of foreign exchange rate changes	15,510	1,378
Cash and cash equivalent at end of the year	4,376,376	3,385,739

Net cash from operating activities

For the year ended 31 December 2022, the Group's net cash generated from operating activities was RMB3,553.2 million compared with RMB2,493.9 million for the year ended 31 December 2021, an increase of 42.5% mainly due to a decrease in the occupancy of working capital.

Net cash used in investing activities

For the year ended 31 December 2022, the Group's net cash used in investing activities was RMB1,178.2 million compared with RMB1,519.5 million for the year ended 31 December 2021, a decrease of 22.5% mainly due to a decrease in the acquisition of equity investments.

Net cash used in financing activities

For the year ended 31 December 2022, the Group's net cash used in financing activities was RMB1,399.9 million compared with RMB258.4 million for the year ended 31 December 2021, an increase of 441.8% mainly due to an increase in the repayment of bank borrowings.

Net Current Assets

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current Assets		
Inventories	477,206	472,598
Financial assets at fair value through profit or loss	1,491,336	977,874
Trade receivables	1,442,035	1,395,789
Other receivables and prepayments	601,909	808,213
Loan receivable	70,168	-
Tax recoverable	253	19,469
Derivative financial instruments	42,021	-
Amount due from an associate	328,072	320,036
Bank balances and cash	4,376,376	3,385,739
	8,829,376	7,379,718
Current Liabilities		
Trade payables	178,009	145,898
Other payables	385,185	483,649
Lease liabilities	15,804	16,922
Contract liabilities	21,614	23,715
Bank borrowings	1,783,337	1,103,760
Derivative financial instruments	562	-
Deferred consideration payables	1,000	2,000
Obligation arising from put options	163,773	-
Tax liabilities	327,819	305,310
	2,877,103	2,081,254
Net current assets	5,952,273	5,298,464

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

Capital Expenditures

The following table shows the Group's capital expenditure:

	For the year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Deposits for acquisition of intangible assets	506,585	161,494
Purchase of property, plant and equipment	18,336	23,347
	524,921	184,841

Capital Structure and Gearing Ratio

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

The following table shows the Group's debts:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Interest bearing bank borrowings	1,783,337	1,677,573

The Group had bank borrowings of RMB1,783.3 million as at 31 December 2022 (31 December 2021: RMB1,677.6 million). The details of bank borrowings are set out in note 29 to the consolidated financial statements.

As said above, along with an increase in the Group's bank borrowings, the Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased by 0.6 percentage point to 10.0% as at 31 December 2022 from 10.6% as at 31 December 2021.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 36 to the consolidated financial statements.

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. For the Group's subsidiaries in China, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, the management will consider hedging foreign currency exposure as appropriate. As at 31 December 2022, the Group had entered into certain foreign currency forward contracts to hedge foreign currency risk, for details please refer to note 32 to the consolidated financial statements.

The Group will closely monitor movements of interest rate and foreign currencies market so as to mitigate the expected risk on interest rate and foreign currencies.

Pledge of Assets

As at 31 December 2022, the Group had no pledge of assets.

Contingent Liabilities

As at 31 December 2022, the Group had no material contingent liabilities.

Acquisition of Subsidiaries

During the Reporting Period, in order to enrich the Group's existing product portfolio, the Group acquired two subsidiaries Shanghai Xuli Medical Devices Company Limited and Heling Medicall (Guangzhou) Company Limited, details of which are disclosed in note 42 to the consolidated financial statements.

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

On 27 March 2020, Sky United Trading Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "SC Facility Agreement") with Standard Chartered Bank (Hong Kong) Limited (as lender) in respect of a US$40,000,000 term loan facility (the "SC Facility") made available to the Borrower for a term of 36 months from the first utilization date under the SC Facility Agreement. On 26 May 2021, CMS International Development and Management Limited, a wholly-owned subsidiary of the Company (as borrower, the "Borrower") and the Company (as guarantor) entered into a facility agreement (the "DBS Facility Agreement") with DBS Bank (Hong Kong) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "DBS Facility") made available to the Borrower for a term of 22 months from the first utilization date under the DBS Facility Agreement.

Pursuant to the SC Facility Agreement and DBS Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the board of directors (the "Board"), an executive director and a controlling shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules")) of the Company: (i) ceases to directly or indirectly own more than 30% of the total issued shares (of each class) in the Company; or (ii)ceases to directly or indirectly be the single largest shareholder in the issued shares (of each class) in the Company, the lender may, by not less than 30 days' notice in advance to the Borrower, cancel all commitments under the SC Facility and DBS Facility, respectively, and declare that all outstanding loans together with accrued interest and all other amounts accrued under the SC Facility and DBS Facility, respectively, will become immediately due and payable. As at 31 December 2022, Mr. Lam Kong (directly and indirectly) held approximately 46.39% of the total issued ordinary share capital of the Company.

Dividend

For the year ended 31 December 2022, the Group paid an interim dividend for 2022 and a final dividend for 2021 of RMB718.6 million and RMB557.6 million, respectively. For the year ended 31 December 2021, the Group paid an interim dividend for 2021 and a final dividend for 2020 of RMB652.5 million and RMB502.3 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Lam Kong, aged 58, is the Chairman, Chief Executive and President of the Group and was appointed as an executive Director on 18 December 2006. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy. Mr. Lam has clinician experience and deep understanding and knowledge of China's pharmaceutical industry, possessing unique insight and extensive experience in R&D, marketing, promotion, sales and other value-added services. He received his bachelor's degree in clinical medicine from Zhanjiang Medical College in 1986, which was renamed guangdong Medical University. Mr. Lam is a member of the Nomination Committee of the Company and the sole director of Treasure Sea Limited, the controlling shareholder of the Company.

Mr. Lam is the controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on page 42 of this Annual Report.

Mr. Chen Hongbing, aged 56, is the Chief Operating Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the business operation of the Group, including marketing, promotion, supply chain management, product manufacturing management and human resources management, etc. Mr. Chen possesses extensive experience in business operations of pharmaceutical companies and corporate management. Mr. Chen had acquired about 4 years' experience as a public hospital doctor with Nanjing gulou Hospital from 1990 to 1994. He received his bachelor's degree in clinical medicine from Nanjing Medical College in 1990, which was renamed Nanjing Medical University.

Mr. Chen is the sole director of Viewell Limited (a shareholder of the Company) and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 42 of this Annual Report.

Ms. Chen Yanling (former Chinese name as 陳艷玲), aged 52, is the Chief Financial Officer and Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's finance, accounting, investor relations, government affairs and administration management. She holds an EMBA degree and is a senior accountant with extensive experience in financial management, fund raising, auditing and investor relations, etc. As at the end of the year 2022, Ms. Chen was awarded eight times the "Best CFO" in Healthcare and Pharmaceuticals by the Institutional Investor Magazine. Ms. Chen is the chairman of the Environmental, Social and Governance Committee of the Company.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on page 42 of this Annual Report.

Independent Non-Executive Directors

Mr. Leung Chong Shun, aged 57, was appointed as an independent non-executive Director on 13 December 2017. Mr. Leung became a practicing lawyer since 1991 and was the chief representative of Woo Kwan Lee & Lo Beijing Office. He is currently a partner of Woo Kwan Lee & Lo. Mr. Leung is familiar with corporate finance, M&A and IPO legal services and has been involved in various listing and acquisition transactions of Chinese H-share companies and red chip companies. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC. Mr. Leung was an independent non-executive director of China Coal Energy Company Limited (a company listed on the Stock Exchange with stock code: 01898) from June 2017 to March 2023, China Communications Construction Company Limited (a company listed on the Stock Exchange with stock code: 01800) from January 2011 to November 2017 and China National Materials Company Limited (the listing with stock code: 01893 was withdrawn on the Stock Exchange) from July 2007 to April 2018. He is currently an independent non-executive director of SSY Group Limited (a company listed on the Stock Exchange with stock code: 02005) and Min Xin Holdings Limited (a company listed on the Stock Exchange with stock code: 00222).

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

Ms. Luo Laura Ying (formerly known as Ying Luo), aged 58, was appointed as an independent non-executive Director on 31 March 2020. Ms. Luo has 28 years of investment experience. She currently works as an investment director of GL China Equity HK Management Limited and previously has worked as a consultant of GL China Equity HK Management Limited and a consultant of GL Capital Management Limited. Ms. Luo is an independent non-executive director of Central China New Life Limited (a company listed on the Stock Exchange with stock code: 09983) and Tianjin Port Development Holdings Limited (a company listed on the Stock Exchange with stock code: 03382). Ms. Luo was a managing director and head of Hong Kong China Equities at Barings Asset Management (Asia) Limited from 2013 to 2019. Her overall responsibilities included managing a team of investment managers and research analysts, as well as managing a range of Hong Kong and China equity strategies, including Barings' flagship Hong Kong China Fund, China A-share fund and some institutional mandates. Before joining Barings Asset Management (Asia) Limited, Ms. Luo worked for Schroder Investment Management (HK) Limited for over 12 years. Since 2002, Ms. Luo had been a lead manager on several greater China equity mandates, including the Schroder International Selection Fund - China Opportunities, which she managed since its launch in 2006. Prior to Schroder Investment Management (HK) Limited, Ms. Luo had worked at Sg Securities as head of China Research and Strategist, as well as at Morgan Stanley and goldman Sachs (Asia) LLC, Hong Kong as an equity research analyst.

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

Mr. Fung Ching Simon, aged 54, was appointed as an independent non-executive Director on 6 October 2021. Mr. Fung has 10 years of experience in auditing, accounting and business advisory and has over 18 years of experience in managing finance and accounting functions, mergers and acquisitions, fund raising and investor relations for PRC companies listed in Hong Kong. Mr. Fung is currently serving as the chief financial officer of Chow Tai Fook Enterprises Limited. Mr. Fung worked in PricewaterhouseCoopers between 1994 and 2004, and he served as the chief financial officer and secretary to the board of directors of Baoye Group Company Limited (a company listed on the Stock Exchange with stock code: 02355) between 2004 and 2010. Mr. Fung served as the chief financial officer and company secretary of Greentown China Holdings Limited (a company listed on the Stock Exchange with stock code: 03900) between 2010 and 2019. Mr. Fung worked for Logan Group Company Limited (a company listed on the Stock Exchange with stock code: 03380) from January 2020 till March 2021 as chief financial officer. Mr. Fung worked for China Logistics Property Holdings Co., Limited (the listing with stock code: 01589 was withdrawn on the Stock Exchange) from June 2016 till February 2022 as an independent non-executive director. Mr. Fung is also an independent non-executive director of Hainan Meilan International Airport Company Limited (a company listed on the Stock Exchange with stock code: 00357) and a non-executive director of Baoye Group Company Limited (a company listed on the Stock Exchange with stock code: 02355).

Mr. Fung graduated from the Queensland University of Technology in Australia with a bachelor's degree, majoring in accountancy. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the CPA Australia. Mr. Fung is the chairman of the Audit Committee, a member of the Remuneration Committee, a member of the Nomination Committee and a member of the Social, Environmental and Governance Committee of the Company.

SENIOR MANAGEMENT

Dr. Peng Huaizheng, aged 61, is the Chief Business Officer of the Group. Dr. Peng was appointed as an independent non-executive Director of the Company for the period from 4 May 2010 to 9 October 2013 and has remained with the Group since then. Prior to joining the Group, he held the positions of partner, director or senior portfolio manager at several multinational financial corporations in the UK and Canada, mainly engaged in investments in the global life science field. Dr. Peng possesses over 17 years of investment experience. Dr. Peng obtained a bachelor's degree and a master's degree in clinical medicine from Hunan Medical College in 1984 and 1989 respectively, and his doctoral degree of philosophy in molecular pathology from University College London Medical School, UK in 1998. Prior to entering into the financial investment and pharmaceutical industries, Dr. Peng was a clinical instructor of histopathology at the University College London Medical School.

Mr. Jiang Fei, aged 46, is the Chief Investment Officer (greater China) of the Group. Mr. Jiang joined the Group in January 2022. Prior to joining the Group, Mr. Jiang was engaged in R&D and business expansion in domestic pharmaceutical companies, and held the positions including executive director and managing director at several venture capital firms and private equity funds. He possesses over 10 years of work experience in China's pharmaceutical industry and approximately 6 years of investment experience. Mr. Jiang obtained a bachelor's degree in chemical engineering from East China University of Science and Technology in 1998 and his doctoral degree of philosophy in chemical engineering from Syracuse University, U.S. in 2006.

Mr. James Stearns, aged 43, is the Chief Investment Officer (Europe and America) of the Group. Mr. Stearns joined the Group in April 2021. Prior to joining the Group, he was a director of a well-known investment bank and the investment director of an independent private equity firm, possessing over 10 years of experience in investment and finance in Europe and America's pharmaceutical industries. Mr. Stearns obtained a bachelor's degree in economics and accounting from University of Bristol in 2000.

Mr. Jiang Qingfu, aged 47, is the General Manager of Cardio-cerebrovascular/Digestion Business (Shenzhen Kangzhe) of the Group. Mr. Jiang joined the Group in 1999 after receiving his bachelor's degree from college and remained with the Group since then. He was promoted to managerial positions rapidly after training at junior positions, having made outstanding sales contribution during the period. Mr. Jiang is currently responsible for the overall operations and management of Shenzhen Kangzhe, possessing over 20 years of sales and marketing experience and rich experience in operations and management. Mr. Jiang obtained a bachelor's degree in clinical medicine from Anhui Medical University in 1999.

Mr. Huang Anjun, aged 46, is the General Manager of Dermatology and Medical Aesthetic Business (CMS Aesthetics) of the Group. Mr. Huang joined the Group in 2005 after receiving his master's degree from college and remained with the Group since then. Mr. Huang is currently responsible for the overall operations and management of CMS Aesthetics, possessing over 10 years of sales and marketing experience and rich experience in operations and management. Prior to joining the Group, Mr. Huang had acquired about 3 years' experience as a doctor at a public hospital. Mr. Huang obtained a master's degree in pediatrics in traditional Chinese medicine from Shandong University of Traditional Chinese Medicine in 2005.

Ms. Wang Linlang, aged 45, is the General Manager of Ophthalmology Business (CMS Vision) of the Group. Ms. Wang joined the Group in 2004 after receiving her master's degree from college and remained with the Group since then. Ms. Wang is currently responsible for the overall operations and management of CMS Vision, possessing over 10 years of sales and marketing experience and rich experience in operations and management. Ms. Wang obtained a bachelor's degree in preventive medicine and a master's degree in epidemiology and health statistics from West China Medical Center, Sichuan University in 2001 and 2004 respectively.

Mr. Ma Lieyi, aged 53, is the General Manager of the Business Operations Center of the Group. Mr. Ma joined the Group in 1995 and remained with the Group since then. Mr. Ma has been engaged in sales and marketing management in the Group, possessing over 15 years of sales and marketing management experience. Mr. Ma graduated from Shenzhen University in 1990, majoring in business administration. He obtained the degree of Executive Master of Business Administration (EMBA) from University of Macau in 2022.

Ms. Li Yufang, aged 44, is the General Manager of the Finance Center of the Group. Ms. Li joined the Group in 2003 and remained with the Group since then. Ms. Li was the Director of the Compliance Department of the Group. Ms. Li possesses over 10 years of finance, tax and pharmaceutical companies' compliance experience. Ms. Li obtained a bachelor's degree of management in electronic data processing accounting from Jilin University of Finance and Economics in 2001. She is a non-practicing member of Shenzhen Institute of Certified Public Accountants.

Company Secretary

Ms. Wu Sanyan, aged 41, is the Company Secretary and Director of the Legal Department of the Group. Ms. Wu joined the Group in 2009 and remained with the Group since then. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules), possessing over 10 years of legal and corporate governance experience. Ms. Wu obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from Wuhan University. During the Reporting Period, Ms. Wu received professional training for no less than 15 hours to promote her skill and knowledge.

The Board of the Company is pleased to present the "Directors' Report" and audited consolidated financial statements of the Group for the year ended 31 December 2022.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 43 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 66.

Business Review

Business review of the Group for the year ended 31 December 2022 can be found in the section headed "Management Discussion and Analysis" of this Annual Report, the discussion of which forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2022 are set out in the consolidated statement of changes in equity on page 69 and note 34 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2022, the Company had distributable reserves of RMB4,978.2 million available for distribution to the shareholders.

Property, Plant and Equipment

Details of changes in property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

Share Capital

Movements in the share capital of the Company are set out in note 33 to the consolidated financial statements.

Final Dividend

The Board is pleased to recommend a final dividend of RMB0.2414 (equivalent to HK$0.274) per Share for the year ended 31 December 2022 to shareholders whose names appear on the register of members of the Company after market closes on Thursday, 4 May 2023. The register of members of the Company will be closed on Friday, 5 May 2023. The final dividend will be paid to shareholders on about Friday, 12 May 2023 after the shareholders' approval at the annual general meeting of the Company scheduled on Friday, 28 April 2023 (the "AGM").

Dividend Policy

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

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

Pre-emptive Rights

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

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

For the year ended 31 December 2022, the Company repurchased an aggregate of 5,455,000 ordinary shares with a nominal value of US$0.005 each on the Stock Exchange at an aggregate consideration of HK$59,415,400. All of the purchased shares were cancelled before 31 December 2022. The Board believes that given the current financial resources of the Company, the share repurchase would not affect the Company's solid financial position in any material respect, and it would lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
March 2022	130,000	11.34	11.04	1,447,520
April 2022	3,600,000	11.90	10.46	40,227,820
May 2022	1,000,000	11.16	10.64	10,976,200
September 2022	545,000	9.84	9.22	5,147,640
October 2022	180,000	9.08	8.90	1,616,220
Total	5,455,000	-	-	59,415,400

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

Directors

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

Executive Directors:

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

Independent Non-Executive Directors:

Mr. LEUNG Chong Shun
Ms. LUO Laura Ying
Mr. FUNG Ching Simon

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

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. Chen Yanling, Mr. Leung Chong Shun and Ms. Luo Laura Ying. Details of these retiring Directors will be set out in the circular expected to be issued by the Company on 6 April 2023.

Annual Confirmation of Independence

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

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on pages 33 to 37 of this Annual Report.

Directors' Service Contracts

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

Management Contracts

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

Employee Benefit Scheme

During the Reporting Period, approved by the Benefit Scheme Executive Committee of the Company, there were 6 employees participating in the CMS Key Employee Benefit Scheme. Details of the Employee Benefit Scheme are set out in note 41 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2022, none of the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or its holding company or any of its subsidiaries was a party.

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

As at 31 December 2022, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Directors	Name of Corporations	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,137,564,000 (L) (Note 2)	46.39%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.82%
		Interest in controlled corporation	50,225,000 (L) (Note 3)	2.05%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.30%

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

Directors' Right to Acquire Shares or Debentures

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

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

Saved as disclosed above, as at 31 December 2022, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interests and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Connected Transactions

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

Details of the related party transactions of the Group during the Reporting Period are set out in note 39 and 41 to the consolidated financial statements in this Annual Report. These related party transactions either fall outside the definitions of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules or are "connected transactions" fully exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Employees

As at 31 December 2022, the Group had 5,647 employees. To meet the need of talents development of the Group, The Group has introduced external professional consulting firms to optimize the Group's organizational structure, improve the Group's performance management and salary incentive system, etc., further stimulate the organizational vitality and improve organizational operation efficiency, enabling the Group's human resource management to fully match with the Group's development strategy. The Group provides employees with competitive compensation packages including salaries, bonuses, insurance and benefits. Salaries and bonuses are based on employees' performance and are measured against specific objective criteria. Additionally, the Group is committed to providing equal opportunities to all employees in all respects and has made efforts in employees' continuing education and training programs, such as orientation programs for new employees, regulation-related trainings and position skills trainings, to continuously enhance their knowledge, skills and team spirit.

Directors' and Senior Management's Emoluments

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

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

For the year ended 31 December 2022, the emoluments of the Group's senior management (including the Company Secretary but not Directors) are disclosed below:

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

Key Relationship with Employees, Customers and Suppliers

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

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

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

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

Principal Risks and Uncertainties

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

Compliance with GMP and GSP Standards

In accordance with applicable laws and regulations, certain subsidiaries of the Company are required to comply with good Manufacturing Practice ("GMP") standards and good Supplying Practice ("GSP") standards constantly and strictly. The Group has established a sound quality management system for the production and operation of pharmaceuticals, and accepts continuous supervision and inspection by regulatory agencies to ensure compliance with current GMP and GSP standards. In the event that those subsidiaries fail to strictly comply with the requirements of GMP and/or GSP standards and are penalized by the regulatory authorities, the Group's business may still be largely and adversely affected after taking related remedies.

Product Liability

As insurance is not mandatorily required, the Group has not covered valid product liability insurance in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group, which could not be solved through negotiation or any other methods, the Group may suffer material cost and damage to its relationship with customers.

Healthcare Reform in China

The government regulation and governance over the healthcare system in the PRC is undergoing a crucial reform period, where (i) the applicable laws, regulations and policies pertaining to the healthcare, medical and pharmaceutical industry are constantly evolving, and (ii) governmental authorities in the PRC may regularly or unexpectedly amend their implementation practices. Enforcement action taken by the government against the Group may affect us materially and adversely. Significant adverse consequences may therefore be incurred if our Group did not optimize its strategy to adapt to the variation of the Chinese medical system in time. Moreover, the scope and the extent of application of the government regulation and governance are continually changing, which leads to more risks and uncertainties in respect of the performance and operation of the Group. The National VBP is an industrial policy that has significant impact on the Group. Details of the impacts of the National VBP are set out in the section headed "Impacts of Significant Industrial Policies" in "Management Discussion and Analysis" on page 25 of this Annual Report.

Tender and Price Control

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

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

The successful development of innovative patented products, the obtaining of regulatory approval and the realization of commercialization are affected by a number of factors. These include but are not limited to the sufficiency of resources to acquire or discover more drug candidates, pre-clinical studies and clinical trial delays or failures, uncertainties brought about by the duration of the approval and regulatory approval process, and, if regulatory approval is obtained, whether the products can be promoted successfully and their acceptance level in the market. If the R&D of innovative patented products fails, the Group is unable to obtain regulatory approval, or market acceptance of our products is not promising, the Group's future development may be affected adversely.

Furthermore, there may be other principal risks and uncertainties that are not known to the Company or may not be material now but could turn out to be material in the future.

Major Customers and Suppliers

For the year ended 31 December 2022, the percentage of sales to the Group's five largest customers was approximately 33.3% of the Group's total sales, and sales to the top customer accounted for approximately 14.4% of the total sales.

For the year ended 31 December 2022, the percentage of purchases from the Group's five largest suppliers was approximately 84.6% of the Group's total purchases, and purchase from the top supplier accounted for approximately 30.8% of the total purchases.

Except as disclosed in note 39 to the consolidated financial statement, none of the Group's directors, their close associates or shareholders had an interest in the Group's suppliers or customers.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on pages 49 to 60 of this Annual Report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this Annual Report, at least 25% of the Company's total issued share capital was held by the public in compliance with the public float requirement under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands - Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the business of the Group.

Mr. Lam Kong and Treasure Sea stated that they had complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Group, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Group during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Group. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period and did not cause any competition with the Group. The Board of Directors operated and managed the Group's businesses independently in the interests of the Company and its shareholders as a whole.

Donation

During the Reporting Period, the Group had made donations of RMB2.7 million for public services in communities, for details please refer to "Undertaking Community Responsibilities" on page 47 of the Group's Environmental, Social and Governance Report 2022.

Permitted Indemnity Provision

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

During the year ended 31 December 2022, pursuant to the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong), appropriate insurance coverage for the Directors' and senior management's liabilities in respect of legal actions against the Directors and senior management of the Company arising out of corporate activities of the Group has been arranged by the Company.

Equity-Linked Agreements

The Company has not entered into any equity-linked agreement during the year ended 31 December 2022.

Compliance with the Corporate Governance Code

The Company has complied with the applicable principles and code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules from 1 January 2022 to 31 December 2022, except for a deviation from the Code Provision C.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on pages 49 to 60 of this Annual Report.

Competing Interests

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

Audit Committee

The details of the Audit Committee are set out on pages 52 to 53 of the Corporate Governance Report of this Annual Report.

Auditors

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

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

Hong Kong, 16 March 2023

Corporate Governance Report

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

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the CG Code as set out in Appendix 14 to the Listing Rules from 1 January 2022 to 31 December 2022, except for a deviation from the Code Provision C.2.1 in respect of the roles of Chairman and Chief Executive which shall not be performed by the same individual.

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

Directors' Securities Transactions

The Company adopted the Model Code as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2022. The Model Code also applies to other specified senior management of the Company.

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

Operation of the Board

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

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

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

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

Composition of the Board

As at the date of this Annual Report, the Board consists of six Directors, including three executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing and Ms. Chen Yanling; three independent non-executive Directors, namely Mr. Leung Chong Shun, Ms. Luo Laura Ying and Mr. Fung Ching Simon. Biographical details of the Directors are set out on pages 33 to 35 of this Annual Report. Save as disclosed in the section headed "Directors and Senior Management" of this Annual Report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Board Attendances and Time Commitment

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

Name	**Title**	**Attendance Rate**	
		Board Meeting	**Annual General Meeting**
Mr. Lam Kong	Chairman and Chief Executive, President	4/4	1/1
Mr. Chen Hongbing	Chief Operating Officer, Vice President	4/4	1/1
Ms. Chen Yanling	Chief Financial Officer, Vice President	4/4	1/1
Mr. Leung Chong Shun	Independent Non- Executive Director	4/4	1/1
Ms. Luo Laura Ying	Independent Non- Executive Director	4/4	1/1
Mr. Fung Ching Simon	Independent Non- Executive Director	4/4	1/1

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

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

Independent Non-executive Directors and Mechanisms Ensuring Independent Views and Input Available to the Board

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

For the year ended 31 December 2022, there were three independent non-executive Directors, representing one-half of the Board, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

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

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

All Directors and Board Committees have access to external legal counsel and other professionals for independent advice to better perform their duties at the Group's expense if necessary.

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

Directors' Continuous Professional Development

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

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

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

Directors	**Corporate Governance/Updates on Laws, Rules and Regulations/Updates on Industry Specific**	
	Written Materials	**Briefings/Seminars**
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Independent Non-executive Directors		
Mr. Leung Chong Shun	√	√
Ms. Luo Laura Ying	√	√
Mr. Fung Ching Simon	√	√

Committees

The Company has established the Audit Committee, the Remuneration Committee, the Nomination Committee and the Environmental, Social and Governance Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinions and recommendations for consideration by the Board under its own defined terms of reference.

Audit Committee

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

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, and to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the Company's appointment of external auditors. The annual results announcement and annual report for the year ended 31 December 2022 of the Company have been reviewed by the Audit Committee and approved by the Board with recommendation of the Audit Committee. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2022, the Audit Committee held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2021, the interim results for 2022, the activities of the Group's risk management and internal control functions and also discussed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meetings for the Year Ended 31 December 2022
Mr. Fung Ching Simon (Chairman)	3/3
Mr. Leung Chong Shun	3/3
Ms. Luo Laura Ying	3/3

Remuneration Committee

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

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

For the year ended 31 December 2022, the Remuneration Committee held three meetings. At the meetings, the Remuneration Committee reviewed and recommended adjusting remuneration of the Directors and senior management with reference to the industry standard, in light of the business advancement of the Group and according to their qualifications, experience and contributions, and considered that the proposed remunerations of whom were reasonable and appropriate. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meetings for the Year ended 31 December 2022
Mr. Leung Chong Shun (Chairman)	3/3
Ms. Luo Laura Ying	3/3
Mr. Fung Ching Simon	3/3

Nomination Committee

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

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

For the year ended 31 December 2022, the Nomination Committee held one meeting. At the meetings, the Nomination Committee reviewed the composition and structure of the Board in order to determine whether it is in compliance with requirements under the relevant laws, regulations and rules and whether the diversity on the Board has been achieved and maintained, considered and made recommendations to the Board on the re-appointment of the retiring Directors at the 2021 annual general meeting, and also assessed whether the independent non-executive Directors had spent enough time in fulfilling their duties and their independence. The Nomination Committee is of the view that the current composition and structure of the Board comply with the applicable regulations and the Board is experienced and has diversified perspectives and views. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2022
Ms. Luo Laura Ying (Chairman)	1/1
Mr. Lam Kong	1/1
Mr. Leung Chong Shun	1/1
Mr. Fung Ching Simon	1/1

Policy for the Nomination of Directors

The Company has adopted the Policy for the Nomination of Directors (the "Nomination Policy"). During the Reporting Period, the Nomination Committee had reviewed the Nomination Policy.

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

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

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

Board Diversity Policy and Gender Diversity

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

As at the date of this Annual Report, the Board's composition from a board diversity perspective is summarized as follows:

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

As at 31 December 2022, the Board consists of six members, including two female members. Female Board members represent 33.3% of the Board. The Board considers that it has achieved gender diversity. The Board wishes to maintain its current female ratio (33.3%) at least. The Nomination Committee shall continue to consider and implement the Board Diversity Policy in future selection and recommendation of Board member candidates. The Board shall continue to introduce female members if it considers the candidates suitable with the ultimate goal of achieving gender parity within the Board.

Female senior management members represent 33.3% of the senior management of the Company. Female middle-senior management members represent 35.0% of the middle-senior management of the Group. Female employees represent 53.8% of the employees of the Group. The Group wishes to keep the ratio of its female employees not lower than 50%.

Environmental, Social and Governance Committee

The Company established the Environmental, Social and Governance Committee in 2020. The Environmental, Social and Governance Committee comprises one executive Director and two independent non-executive Directors, and is currently chaired by Ms. Chen Yanling, with Mr. Leung Chong Shun and Mr. Fung Ching Simon as the committee members.

The primary duties of the Environmental, Social and Governance Committee are to comprehensively formulate and review the administrative policies, strategies and structures of the Group's environmental, social and governance; to review environmental, social and governance-related policies, regulations and trends and provide decision-making advice to the Board of Directors regarding the Group's environmental, social and governance strategies and operations; to ensure the Company to comply with requirements of applicable laws and regulations; to monitor and supervise the formulation and implementation of the Group's environmental, social and governance objectives; to identify external environmental, social and governance trends, risks and opportunities; and to promote a positive culture throughout the Group and actively incorporate environmental, social and governance considerations into the business decision-making processes, etc. The terms of reference of the Environmental, Social and Governance Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2022, the Environmental, Social and Governance Committee held four meetings. At the meetings, the Environmental, Social and Governance Committee reviewed the Group's overall environmental, social and governance (the "ESG") performance, reviewed the implementation progress of the Group's ESG objectives, reported the important trends affecting the Group's ESG strategies, assessed the impact of ESG risks and opportunities on the Group, guided and reviewed the Group's ESG materiality analysis, and reviewed and reported to the Board the 2021 ESG Report of the Company. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2022
Ms. Chen Yanling (Chairman)	4/4
Mr. Leung Chong Shun	4/4
Mr. Fung Ching Simon	4/4

Corporate Governance Functions

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

Auditor's Remuneration

For the year ended 31 December 2022, the Company has appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service. The remuneration for its auditing and non-auditing service was HK$5.0 million and HK$3.0 million, respectively. The non-auditing service covered tax advisory service, due diligence service and ESG related assurance service.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2022. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The responsibility of auditor is set out on pages 64 to 65 of the independent auditor's report.

Risk Management and Internal Controls

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

The Board confirms its responsibility for supervising the Group's risk management and internal control systems and reviewing their effectiveness at least annually through the Audit Committee. The Group's finance department, compliance department, audit department, legal department and various operating departments are responsible for the implementation of risk management policies and routine risk management work. The Group's Internal Audit and the Audit Committee assist the Board in the review of the effectiveness of the Group's risk management and internal control systems on the basis of continuity. The Directors through these committees are kept regularly appraised of significant risks that may impact on the Group's performance.

The Group has a strict reporting system and specified the reporting channels, treatment procedure, whistleblower protection and other related issues in the CMS Anti-fraud Management Policy to ensure that all reporting can be properly handled. During the Reporting Period, the Company has amended the CMS Anti-fraud Management Policy. If requested by the whistleblower, the content of the report can be forwarded to the Audit Committee. Regarding the procedure and internal control over handling and propagation of the inside information, the Group has adopted an Inside Information Management Policy which has been disseminated to all the staff. Based on the policy and in order to ensure that the inside information would be processed and propagated in compliance, the Group has established monitoring measures to ensure that the potential inside information could be promptly recognized, assessed and then provided to the Board for their decision that whether a disclosure is required.

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

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

Shareholders' Rights

Convening an Extraordinary General Meeting

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

Shareholders' Enquiries

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

Articles of Association

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

Communications with Shareholders and Investors

The Company attaches great importance to communications with shareholders and investors as always, and is committed to disclosing information that is important to shareholders and investors in a timely and objective manner through multiple channels. We actively and effectively communicate the Company's latest business development and strategies to the capital market. To further optimize this communication, the Group has established Investors (Shareholders Included) Communication Policy and regularly reviews and assesses its implementation and effectiveness. During the Reporting Period, the Board has reviewed the Investors (Shareholders Included) Communication Policy and considers it to be effective.

The Company interacts with its shareholders and investors mainly through the following channels, and proactively solicits and responds to the opinions of shareholders and investors: (i) holding Annual General Meetings and Extraordinary General Meetings; (ii) providing timely release of latest news and updates of the Company on the official website as well as official WeChat accounts and financial media platforms; (iii) responding to inquiries from shareholders and investors via various means such as telephone and email; (iv) organizing online and offline Interim and Annual Results Announcement Conferences (v) participating in various conferences, roadshows and other events organized by securities institutions; (vi) organizing and receiving investors visits and conference calls. During the Reporting Period, the management and the investor relations team of the Company have received more than a thousand representatives of domestic and overseas investment institutions and individuals.

In addition, the Group has disclosed the contact information for investor relations on the Company's official website to facilitate any enquiries or opinions about the Company from investors, and encourage investors to provide their telephone number or email for timely and effective response.

The Company's active and persistent communication with shareholders and investors has been recognized by third parties. During the Reporting Period, the Company was awarded the Golden HK Stock "Most Valuable Pharmaceutical Listing Company" for the fifth time and the Golden HK Stock "Best Hong Kong Stock Connect Listing Company" for the second time; It was listed as the "Top 25 Listed Pharmaceutical Companies" of "Top 100 Hong Kong Listed Companies", "Top 20 Competitive Chinese Pharmaceutical Listed Companies" , and also won the "Annual Growth Value Awards" of Annual Golden Award, "Best Information Disclosure Award" , "Listed Biopharma with the Most Growing Value" and "Overseas Listed Company with the Most Growing Value", and once again listed on "CSR Ranking of Pharmaceutical Enterprises" and selected as the "TOP20 ESG Competitiveness of Chinese Pharmaceutical Listed Companies" and "Top 10 Best Corporate Governance Companies",etc.

In the future, the Group will continue to maintain close, sincere and effective communication and interaction with investors, listen attentively to voices from the capital markets, and further optimize investor relations work.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 66 to 188, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters - continued

Key audit matter	How our audit addressed the key audit matter
Impairment of Goodwill	
We identified the impairment of goodwill allocated to the cash generating unit of Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd. ("Tianjin Kangzhe") as a key audit matter due to the involvement of significant judgment of the management in determining the impairment of goodwill. The impairment of goodwill allocated to the cash generating unit of Tianjin Kangzhe is determined based on the higher of fair value less costs of disposal and value in use of the cash generating unit. The recoverable amount has been determined based on value in use calculation, which is based on the cash flow forecasts prepared by management. The impairment model is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. As at 31 December 2022, the carrying value of goodwill allocated to the cash generating unit of Tianjin Kangzhe was RMB990 million. Details relating to the Group's goodwill and key sources of estimation uncertainty are set out in Note 19 and Note 4 to the consolidated financial statements, respectively.	Our procedures in relation to the impairment of goodwill included: • Making inquiries with management on their bases and assumptions used in relation to the preparation of the value in use calculation; • Checking the mathematical accuracy of the value in use calculation; • Evaluating the reasonableness of the key assumptions including growth rates, discount rate and the forecast performance used by the management with reference to the historical performance; • Checking the inputs used in the cash flow forecast against supporting documentation; • Evaluating the sensitivity analysis prepared by the management on discount rate and growth rates to assess the extent of impact on the value in use calculation; • Evaluating the independent professional external valuer's competence, capabilities and objectivity; and • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and discount rate adopted.

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

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Sy, Sunnie.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022	2021
		RMB'000	RMB'000
Revenue	5	9,150,347	8,337,221
Cost of goods sold		(2,114,500)	(2,090,283)
Gross profit		7,035,847	6,246,938
Other income	6	198,578	146,947
Other gains and losses	7	(4,195)	111,525
Selling expenses		(2,721,312)	(2,540,147)
Administrative expenses		(636,612)	(440,995)
Finance costs	8	(49,086)	(28,270)
Research and development expenses		(125,431)	(114,761)
Share of results of associates		65,061	75,352
Profit before tax		3,762,850	3,456,589
Income tax expense	11	(486,655)	(431,325)
Profit for the year	12	3,276,195	3,025,264
Other comprehensive (expenses) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(196,197)	(25,315)
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income (expense) of associates		35,357	(10,541)
Exchange differences arising on translation of foreign operations		16,092	991
Exchange differences arising on translation of Interest in associate		18,315	-
Change in fair value on cash flow hedges			
- fair value gain		10,861	3,929
- deferred tax relating to change in fair value		(892)	(731)
Other comprehensive expense for the year, net of income tax		(116,464)	(31,667)
Total comprehensive income for the year		3,159,731	2,993,597
Profit for the year attributable to:			
Owners of the Company		3,258,992	3,017,402
Non-controlling interests		17,203	7,862
		3,276,195	3,025,264
Total comprehensive income for the year attributable to:			
Owners of the Company		3,142,528	2,985,735
Non-controlling interests		17,203	7,862
		3,159,731	2,993,597
		RMB	RMB
Earnings per share	14		
Basic		1.3281	1.2228

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	15	425,480	453,154
Right-of-use assets	16	69,979	76,713
Interests in associates	17	3,044,818	2,687,286
Intangible assets	18	2,066,423	2,215,697
Goodwill	19	1,665,993	1,691,179
Equity instruments at fair value through other comprehensive income	20(b)	297,048	400,471
Deposits paid for acquisition of intangible assets	23	1,285,415	790,483
Amount due from an associate	24	30,000	30,000
Loan receivable		-	31,879
Deposit paid for acquisition of a subsidiary		-	15,000
Deferred tax assets	31	39,007	36,299
		8,924,163	8,428,161
Current assets			
Inventories	21	477,206	472,598
Financial assets at fair value through profit or loss	20(a)	1,491,336	977,874
Trade and other receivables and prepayments	22	2,043,944	2,204,002
Loan receivable		70,168	-
Tax recoverable		253	19,469
Derivative financial instruments	32	42,021	-
Amount due from an associate	24	328,072	320,036
Bank balances and cash	25	4,376,376	3,385,739
		8,829,376	7,379,718
Current liabilities			
Trade and other payables	26	563,194	629,547
Lease liabilities	27	15,804	16,922
Contract liabilities	28	21,614	23,715
Bank borrowings	29	1,783,337	1,103,760
Derivative financial instrument	32	562	-
Deferred consideration payables	30	1,000	2,000
Tax liabilities		327,819	305,310
Obligation arising from put options	42(a)	163,773	-
		2,877,103	2,081,254
Net current assets		5,952,273	5,298,464
Total assets less current liabilities		14,876,436	13,726,625

	NOTES	2022 RMB'000	2021 RMB'000
Capital and reserves			
Share capital	33	83,991	84,177
Reserves	34	14,505,076	12,668,267
Equity attributable to owners of the Company		14,589,067	12,752,444
Non-controlling interests		148,010	94,543
		14,737,077	12,846,987
Non-current liabilities			
Deferred tax liabilities	31	124,959	123,575
Lease liabilities	27	13,491	17,810
Deferred consideration payables	30	909	736
Bank borrowings	29	-	573,813
Derivative financial instruments	32	-	11,291
Obligation arising from put options	42(a)	-	152,413
		139,359	879,638
		14,876,436	13,726,625

The consolidated financial statements on pages 66 to 188 were approved and authorised for issue by the Board of Directors on 16 March 2023 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note 34)	Surplus reserve fund RMB'000 (Note 34)	Translation reserve RMB'000	Hedging reserve RMB'000	Investments revaluation reserve RMB'000	Share-based payments reserve RMB'000	Other reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2021	84,634	2,304,879	19,545	354,768	(16,332)	(4,917)	(41,186)	-	-	7,830,445	502,306	11,034,142	68,573	11,102,715
Profit for the year	-	-	-	-	-	-	-	-	-	3,017,402	-	3,017,402	7,862	3,025,264
Share of other comprehensive expense of associates	-	-	-	-	(10,541)	-	-	-	-	-	-	(10,541)	-	(10,541)
Exchange differences arising from translation of foreign operations	-	-	-	-	991	-	-	-	-	-	-	991	-	991
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(25,315)	-	-	-	-	(25,315)	-	(25,315)
Change in fair value on cash flow hedges														
- fair value gain	-	-	-	-	-	3,929	-	-	-	-	-	3,929	-	3,929
- deferred tax relating to change in fair value	-	-	-	-	-	(731)	-	-	-	-	-	(731)	-	(731)
Total comprehensive (expense) income for the year	-	-	-	-	(9,550)	3,198	(25,315)	-	-	3,017,402	-	2,985,735	7,862	2,993,597
Repurchase of ordinary shares (Note 33)	(457)	(151,062)	-	-	-	-	-	-	-	-	-	(151,519)	-	(151,519)
Acquisition of a subsidiary (Note 42(a))	-	-	-	-	-	-	-	-	57,264	-	-	57,264	106,500	163,764
Acquisition of a subsidiary (Note 42(b))	-	-	-	-	-	-	-	-	-	-	-	-	18,108	18,108
Transfer of Employment Share to an employee (as defined and detailed in Note 42(a))	-	-	-	-	-	-	-	(54,588)	19,088	-	-	(35,500)	35,500	-
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	17,156	-	-	-	17,156	-	17,156
Recognition of obligation arising from put options (Note 42(a))	-	-	-	-	-	-	-	-	-	-	-	-	(142,000)	(142,000)
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(652,528)	(502,306)	(1,154,834)	-	(1,154,834)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(557,594)	557,594	-	-	-
Transfer of reserves	-	-	-	7,383	-	-	-	-	-	(7,383)	-	-	-	-
Balance at 31 December 2021	84,177	2,153,817	19,545	362,151	(25,882)	(1,719)	(66,501)	(37,432)	76,352	9,630,342	557,594	12,752,444	94,543	12,846,987
Profit for the year	-	-	-	-	-	-	-	-	-	3,258,992	-	3,258,992	17,203	3,276,195
Share of other comprehensive income of associates	-	-	-	-	35,357	-	-	-	-	-	-	35,357	-	35,357
Exchange differences arising on translation of foreign operations	-	-	-	-	16,092	-	-	-	-	-	-	16,092	-	16,092
Exchange differences arising on translation of interest in associate	-	-	-	-	18,315	-	-	-	-	-	-	18,315	-	18,315
Fair value loss on investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(196,197)	-	-	-	-	(196,197)	-	(196,197)
Change in fair value on cash flow hedges														
- fair value gain	-	-	-	-	-	10,861	-	-	-	-	-	10,861	-	10,861
- deferred tax relating to change in fair value	-	-	-	-	-	(892)	-	-	-	-	-	(892)	-	(892)
Total comprehensive income (expense) for the year	-	-	-	-	69,764	9,969	(196,197)	-	-	3,258,992	-	3,142,528	17,203	3,159,731
Repurchase of ordinary shares (Note 33)	(186)	(48,196)	-	-	-	-	-	-	-	-	-	(48,382)	-	(48,382)
Acquisition of a subsidiary (Note 42(b))	-	-	-	-	-	-	-	-	-	-	-	-	3,174	3,174
Non-controlling interests arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	33,090	33,090
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	18,716	-	-	-	18,716	-	18,716
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(718,645)	(557,594)	(1,276,239)	-	(1,276,239)
Dividends proposed (Note 13)	-	-	-	-	-	-	-	-	-	(591,910)	591,910	-	-	-
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	20,675	-	-	(20,675)	-	-	-	-
Transfer of reserves	-	-	-	32,734	-	-	-	-	-	(32,734)	-	-	-	-
Balance at 31 December 2022	83,991	2,105,621	19,545	394,885	43,882	8,250	(242,023)	(18,716)	76,352	11,525,370	591,910	14,589,067	148,010	14,737,077

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES			
Profit before tax		3,762,850	3,456,589
Adjustments for:			
Amortisation of intangible assets	18	165,769	164,196
Impairment loss on goodwill		60,000	20,000
Impairment loss on financial assets under expected credit loss model, net of reversal		110	1,305
Impairment loss on deposit paid for acquisition of intangible assets		2,003	-
Interest expenses		37,553	17,608
Depreciation of property, plant and equipment	15	43,310	41,853
Depreciation of right-of-use assets	16	18,147	13,771
Loss on disposal of property, plant and equipment		403	225
Release on deferred difference on initial recognition of financial instruments		-	(1,929)
Imputed interest expense on deferred consideration payables		173	249
Imputed interest expense on obligation rising from put options		11,360	10,413
Share of results of associates		(65,061)	(75,352)
Interest income		(105,515)	(81,853)
Net foreign exchange loss		155,744	8,014
Change in fair value of derivative financial instruments		(41,889)	10,063
Change in fair value of financial assets at fair value through profit or loss		(150,009)	(115,656)
Recognition of share-based payments		18,716	17,156
Operating cash flows before movements in working capital		3,913,664	3,486,652
Decrease (increase) in inventories		8,156	(90,865)
Decrease (increase) in trade and other receivables and prepayments		163,914	(367,886)
Increase in amount due from an associate		(8,036)	(112,765)
Decrease in trade and other payables		(71,858)	(33,867)
Decrease (increase) in contract liabilities		(2,101)	9,309
Cash generated from operations		4,003,739	2,890,578
People's Republic of China (the "PRC") Enterprise Income Tax paid		(284,566)	(268,482)
Hong Kong Profits Tax paid		(122)	(2,340)
Macau Complementary Income Tax paid		(165,808)	(125,904)
NET CASH FROM OPERATING ACTIVITIES		3,553,243	2,493,852

	NOTE	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES			
Interest received		103,152	81,853
Dividends received from an associate		31,305	47,235
Purchase of property, plant and equipment		(18,336)	(23,347)
Proceeds from disposal of property, plant and equipment		2,323	2,998
Disposal of financial assets at fair value through profit or loss		185	-
Disposal of equity instruments at fair value through other comprehensive income		2,841	-
Purchase of financial assets at fair value through profit or loss		(363,638)	(858,334)
Purchase of equity instruments at fair value through other comprehensive income		(95,615)	(10,201)
Payments for rental deposits		(184)	(2,451)
Deposits paid for acquisition of intangible assets		(506,585)	(161,494)
Acquisition of an associate		(233,713)	(30,000)
Capital injection to an associate		(36,117)	-
Deposit paid for acquisition of a subsidiary		-	(15,000)
Loan to third parties		(34,823)	(31,879)
Net cash outflow on acquisition of subsidiaries		(28,997)	(518,905)
NET CASH USED IN INVESTING ACTIVITIES		(1,178,202)	(1,519,525)
FINANCING ACTIVITIES			
New bank borrowings raised		1,375,013	1,077,375
Repayment for deferred consideration payable		(1,000)	-
Interest paid		(37,553)	(17,608)
Dividends paid	13	(1,276,239)	(1,154,834)
Repayment of bank borrowings		(1,427,993)	(10)
Repayments of lease liabilities		(16,850)	(11,796)
Payment on repurchase of shares		(48,382)	(151,519)
Capital contribution from non-controlling interest		33,090	-
NET CASH USED IN FINANCING ACTIVITIES		(1,399,914)	(258,392)
NET INCREASE IN CASH AND CASH EQUIVALENTS		975,127	715,935
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		3,385,739	2,668,426
Effects of exchange rate changes on the balance of cash held in foreign currencies		15,510	1,378
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH		4,376,376	3,385,739

1. GENERAL INFORMATION

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

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

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

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

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2022 for the preparation of the consolidated financial statements:

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

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

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

Impacts on application of Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in IFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting issued by International Accounting Standards Board in March 2018 (the "Conceptual Framework") instead of the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010), add a requirement that, for transactions and events within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

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

Impacts on application of Amendments to IFRSs Annual Improvements to IFRSs 2018-2020

The Group has applied the amendments for the first time in the current year. The annual improvements make amendments to the following standards:

IFRS 9 *Financial Instruments*

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

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

IFRS 16 *Leases*

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

IAS 41 *Agriculture*

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

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

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

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

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

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

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

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

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

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

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

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

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

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the 2020 and 2022 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.

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

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

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.

Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities (please see Note below), the Group applies IAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting periods beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB27,888,000 and RMB29,295,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

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

3.1 Basis of preparation of consolidated financial statements

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

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

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

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

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

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

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

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

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.

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

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

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

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

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

3.2 Significant accounting policies - continued

Business combinations - continued

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

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting issued by International Accounting Standards Board in March 2018 (the "Conceptual Framework") except for transactions and events within the scope of IAS 37 or IFRIC 21, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

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

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

Goodwill

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 - continued

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

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

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

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

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

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

Interests in associates

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

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

3.2 Significant accounting policies - continued

Interests in associates- continued

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

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

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

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

Property, plant and equipment

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

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

3.2 Significant accounting policies - continued

Property, plant and equipment - continued

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

`

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

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

Intangible assets

Intangible assets acquired separately

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

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

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

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

3.2 Significant accounting policies - continued

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

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

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

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

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

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

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

3.2 Significant accounting policies - continued

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

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

Cash and cash equivalents

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

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

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

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

Inventories

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

Financial instruments

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

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

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

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);

- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it as a separate line item on the consolidated statement of financial position).

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is not a contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies, and except derivative designated in a qualifying hedging relationship.

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

(i) Amortised cost and interest income

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

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

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss and is included in the "other gains and losses" line item.

Impairment of financial assets subject to impairment assessment under IFRS 9

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

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

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 subject to impairment assessment under IFRS 9 - continued

The Group always recognises lifetime ECL for trade receivables.

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

(i) Significant increase in credit risk

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

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

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

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

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 subject to impairment assessment under IFRS 9 - continued

(i) Significant increase in credit risk - continued

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

(iii) Credit-impaired financial assets

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

(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.

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 subject to impairment assessment under IFRS 9 - continued

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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

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

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

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

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 subject to impairment assessment under IFRS 9 - continued

(v) Measurement and recognition of ECL - continued

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

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

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

Derecognition of financial assets

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

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

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments

Classification as debts or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, or (ii) it is designated as at FVTPL.

A financial liability is held for trading if:

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Financial liabilities at FVTPL - continued

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

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

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

Financial liabilities at amortised cost

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

Bank borrowings

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Deferred consideration payables

The deferred consideration payables are initially measured at the present value of the contractual future payments. Deferred consideration payables are subsequently measured at amortised cost using the effective interest method.

Obligation arising from put options

Put options written to a non-controlling shareholder which will be settled by exchange of fixed amount of cash for a fixed number of shares in a subsidiary is treated as equity instrument and is recognised at fair value upon initial recognition.

The gross financial liability arising from the put options is recognised when contractual obligation to repurchase the shares in a subsidiary is established even if the obligation is conditional on the counterparty exercising a right to sell back the shares to the subsidiary. The liability for the share redemption amount is initially recognised and measured at present value of the estimated repurchase price with the corresponding debit to non-controlling interests. In subsequent periods, the remeasurement of the present value of the estimated gross obligation under the written put options to the non-controlling shareholder is recognised in profit or loss.

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.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition of financial liabilities - continued

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform - continued

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Derivative financial instruments

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

Hedge accounting

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

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

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Hedge accounting - continued

Assessment of hedging relationship and effectiveness

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

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

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

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Cash flow hedges

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

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

3.2 Significant accounting policies - continued

Financial instruments - continued

Hedge accounting - continued

Cash flow hedges - continued

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, the amount is immediately reclassified to profit or loss.

Discontinuation of hedge accounting

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

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

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.

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

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

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

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

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

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

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

Variable consideration

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

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

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

Variable consideration - continued

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

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Taxation

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

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

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

3.2 Significant accounting policies - continued

Taxation - continued

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

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

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

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

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

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

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

3.2 Significant accounting policies - continued

Taxation - continued

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 on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

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

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

Foreign currencies

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

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

3.2 Significant accounting policies - continued

Foreign currencies - continued

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

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

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

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

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 of IFRS16, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

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

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

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

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

Refundable rental deposits

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

Lease liabilities

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

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 - continued

The lease payments include:

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

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

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

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

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

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.

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

3.2 Significant accounting policies - continued

Leases - continued

The Group as a lessee - continued

Lease modifications - continued

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

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

Borrowing costs

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

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

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

Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

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

3.2 Significant accounting policies - continued

Retirement benefit costs

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

Payments to employee benefit schemes including Key Employee Benefit Scheme (the "2009 Scheme"), CMS Key Employee Benefit Scheme (the "New KEB Scheme") and CMS Employee Incentive Scheme (the "Bonus Scheme"), which are classified as a defined contribution scheme, are recognised as an expense when employees have rendered service entitling them to the contributions.

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

In respect of the non-mandatory provident fund schemes, contributions payable by the Group are reduced by the amount of contributions forfeited by those employees who leave the schemes prior to vesting fully in the Group's contributions.

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Shares/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.

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

3.2 Significant accounting policies - continued

Share-based payments - continued

Equity-settled share-based payment transactions - continued

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-based payments 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-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to accumulated profits. 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-based payments reserve will continue to be held in share-based payments reserve.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share capital and share premium.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Estimated impairment of goodwill

For the purpose of impairment testing, the entire amount of goodwill has been allocated to nine (2021: seven) cash generating units ("CGU"s) (see note 19). The impairment assessment is based on the higher of fair value less costs of disposal and value in use of the CGUs. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate in order to calculate the present value. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss/further impairment loss may arise.

During the year ended 31 December 2022, an impairment loss of RMB60,000,000 (2021: RMB20,000,000) was recognised in profit or loss. As at 31 December 2022, the carrying amount of goodwill is approximately RMB1,665,993,000 (2021: RMB1,691,179,000) (net of accumulated impairment loss of RMB250,000,000 (2021: RMB190,000,000)).

Estimated impairment of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is determined as the higher of its fair value less costs of disposal and its value in use. The recoverable amount is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. No impairment loss of intangible assets were recognised for both years. As at 31 December 2022, the carrying amount of intangible assets is approximately RMB2,066,423,000 (2021: RMB2,215,697,000).

Provision of ECL for trade receivables

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

The provision of ECL is sensitive to changes in estimates. As at 31 December 2022, the carrying amount of trade receivables amounted to 1,442,035,000 (2021: 1,395,789,000) were net of impairment allowance under ECL model. The information about the ECL and the Group's trade receivables are disclosed in notes 36 and 22, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Fair value measurement of financial instruments

As at 31 December 2022, the Group's unquoted equity instruments at FVTOCI amounting to RMB233,047,000 (2021: RMB336,902,000) and financial assets, being unlisted investments at FVTPL amounting to RMB1,491,336,000 (2021: RMB977,264,000), are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques and the relevant inputs thereof. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 20 for further disclosures.

Estimated impairment of deposits paid for acquisition of intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its deposits paid for acquisition of intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated with reference to the value in use calculation in order to determine the extent of the impairment loss, if any. The value in use calculation is sensitive to changes in the key assumptions including growth rates, discount rate and the forecast performance based on management's view of future business prospects. If the recoverable amount of the deposits paid for acquisition of intangible assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. During the year ended 31 December 2022, an impairment loss of RMB2,003,000 (2021: RMB nil) was recognised in profit or loss. As at 31 December 2022, the carrying amount of the deposits paid for acquisition of intangible assets is approximately RMB1,285,415,000 (2021: RMB790,483,000).

5. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

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

At a point in time	2022 RMB'000	2021 RMB'000
Sales of pharmaceutical products	7,055,729	6,655,017
Promotion income	2,094,618	1,682,204
Total revenue	9,150,347	8,337,221

(ii) Performance obligations for contracts with customers

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

5. REVENUE AND SEGMENT INFORMATION - continued

(ii) Performance obligations for contracts with customers - continued

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

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

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

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

(iii) Segment information

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

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

The Group's production of medicines, marketing, promotion and sale of drugs are primarily in the PRC. Almost all revenue from external customers is attributed to the PRC, 79% and 21% of non-current assets excluding amount due from an associate, derivative financial instruments and deferred tax assets of the Group are located in the PRC and Dubai, respectively (2021: 76% and 24%).

Sales to the largest customer of the Group account for 14.4% of the Group's sales and no other single customers contribute over 10% of the total revenue of the Group for the year ended 31 December 2022.

Sales to the largest customer of the Group account for 12.6% of the Group's sales and no other single customers contribute over 10% of the total revenue of the Group for the year ended 31 December 2021.

6. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Interest income	105,515	81,853
Government subsidies (Note a)	93,063	65,094
	198,578	146,947

Note:

(a) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. Such government grants were pertinent to income and aim to give immediate financial support to the Group with no future related costs. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

7. OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Impairment loss on goodwill	(60,000)	(20,000)
Impairment loss on deposit paid for intangible asstes	(2,003)	-
Loss on disposal of property, plant and equipment	(403)	(225)
Net foreign exchange (loss) gain	(126,214)	22,622
Change in fair value of derivative financial instruments	41,889	(10,063)
Change in fair value of financial assets at fair value through profit or loss	150,009	115,656
Release on deferred difference on initial recognition of financial instruments	-	1,929
Others	(7,473)	1,606
	(4,195)	111,525

8. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	35,455	15,397
Interest on lease liabilities	2,098	2,211
Interest on obligation arising from put options (Note 42)	11,360	10,413
Imputed interest on deferred consideration payables	173	249
	49,086	28,270

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

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

	Year ended 31 December 2021							
	Executive Directors (Note b)		Independent Non-executive Directors (Note c)				Executive Director and chief executive (Note b)	
	Chen Hong Bing	Chen Yan Ling	Wu Chi Keung	Fung Ching, Simon	Leung Chong Shun	Luo, Laura Ying	Lam Kong	Total
	RMB'000	RMB'000	RMB'000 (Note d)	RMB'000 (Note e)	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000
Fees	199	199	152	47	199	199	199	1,194
Other emoluments								
Salaries and other benefits	3,874	2,964	-	-	-	-	4,311	11,149
Contributions to retirement benefits schemes	84	25	-	-	-	-	30	139
Total emoluments	4,157	3,188	152	47	199	199	4,540	12,482

Notes:

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

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

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

Notes: - continued

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

(d) Mr. Wu Chi Keung resigned as the independent non-executive director of the Company on 6 October 2021.

(e) Mr. Fung Ching, Simon was appointed as the independent non-executive director of the Company on 6 October 2021.

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

10. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2022 included 3 directors (2021: 3 directors), details of whose emoluments are set out in note 9 above. The emoluments of the remaining two (2021: two) individuals for the year ended 31 December 2022 were as follows:

	2022	2021
	RMB'000	RMB'000
Employees		
- basic salaries and allowances	5,689	4,773
- equity-settled share-based expense	18,716	17,156
- retirement benefits scheme contributions	97	-
	24,502	21,929

The number of the highest paid individuals who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
HK$3,500,001 to HK$4,000,000	1	1
HK$22,500,001 to HK$23,000,000	-	1
HK$25,000,001 to HK$26,000,000	1	-

During both years, no emoluments were paid by the Group to the directors or the highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax:		
The PRC Enterprise Income Tax ("EIT")	330,406	273,738
Hong Kong Profits Tax	2,317	136
Macau Complementary Income Tax	143,409	151,969
	476,132	425,843
Under (over) provision in prior years:		
The PRC EIT	14,450	2,524
Macau Complementary Income Tax	-	(6,744)
	14,450	(4,220)
Deferred taxation (note 31):		
- Current year	(3,927)	9,702
	486,655	431,325

Notes:

(a) The PRC Enterprise Income Tax

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

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

天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% (2021: 15%) granted by the local tax authority until 2023. 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% (2021: 15%) granted by local tax authority until 2022. 西藏康哲藥業發展有限公司 (Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") is entitled to a reduced tax rate of 9% (2021: 9%) granted by local tax authority until 2025.

(b) Hong Kong Profits Tax

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

11. INCOME TAX EXPENSE - continued

Notes: - continued

(b) Hong Kong Profits Tax - continued

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

(c) PRC Withholding Income Tax

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

(d) Overseas Income tax

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

(e) Macau Complementary Income Tax

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits. The maximum tax rate is 12% for the years ended 31 December 2022 and 2021.

(f) Dubai Tax

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

11. INCOME TAX EXPENSE - continued

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

	2022 RMB'000	2021 RMB'000
Profit before tax	3,762,850	3,456,589
Tax at PRC EIT rate of 25%	940,713	864,147
Tax effect of share of results of associates	(16,265)	(18,838)
Tax effect of expenses that are not deductible in determining taxable profit	100,862	89,572
Tax effect of income that is not taxable in determining taxable profit	(870)	(1,536)
Tax effect of offshore income that is not taxable in determining taxable profit	(94,400)	(88,583)
Tax effect of tax losses not recognised	23,247	3,400
Tax effect of deductible temporary differences not recognised	6,838	16,132
Tax effect of tax concession	(203,779)	(137,190)
Effect on different applicable tax rates of subsidiaries	(135,332)	(160,426)
Effect of taxable profit that is not taxable in Dubai	(143,256)	(132,222)
Under provision (over provision) in prior years	14,450	(4,220)
Others	(5,553)	1,089
Income tax expense for the year	486,655	431,325

12. PROFIT FOR THE YEAR

	2022 RMB'000	2021 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 9)		
Fees	1,848	1,194
Salaries and other benefits	12,723	11,149
Contribution to retirement benefits schemes	164	139
	14,735	12,482
Other staff costs	1,189,251	1,032,220
Equity-settled share-based expense	18,716	17,156
Contribution to retirement benefits schemes	217,691	136,583
Employee benefits expense (note 41)	5,760	-
Total staff costs	1,446,153	1,198,441
Auditor's remuneration	4,246	4,058
Depreciation of property, plant and equipment	43,310	41,853
Depreciation of right-of-use assets	18,147	13,771
Amortisation of intangible assets (included in cost of goods sold)	165,769	164,196
Cost of inventories recognised as an expense	1,941,753	1,919,419

13. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Dividends paid		
Dividends recognised as distributions during the year:		
2022 Interim - RMB0.2930 (2021: 2021 Interim dividend RMB0.2641) per share	718,645	652,528
2021 Final - RMB0.2269 (2021: 2020 final dividend RMB0.2033) per share	557,594	502,306
	1,276,239	1,154,834
Dividends proposed		
Dividends proposed during the year:		
2022 final - RMB0.2414 (2021: 2021 final - RMB0.2269) per share	591,910	557,594

Subsequent to the end of the reporting period, the Board of Directors have declared a final dividend of RMB0.2414 per ordinary share for the year ended 31 December 2022 (2021: RMB0.2269 per ordinary share).

14. EARNINGS PER SHARE

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

	2022 RMB'000	2021 RMB'000
Earnings for the purposes of basic earnings per share (profit for the year attributable to owners of the Company)	3,258,992	3,017,402

	Number of ordinary shares as at 31 December	
	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,453,940,224	2,467,696,556

The computation of diluted earnings per share for both years did not assume the exercise of put options by the non-controlling shareholder of a subsidiary as the exercise of the put option would result in an increase of earnings per share for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2021	322,979	54,221	184,113	34,635	33,808	15,484	645,240
Additions	1,810	6,727	1,956	2,272	7,239	3,343	23,347
Acquired on acquisition of a subsidiary	-	-	-	-	60	-	60
Disposals	-	-	(4,186)	-	(4,010)	-	(8,196)
Transfer	5,192	-	510	-	-	(5,702)	-
At 31 December 2021	329,981	60,948	182,393	36,907	37,097	13,125	660,451
Additions	9	5,072	5,537	73	7,118	527	18,336
Acquired on acquisition of a subsidiary	-	-	-	-	26	-	26
Disposals	-	-	(2,235)	(3,134)	(2,500)	-	(7,869)
Transfer	-	73	-	-	831	(904)	-
At 31 December 2022	329,990	66,093	185,695	33,846	42,572	12,748	670,944
ACCUMULATED DEPRECIATION							
At 1 January 2021	60,628	13,813	61,221	24,659	10,096	-	170,417
Provided for the year	13,598	6,173	12,898	4,378	4,806	-	41,853
Eliminated on disposals	-	-	(2,668)	-	(2,305)	-	(4,973)
At 31 December 2021	74,226	19,986	71,451	29,037	12,597	-	207,297
Provided for the year	13,162	7,174	13,643	3,559	5,772	-	43,310
Eliminated on disposals	-	-	(1,440)	(2,821)	(882)	-	(5,143)
At 31 December 2022	87,388	27,160	83,654	29,775	17,487	-	245,464
CARRYING VALUES							
At 31 December 2022	242,602	38,933	102,041	4,071	25,085	12,748	425,480
At 31 December 2021	255,755	40,962	110,942	7,870	24,500	13,125	453,154

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

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

As at 31 December 2022 and 2021, the Group had no pledged property, plant and equipment to source bank borrowing and banking facilities granted to the Group.

16. RIGHT-OF-USE ASSETS

	Leasehold land	Building	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2022			
Carrying amount	42,091	27,888	69,979
As at 31 December 2021			
Carrying amount	43,309	33,404	76,713
For the year ended 31 December 2022			
Depreciation charge	1,218	16,929	18,147
For the year ended 31 December 2021			
Depreciation charge	1,196	12,575	13,771

	Year ended 31/12/2022	Year ended 31/12/2021
	RMB'000	RMB'000
Expense relating to short-term leases	12,340	7,682
Total cash outflow for leases	(31,288)	(21,689)
Additions to right-of-use assets	11,413	33,622

For both years, the Group leases offices premises and warehouses for its operations. For the year ended 31 December 2022, lease contracts are entered into for fixed term of 1 year to 5 years (2021: 1 year to 5 years) with fixed payment. The Group does not have the option to purchase the leased properties for a nominal amount at the end of the relevant lease terms or any extension/termination options which are solely at the Group's discretion. The Group's obligations are secured by the rental deposits for such leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group determines the lease period to be the non-cancellable period based on the contractual terms of the contract.

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

As at 31 December 2022 and 2021, the Group had no pledged right-of-use assets to source ure general banking facilities granted to the Group.

16. RIGHT-OF-USE ASSETS - continued

The Group regularly entered into short-term leases for offices premises and warehouses. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

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

17. INTERESTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	299,830	30,000
Share of post-acquisition profits and other comprehensive income, net of dividends received	422,317	352,930
Exchange adjustments	18,315	-
	3,044,818	2,687,286
Fair value of listed investment (note)	3,326,859	4,849,508

Note: As at 31 December 2022, the fair value of the Group's interest in its listed associate, Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), of which its shares are listed on the Shanghai Stock Exchange (the "SSE"), was approximately RMB3,327 million (2021: approximately RMB4,850 million) based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13 *Fair Value Measurement.*

As at 31 December 2022 and 2021, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest /voting rights held by the Group		Principal activities
			2022	2021	
Tibet Pharmaceutical (Note a)	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs
Shenzhen Kangmai Biotechnology Co., Ltd. (formerly known as Zhuhai Kangmai Biotechnology Co., Ltd.) (Note b)	PRC	PRC	50.00%	50.00%	Research and development of antibodies medicines
Eye Tech Care (Note c)	France	France	36.17%	N/A	Research and development of therapeutic ultrasound device

17. INTERESTS IN ASSOCIATES - continued

Notes:

(a) As the Group is able to exercise significant influence over Tibet Pharmaceutical in both years, it is accounted for as an associate of the Group. Included in the cost of investment in Tibet Pharmaceutical as at 31 December 2022, there is a goodwill of approximately RMB1,654,481,000 (2021: RMB1,654,481,000).

As at 31 December 2022 and 2021, no impairment indicator on interest in Tibet Pharmaceutical and no impairment assessment was carried out.

(b) In October 2021, the Group established Shenzhen Kangmai Biotechnology Co., Ltd. ("Shenzhen Kangmai") with an independent third party, Trinomab Biotech Co., Ltd ("Trinomab"). Trinomab is responsible for drug discovery and preclinical studies, while the Group is responsible for clinical development, registration, and commercialization, etc. Each party owns 50% of equity interest in Shenzhen Kangmai, however, the Group appointed one director out of three directors and is able to exercise significant influence over Shenzhen Kangmai.

As at 31 December 2021, no impairment indicator on interest in Shenzhen Kangmai and no impairment assessment was carried out.

(c) In August 2022, the Group entered into an investment agreement in which the Group acquired 36.17% equity interest of Eye Tech Care ("ETC") for a consideration of EUR34,000,000 (approximately equivalent to RMB233,713,000) and the investment was accounted for as an investment in an associate using the equity method.

Summarised financial information of associates

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

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Tibet Pharmaceutical

	31.12.2022 RMB'000	31.12.2021 RMB'000
Current assets	2,712,114	2,181,907
Non-current assets	1,387,298	1,620,749
Current liabilities	(1,026,205)	(1,109,665)
Non-current liabilities	(42,436)	(47,970)

	2022 RMB'000	2021 RMB'000
Revenue	2,554,609	2,138,587
Profit for the year	375,277	213,027
Other comprehensive income (expense) for the year	94,398	(29,012)
Total comprehensive income for the year	469,675	184,015
Dividends received from the associate during the year	31,305	47,235

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

	31.12.2022 RMB'000	31.12.2021 RMB'000
Net assets of Tibet Pharmaceutical	3,030,771	2,645,021
Non-controlling interests	(19,031)	(14,661)
	3,011,740	2,630,360
Proportion of the Group's ownership interest in Tibet Pharmaceutical	37.36%	37.36%
	1,125,186	982,702
Goodwill	1,654,481	1,654,481
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	(6,610)	(4,224)
Carrying amount of the Group's interest in Tibet Pharmaceutical	2,797,703	2,657,605

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

Shenzhen Kangmai

	31.12.2022 RMB'000	31.12.2021 RMB'000
Current assets	732	59,362
Non-current assets	46,674	-
Current liabilities	(16,316)	-

	2022 RMB'000	For the period from 20 October 2021 (date of incorporation) to 31 December 2021 RMB'000
Revenue	-	-
Loss for the year	(154,391)	(638)
Total comprehensive expense for the year	(154,391)	(638)

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

	31.12.2022 RMB'000	31.12.2021 RMB'000
Net assets of Shenzhen Kangmai	31,090	59,362
Proportion of the Group's ownership interest in Shenzhen Kangmai	50.00%	50.00%
	15,545	29,681
Unrecognised share of loss of Shenzhen Kangmai	(11,397)	-
Other adjustments	(4,148)	-
Carrying amount of the Group's interest in Shenzhen Kangmai	-	29,681

17. INTERESTS IN ASSOCIATES - continued

Summarised financial information of associates - continued

ETC

	31.12.2022 RMB'000
Current assets	156,237
Non-current assets	9,494
Current liabilities	(30,857)
Non-current liabilities	(24,792)

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

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

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

18. INTANGIBLE ASSETS

	Exclusive distribution rights	Patent rights	Product rights	Others	Total
	RMB'000 (Note a & Note b(i))	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
COST					
At 1 January 2021	2,111,920	320,431	872,656	-	3,305,007
Acquired on acquisition of subsidiaries (note 42)	101,509	38,706	-	90	140,305
At 31 December 2021	2,213,429	359,137	872,656	90	3,445,312
Transfer from deposits paid for acquisition of intangible assets	9,650	-	-	-	9,650
Acquired on acquisition of subsidiaries (note 42)	5,248	-	-	1,597	6,845
At 31 December 2022	2,228,327	359,137	872,656	1,687	3,461,807
AMORTISATION					
At 1 January 2021	546,326	160,256	276,509	-	983,091
Charge for the year	112,380	10,534	41,229	53	164,196
At 31 December 2021	658,706	170,790	317,738	53	1,147,287
Charge for the year	113,905	10,534	41,228	102	165,769
At 31 December 2022	772,611	181,324	358,966	155	1,313,056
IMPAIRMENT LOSS					
At 1 January 2021 and 31 December 2021	24,730	57,598	-	-	82,328
Recognised in the year	-	-	-	-	-
At 31 December 2022	24,730	57,598	-	-	82,328
CARRYING VALUES					
At 31 December 2022	1,430,986	120,215	513,690	1,532	2,066,423
At 31 December 2021	1,529,993	130,749	554,918	37	2,215,697

Notes:

(a) Exclusive distribution rights

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with Tibet Pharmaceutical in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2011.

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(i) - continued

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

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs incurred in clinical trials of approximately RMB4,745,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Tianjin Kangzhe purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as the "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000. Tianjin Kangzhe exclusively promotes and sells the Three Products in the PRC and Beijing Yadong is responsible for the production of the Three Products as required by Tianjin Kangzhe and sells the Three Products exclusively to Tianjin Kangzhe.

During the year ended 31 December 2016, as the market base of the Three Products was relatively weak and the actual sales of the Three Products was lower than previously expected, there was an impairment indicator. Management performed an impairment assessment by estimating the recoverable amount of the Three Products. The recoverable amount of the Three Products had been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right at a discount rate of 11%. The recoverable amount of approximately RMB5,850,000 was lower than the carrying amount of approximately RMB25,850,000, an impairment loss of RMB20,000,000 was recognised for the year ended 31 December 2016.

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(ii) - continued

During the year ended 31 December 2019, the management considered that there is an impairment indicator on the carrying amount of the Three Products as the actual sales of the Three Products was lower than previously expected. Management performed an impairment assessment by estimating the recoverable amount of Three Products. The recoverable amount of the Three products has been determined from a value in use, based on the expected free cash flow up to the end of the exclusive distribution right as at a discount rate of 11% and an impairment loss of RMB4,730,000 was recognised for the year ended 31 December 2019.

During the years ended 31 December 2022 and 2021, management reviews the performance of the Three Products and concludes that there is no indication that the impairment losses previously recognised no longer exist or have decreased.

As at 31 December 2022 and 2021, the exclusive distribution rights are fully impaired.

(iii) On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, an independent third party, pursuant to which AstraZeneca AB granted an exclusive license to the Group for the commercialisation of Plendil (Felodipine Sustained Release Tablet) in the PRC, at a consideration of US$310,000,000 (equivalent to approximately RMB2,029,012,000). US$155,000,000 had been paid in 2016 and the remaining balance of US$155,000,000 had been paid in 2017. As at 31 December 2022, the carrying amount of the exclusive distribution right was approximately RMB1,335,766,000 (2021: RMB1,437,217,000).

Under the exclusive license agreement, the Group has agreed to meet certain pre-agreed annual sales target in relation to the sales of Pendil in the PRC for the first three years of the term of the exclusive license agreement from years ended 31 December 2016 to 2018 and the annual sales target of respective years has been met. No additional annual sales target is required under the exclusive license agreement during the years ended 31 December 2022 and 2021.

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

(iv) The Group acquired 100% of equity interest in Luqa Ventures Co., Limited ("Luqa") on 1 February 2021. This included the acquisition of the exclusive agency rights of prescription medical aesthetic products including Aethoxysklerol and other aesthetic medical drugs. The exclusive agency rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

18. INTANGIBLE ASSETS - continued

Notes: - continued

(a) Exclusive distribution rights - continued

(iv) - continued

The fair value of the exclusive agency rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the exclusive agency rights for the remaining term of the exclusive agency rights. As at the acquisition date, the exclusive agency rights of prescription medical aesthetic products owned by Luqa amounted to RMB101,509,000. As at 31 December 2022, the carrying amount was approximately RMB79,704,000 (2021: RMB90,880,000).

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

(b) Acquisition of exclusive distribution rights and patent rights

(i) The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd. ("Kangzhe Guangming") on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cash flows derived from the intangible assets for the remaining term of the distribution rights.

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000.

During the year ended 31 December 2020, the management considers that there is an impairment indicator on the carrying amount of YiNuoShu as there is adverse change in the Group's market shares in selling YiNuoShu. Therefore, a full impairment loss of RMB57,598,000 was recognised for the year ended 31 December 2020.

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(i) - continued

During the year ended 31 December 2022 and 2021, management reviews the performance of YiNuoShu and concludes that there is no indication that the impairment loss previously recognised no longer exist or have decreased.

As at 31 December 2022 and 2021, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were nil, nil and nil, respectively.

The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming. As at 31 December 2022, the carrying amount of the exclusive distribution right and patent right of XiDaKang were approximately RMB1,597,000 and RMB1,248,000, respectively (2021: RMB1,896,000 and RMB1,478,000).

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

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly held 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the patent right of XiDaKang to Kangzhe Hunan, a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Kangzhe Guangming over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 30) in the amount of RMB6,145,000 at initial recognition which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the patent right of XiDaKang was also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the patent right owner of XiDaKang. As at 31 December 2022, the carrying amount of the patent right was approximately RMB13,451,000 (2021: RMB15,973,000).

The expected useful lives of the patent right is 14 years.

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(iii) The Group acquired 100% of equity interest in Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. (formerly known as Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd.) ("Kangzhe Lengshuijiang") on 28 February 2013. This included the acquisition of the patent right of GanFuLe. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of GanFule owned by Kangzhe Lengshuijiang amounted to RMB16,005,000.

During the year ended 31 December 2016, Kangzhe Lengshuijiang was deregistered and merged with Kangzhe Hunan. The assets and liabilities held by Kangzhe Lengshuijiang were transferred to Kangzhe Hunan at the time of merger and Kangzhe Hunan is responsible for the production of GanFuLe after the merger. As at 31 December 2022, the carrying amount of the patent right of GanFuLe was approximately RMB2,611,000 (2021: RMB3,973,000).

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

(iv) The Group acquired 52.01% of equity interest in Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") on 16 February 2015. This included the acquisition of the patent right of DanShenTong. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. As at the acquisition date, the patent right of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2022, the carrying amount was approximately RMB64,199,000 (2021: RMB70,619,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

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

(v) The Group acquired 64.81% of equity interest in Shanghai Carnation Medical Technology Co., Ltd. ("Carnation") on 8 June 2021. This included the acquisition of the patent right of a medical aesthetic device, FUBA5200 Focused Ultrasound Body Contouring System. The patent right was measured at its fair value at the date of acquisition and the valuation of the intangible assets was performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patent right for the remaining term of the patent right. As at the acquisition date, the patent right of the medical aesthetic device owned by Carnation amounted to RMB38,706,000. As at 31 December 2022. The related patent is not yet available for use and are not amortised.

The expected useful life of the patent rights is 10 years.

(c) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with an independent third party, Pharma Stulln GmbH ("Pharma") in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions ("SAR")), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorisation for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly. As at 31 December 2022, the carrying amount of the product right was approximately RMB43,887,000 (2021: RMB47,703,000).

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

18. INTANGIBLE ASSETS - continued

Notes: - continued

(c) Acquisition of product rights - continued

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet (the "Products") with two independent third parties, Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorisation in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan), at a consideration of US$25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2022, the carrying amount was approximately RMB97,404,000 (2021: RMB105,521,000).

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

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with an independent third party, DKSH International AG, in connection with the purchase of (i) all trademarks regarding the Purchased Products; (ii) all market authorisations or similar licenses, certificates or approvals regarding the Purchased Products and all rights, benefits or other interests obtained; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all books and records, commercial information and medical information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China, at a consideration of Swiss Franc ("CHF") 76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2022, the carrying amount was approximately RMB314,717,000 (2021: RMB340,409,000).

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

(iv) On 30 December 2014, the Group entered into an agreement related to Movicol (the "Product") with an independent third party, Norgine B.V., in connection with the purchase of the right to import, register, market, distribute, promote and sell the Product in the PRC including Hong Kong and Macau (the "Product Right"), at a consideration of EUR9,000,000 (equivalent to approximately RMB72,100,000), and such consideration has been recognised as deposit paid for acquisition of intangible asset as the Product is still under still under approval by the regulatory body. During the year ended 31 December 2019, the commercialisation of the Product has been approved by relevant regulatory body and therefore, the deposit has been transferred to intangible assets as it is probable that the expected future economic benefits that are attributable to the Product Right will flow to the Group. As at 31 December 2022, the carrying amount was approximately RMB57,680,000 (2021: RMB61,285,000).

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

19. GOODWILL

	RMB'000
COST	
At 1 January 2021	1,384,535
Arising on acquisition of subsidiaries (note 42)	496,644
At 31 December 2021	1,881,179
Arising on acquisition of subsidiaries (note 42)	34,814
At 31 December 2022	1,915,993
IMPAIRMENT LOSS	
At 1 January 2021	170,000
Impairment loss recognised during the year	20,000
At 31 December 2021	190,000
Impairment loss recognised during the year	60,000
At 31 December 2022	250,000
CARRYING VALUES	
At 31 December 2022	1,665,993
At 31 December 2021	1,691,179

For the purposes of impairment testing, the entire amount of goodwill has been allocated to nine (2021: seven) CGUs, representing nine (2021: seven) subsidiaries, namely Tianjin Kangzhe, Kangzhe Hunan, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical, Tibet Kangzhe Development, Luqa, Carnation, Xuli and Heling (as defined in note 42) (2021: Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical, Tibet Kangzhe Development, Luqa and Carnation.). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Hunan and Xili Pharmaceutical are engaged in production of medicines. Luqa and Xuli are engaged in sales of medical aesthetic products. Carnation is engaged in research and development and manufacture of energy-based medical aesthetic devices. Heling is engaged in research, development and production of skincare products. The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2022 RMB'000	2021 RMB'000
Tianjin Kangzhe	990,333	990,333
Kangzhe Hunan	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	118,090	178,090
Tibet Kangzhe Development	1,854	1,854
Luqa	460,002	460,002
Carnation	36,642	36,642
Xuli	30,576	-
Heling	4,238	-
	1,665,993	1,691,179

19. GOODWILL - continued

The recoverable amounts of Tianjin Kangzhe, Kangzhe Hunan, Sky United, Xili Pharmaceutical, Tibet Kangzhe Development, Luqa, Carnation, Xuli and Heling are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

Tianjin Kangzhe

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 13.0% (2021: 12.5%). Tianjin Kangzhe's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2021: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the year ended 31 December 2022 and 2021, no impairment loss was recognised.

Kangzhe Hunan

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 12.9% (2021: 12.7%). Kangzhe Hunan's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2021: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the years ended 31 December 2022 and 2021, no impairment loss was recognised.

Xili Pharmaceutical

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 14.9% (2021: 13.1%). Xili Pharmaceutical's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2021: 3%). This growth rate is based on management's best estimate and past experience on the industry.

During the year 31 December 2022, the directors of the Company further reviewed the carrying amount of the CGU of Xili and identified that the recoverable amount of the CGU is less than the carrying amount of assets of the CGU. The directors of the Company had consequently determined impairment of goodwill amounted to approximately RMB60,000,0000. The impairment loss had been included in "other gains or losses" line item. No impairment on other assets of Xili Pharmaceutical was considered necessary. The recoverable amount of Xili Pharmaceutical amounted to RMB333,026,000 as at 31 December 2022

If the discount rate was changed to 15.9% while other parameters remain constant, the recoverable amount of Xili Pharmaceutical as at 31 December 2022 would reduce to RMB306,456,000 and a further impairment of goodwill of RMB14,269,000 would be recognised.

19. GOODWILL - continued

Xili Pharmaceutical - continued

During the year 31 December 2021, there was decline in financial performance of Xili Pharmaceutical for the year and expected continuous decline in the forecast period. The directors of the Company had consequently determined impairment of goodwill amounted to approximately RMB20,000,000. The impairment loss had been included in "other gains or losses" line item. No impairment on other assets of Xili Pharmaceutical was considered necessary. The recoverable amount of Xili Pharmaceutical amounted to RMB363,040,000 as at 31 December 2021.

If the discount rate was changed to 14.1% while other parameters remain constant, the recoverable amount of Xili Pharmaceutical as at 31 December 2021 would reduce to RMB330,856,000 and a further impairment of goodwill of RMB16,739,000 would be recognised.

Luqa

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 15.2% (2021: 14.8%). Luqa's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2021: 3%). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2022 and 2021, no impairment loss was recognised.

Carnation

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 25.2% (2021: 24.2%). Carnation's cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2021: 2%). This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2022 and 2021, no impairment loss was recognised.

Xuli

At 31 December 2022, the impairment review is determined based on cash flow projections which were derived from the financial budgets approved by management covering a five-year period, with a discount rate of 14.0%. Xuli's cash flows beyond the five-year period are extrapolated using a growth rate of 3%. This growth rate is based on management's best estimate and past experience on the industry. During the year ended 31 December 2022, no impairment loss was recognised.

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

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

(a) Financial assets at FVTPL

	2022 RMB'000	2021 RMB'000
Listed investments:		
Equity securities listed on the Shanghai Stock Exchange (the "SSE") (Note i)	-	610
Unlisted investments:		
Capital funds (Note ii)	734,102	382,824
Equity securities (Note iii)	757,234	594,440
	1,491,336	977,264
Total	1,491,336	977,874

Notes:

(i) The listed equity investment represents ordinary shares of one entity listed on the SSE. The investment is held for trading and its fair value is based on the quoted market price.

(ii) During the year ended 31 December 2022, the Group further invested approximately RMB301,178,000(2021: RMB330,408,000) into various capital funds. As at 31 December 2022, the fair values of these capital funds amounted to RMB734,102,000 (2021: RMB382,824,000), and a gain on change in fair value of RMB50,100,000 (2021: loss of RMB48,532,000) has been recognised in profit and loss.

A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, also had invested in certain capital funds invested by the Group. As at 31 December 2022, the fair values of these capital funds were RMB8,693,000 (2021: RMB6,117,000)

(iii) During the year ended 31 December 2022, the Group invested approximately RMB62,460,000 (2021: RMB527,316,000) in unlisted equity investments. As at 31 December 2022, the fair values of the equity investments amounted to RMB757,234,000 (2021: RMB594,440,000), and a gain on change in fair value of RMB100,334,000 (2021: RMB67,124,000) has been recognised in profit and loss.

A&B also had equity interest in a certain unlisted equity investment invested by the Group. As at 31 December 2022, the fair value of the unlisted equity investment was RMB 3,138,000 (2021: RMB1,767,000)

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

(b) Equity instruments at FVTOCI

	2022 RMB'000	2021 RMB'000
Listed investments:		
Equity securities listed on		
London Stock Exchange Plc (the "LSE") (Note i)	16,493	39,330
Euronext N.V. (the "ENV") (Note ii)	38,416	24,239
New York Stock Exchange (the "NYSE") (Note iii)	9,092	-
	64,001	63,569
Unlisted investments:		
Equity securities (Note iv)	233,047	336,902
Total	297,048	400,471

The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

(i) The listed equity investment represents ordinary shares of the following two (2021: two) entities listed on LSE. The investments are denominated in British Pound ("GBP") and the fair values are based on the quoted market price.

(a) Midatech Pharma Plc ("Midatech") - the Group invested approximately GBP4,000,000 (equivalent to RMB34,705,000) in Midatech during year ended 31 December 2019.

(b) Destiny Pharma Plc ("Destiny") - the Group first invested approximately GBP 3,000,000 (equivalent to RMB 26,291,000) in Destiny during the year ended 31 December 2017. The Group further invested GBP1,000,000 (equivalent to RMB8,435,000) in Destiny during the year ended 31 December 2020.

As at 31 December 2022, the fair values of these two equity securities amounted to RMB16,493,000 (2021: RMB39,330,000), and a loss on change in fair value of RMB22,837,000 (2021: a fair value gain of RMB6,086,000) has been recognised in other comprehensive income.

As at 31 December 2022 and 2021, A&B also had equity interest in Midatech and Destiny.

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

(b) Equity instruments at FVTOCI - continued

(ii) The listed equity investment represents ordinary shares of Acticor Biotech ("Acticor"), which became listed on ENV on 1 November 2021. The Group first invested approximately EUR4,000,000 (equivalent to RMB30,607,000) in Acticor during the year ended 31 December 2018. The Group further invested EUR 1,000,000 (equivalent to RMB7,595,000) in Acticor during the year ended 31 December 2021. The investment is denominated in EUR and the fair value is based on the quoted market price.

As at 31 December 2022, the fair value of the equity investment amounted to RMB38,416,000 (2021: RMB24,239,000), and a gain on change in fair value of RMB14,177,000 (2021: a fair value loss of RMB13,963,000) has been recognised in other comprehensive income.

As at 31 December 2022 and 2021, A&B also had equity interest in Acticor.

(iii) The listed equity investment represents ordinary shares of Gelesis Holdings, Inc. ("Gelesis"), which became listed on NYSE on 18 January 2022. The Group first invested approximately US$20,000,000 (equivalent to RMB142,633,000) in Gelesis during the year ended 31 December 2020. The Group further invested US$ 15,000,000 (equivalent to RMB95,615,000) in Gelesis during the year ended 31 December 2022. The investment is denominated in US$ and the fair value is based on the quoted market price.

As at 31 December 2022, the fair value of the equity investment amounted to RMB9,092,000 (2021: RMB114,256,000), and a loss on change in fair value of RMB200,780,000 (2021: RMB28,376,000) has been recognised in other comprehensive income.

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

During the year ended 31 December 2022, the Group further invested approximately RMB nil (2021: RMB2,606,000) into the unlisted equity investments except Gelesis, which was transferred into listed investment during the year ended 31 December 2022, of which the balance was RMB114,256,000 as at 31 December 2021.

As at 31 December 2022, the fair values of the equity investments amounted to RMB233,047,000 (2021: RMB336,902,000). The fair values of the above unlisted equity investments were performed by a professional independent valuer. During the years ended 31 December 2022, a gain on change in fair value of RMB13,243,000 (2021: RMB10,938,000) has been recognised in other comprehensive income.

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

21. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	9,739	24,993
Work in progress	32,243	24,257
Finished goods	435,224	423,348
	477,206	472,598

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2022 RMB'000	2021 RMB'000
Trade receivables	1,451,678	1,405,322
Less: Allowance for credit losses	(9,643)	(9,533)
	1,442,035	1,395,789
Bills receivables	269,579	453,350
Purchase prepayments	211,746	213,125
Other receivables and deposits	120,584	141,738
	2,043,944	2,204,002

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB1,047,948,000.

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

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

	2022 RMB'000	2021 RMB'000
Trade receivables		
0 - 90 days	1,363,828	1,297,684
91 - 365 days	57,802	98,105
Over 365 days	20,405	-
	1,442,035	1,395,789
Bill receivables		
0 - 90 days	185,133	306,457
91 - 120 days	31,241	51,281
121 - 180 days	53,205	95,612
	269,579	453,350

22. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS - continued

As at 31 December 2022, total bills receivables amounting to RMB269,579,000 (2021: RMB453,350,000) are held by the Group. All bills receivables by the Group are accepted by banks with a maturity period of less than six months.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB95,554,000 (2021: RMB56,942,000) which are past due at the reporting date. RMB30,622,000 (2021: RMB30,570,000) was more than 90 days past due and is not considered as in default. Based on the historical experiences of the Group, trade receivables past due are generally recoverable due to the long term relationship and good repayment record.

The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables as at 31 December 2022 and 2021 are set out in note 36.

23. DEPOSITS PAID FOR ACQUISITION OF INTANGIBLE ASSETS

	2022 RMB'000	2021 RMB'000
Deposits paid for acquisition of intangible assets	1,285,415	790,483

Note: Included in the Deposits paid for acquisition of intangible assets, mainly approximately RMB394,356,000 (2021: RMB402,223,000), RMB215,307,000 (2021: nil), RMB140,693,000 (2021: RMB106,974,000), RMB77,000,000 (2021: nil), RMB40,824,000 (2021: RMB40,824,000), RMB32,625,000 (2021: RMB32,625,000), RMB45,000,000 (2021: RMB30,000,000), RMB33,761,000 (2021: nil), RMB27,904,000 (2021: RMB27,904,000), RMB36,000,000 (2021: RMB18,000,000) and RMB13,446,000 (2021: RMB13,446,000), have been paid to Sun Pharmaceutical Industrial Ltd., Incyte , Gelesis Inc., Wuxi App Tec (Shanghai) Co. Ltd., Medac Gesellschaft Fur Klinische Speziallpraparate M.B.H, Cosmo Technologies Ltd, Jiangxi Shimei Pharmaceutical Co., Ltd, YZY Biopharma, Ltd, Cadila Healthcare Limited, Shandong Innovative Drug Research and Development Co., Ltd and Can-Fite BioPharma., respectively. All these companies are independent third parties not connected with the Group. The deposits were paid for certain exclusive distribution/ product rights of medical products to be approved by relevant regulatory bodies for the sales in specific territories.

24. AMOUNT DUE FROM AN ASSOCIATE

As at 31 December 2022, the balance of approximately RMB30,000,000 (2021: RMB30,000,000) was non-trade nature and non-interest bearing, represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 31 December 2022, the balance of approximately RMB328,072,000 (2021: RMB320,036,000) was trade nature and non-interest bearing, represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 31 December 2022 was aged within three months (2021: within three months) based on the invoice date.

25. BANK BALANCES AND CASH

Cash and cash equivalents/pledged/restricted bank deposits

Cash and cash equivalents include short term deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.30% to 3.40% (2021: 0.30% to 3.40%). Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2022 RMB'000	2021 RMB'000
Euro ("EUR")	26,132	9,566
Hong Kong Dollar ("HK$")	47,505	24,398
United States Dollar ("US$")	194,890	14,109
Confederation Helvetica Franc ("CHF")	1,266	2,059
Great Britain Pound ("GBP")	1,379	1,802
Philippines Peso ("PHP")	1,548	-
Singapore Dollar ("SGD")	2,591	-

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

26. TRADE AND OTHER PAYABLES

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

	2022 RMB'000	2021 RMB'000
0 - 90 days	164,837	142,639
91 - 365 days	11,715	2,757
Over 365 days	1,457	502
Trade payables	178,009	145,898
Payroll and welfare payables	200,360	280,000
Other tax payables	61,318	38,031
Accrued promotion expenses	71,273	61,229
Accrued sales rebates	-	50,000
Accruals	34,743	35,098
Other payables	17,491	19,291
	563,194	629,547

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

27. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
Within one year	15,804	16,922
Within a period of more than one year but not more than two years	8,601	10,530
Within a period of more than two years but not more than five years	4,890	7,280
	29,295	34,732
Less: Amount due for settlement with 12 months shown under current liabilities	(15,804)	(16,922)
Amount due for settlement after 12 months shown under non-current liabilities	13,491	17,810

28. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Receipts in advance from customers - finished goods	21,614	23,715

As at 1 January 2021, contract liabilities amounted to RMB14,406,000.

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

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	23,715	14,406

When the Group receives a deposit from customers before the goods are delivered to and received by the customers, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

29. BANK BORROWINGS

	2022 RMB'000	2021 RMB'000
Bank loans	1,783,337	1,677,573
Analysed as:		
Unsecured	1,783,337	1,677,573

	2022 RMB'000	2021 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	1,783,337	1,103,760
Within a period of more than one year but not exceeding two years	-	573,813
	1,783,337	1,677,573
Less: Amounts due within one year shown under current liabilities	(1,783,337)	(1,103,760)
Amounts shown under non-current liabilities	-	573,813

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

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

	2022 RMB'000	2021 RMB'000
Variable-rate borrowings		
Denominated in HK$ range from 4.87% to 5.30% per annum as at 31 December 2022 (2021: 0.77% to 0.85%) (Note a & c)	1,281,886	1,103,760
Denominated in US$ range from 5.29% to 6.17% per annum as at 31 December 2022 (2021: from 0.80% to 1.46%) (Notes b & c)	501,451	573,813
Total	1,783,337	1,677,573

29. BANK BORROWINGS - continued

Notes:

(a) Variable rates range from Hong Kong Interbank Offered Rate ("HIBOR") plus 0.52% to HIBOR plus 0.95% as at 31 December 2022 (2021: HIBOR plus 0.62% to HIBOR plus 0.7%).

(b) Variable rates range from LIBOR plus 0.7% to LIBOR plus 1.25% as at 31 December 2022 (2021: LIBOR plus 0.7% to LIBOR plus 1.25%).

(c) As at 31 December 2022, the Group uses interest rate swaps to minimise its exposure to interest rate movements on the variable-rate bank borrowings of approximately RMB1,113,362,000 (2021: RMB573,813,000). The principal amount of the variable-rate bank borrowings will be repayable on 24 March 2023, 27 March 2023 and 25 April 2023 (2021: 24 March 2023 and 27 March 2023). Details of the interest rate swaps are disclosed in note 32.

As at 31 December 2022, the Group had unutilised banking facilities of approximately RMB2,027,858,000 (2021: RMB500,000,000).

30. DEFERRED CONSIDERATION PAYABLES

	2022 RMB'000	2021 RMB'000
Non-current	909	736
Current	1,000	2,000
	1,909	2,736

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 18(b) (ii)). In addition to the first payment of RMB30,000,000, further consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2022, the carrying value amounting to RMB1,909,000 (2021: RMB2,736,000) was included in deferred consideration payables.

31. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of equity instruments at FVTOCI RMB'000	Fair value change on cash flow hedges RMB'000	Unrealised profit of equity instruments at FVTPL RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	19,587	(22,169)	(63,964)	971	-	-	1,201	(64,374)
Credit (charge) to profit or loss for the year (note 11)	244	3,018	-	-	(27,991)	15,027	-	(9,702)
Charge to other comprehensive income	-	-	-	(731)	-	-	-	(731)
Acquisitions of subsidiaries (note 42)	-	(12,469)	-	-	-	-	-	(12,469)
At 31 December 2021	19,831	(31,620)	(63,964)	240	(27,991)	15,027	1,201	(87,276)
Credit (charge) to profit or loss for the year (note 11)	3,247	3,294	-	-	(2,315)	(299)	-	3,927
Charge to other comprehensive income	-	-	-	(892)	-	-	-	(892)
Acquisitions of subsidiaries (note 42)	-	(1,711)	-	-	-	-	-	(1,711)
At 31 December 2022	23,078	(30,037)	(63,964)	(652)	(30,306)	14,728	1,201	(85,952)

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets	39,007	36,299
Deferred tax liabilities	(124,959)	(123,575)
	(85,952)	(87,276)

At 31 December 2022, the Group had unused tax losses of approximately RMB230,012,000 (2021: RMB156,276,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB91,990,000 (2021: RMB93,186,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB138,022,000 (2021: RMB63,090,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2022 are tax losses of approximately RMB44,937,000 (2021: RMB29,189,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2022, tax losses of approximately RMB907,000 (2021: RMB1,063,000) was expired.

31. DEFERRED TAX - continued

As at 31 December 2022, the Group had deductible temporary differences of RMB823,027,000 (2021: RMB782,687,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB92,312,000 (2021: RMB79,324,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB730,715,000 (2021: RMB703,363,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB8,190,285,000 (2021: RMB7,077,285,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2022 RMB'000	2021 RMB'000
Assets:		
Foreign exchange forward contracts	33,120	-
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	8,901	-
	42,021	-
Analysed as:		
Current assets	42,021	-
Non-current assets	-	-
	42,021	-
Liabilities:		
Foreign exchange forward contracts	(562)	(9,332)
Derivative under hedging accounting		
- Cash flow hedges - interest rate swaps	-	(1,959)
	(562)	(11,291)
Analysed as:		
Current liabilities	(562)	-
Non-current liabilities	-	(11,291)
	(562)	(11,291)

Foreign exchange forward contracts

The Group uses foreign exchange forward contracts to minimise its exposure to exchange rate change on its bank borrowings. The foreign exchange forward contracts and the corresponding bank borrowings have the same principal amounts and maturity dates. Major terms of the foreign exchange forward contracts as at 31 December 2022 and 2021 are set out below:

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Foreign exchange forward contracts - continued

At 31 December 2022

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

At 31 December 2021

Notional amount	Maturity date	Exchange rate range agreed
US$40,000,000	23 March 2023	US$1:RMB6.69 to RMB7.40
US$5,000,000	23 March 2022	US$1:RMB6.69 to RMB7.40
US$5,000,000	21 September 2022	US$1:RMB6.69 to RMB7.40

During the year ended 31 December 2022, the fair value gain of approximately RMB41,889,000 (2021: the fair value loss of RMB10,063,000) has been recognised in "other gains and losses" line item (see note 7).

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, such as principal amounts, interest rate spread, start dates, repayment data, maturity and counterparties, and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at 31 December 2022 and 2021 are set out below:

At 31 December 2022

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

At 31 December 2021

Notional amount (Note)	Liabilities at carrying amount	Contract date	Maturity date	Receive	Pay
US$50,000,000	RMB1,838,000	27 March 2020	24 March 2023	LIBOR + 0.7%	1.74%
US$40,000,000	RMB121,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%

Note: The notional amount will be expired on 24 March 2023, 27 March 2023 and 25 April 2023 (2021: 24 March 2023 and 27 March 2023), which are the same as corresponding bank borrowings.

32. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Interest rate swaps - continued

The fair values of interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. All of the above interest rate swaps are designated and effective as cash flow hedges. During the year ended 31 December 2022, the fair value gain of approximately RMB10,861,000 (2021: fair value gain of approximately RMB3,929,000), income tax of approximately RMB892,000 (2021: RMB731,000), resulting in a net amount of approximately RMB9,969,000 (2021: RMB3,198,000) have been recognised in other comprehensive income and accumulated in equity and are expected to be released to profit or loss at various dates during the lives of the swaps when the hedged interest expense is recognised in profit or loss.

33. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of US$0.005 each		
Authorised		
At 1 January 2021, 31 December 2021 and 31 December 2022	20,000,000	765,218
Issued and fully paid		
At 1 January 2021	2,470,761	84,634
Shares repurchased and cancelled (Note)	(13,317)	(457)
At 31 December 2021	2,457,444	84,177
Shares repurchased and cancelled (Note)	(5,455)	(186)
At 31 December 2022	2,451,989	83,991

Note: During the year ended 31 December 2022, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of US$0.005 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregated consideration paid HK$
March 2022	130,000	11.34	11.04	1,447,520
April 2022	3,600,000	11.90	10.46	40,227,820
May 2022	1,000,000	11.16	10.64	10,976,200
September 2022	545,000	9.84	9.22	5,147,640
October 2022	180,000	9.08	8.90	1,616,220
Total	5,455,000			59,415,400

33. SHARE CAPITAL - continued

During the year ended 31 December 2021, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
		HK$	HK$	HK$
August 2021	2,190,000	15.62	14.60	32,748,420
September 2021	4,435,000	15.10	14.04	65,378,180
November 2021	6,692,000	13.18	12.48	85,472,060
Total	13,317,000			183,598,660

The above ordinary shares were cancelled upon repurchase.

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2022 and 2021.

34. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Shenzhen Kangzhe granted by Mr. Lam Kong, a director and former shareholder of Shenzhen Kangzhe, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Shenzhen Kangzhe to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Shenzhen Kangzhe's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired an additional interest in Sky United. An amount of approximately RMB15,026,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder was charged to capital reserve in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

34. RESERVES - continued

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year. The capital structure of the Group consists of cash and cash equivalents, bank borrowings, obligation arising from put options and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs.

36. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Derivative financial instruments		
- foreign exchange forward contracts	33,120	-
Derivative instruments under hedge accounting		
(cash flow hedges-interest rate swaps)	8,901	-
Financial assets at amortised cost	6,636,814	5,758,531
Equity instruments at FVTOCI	297,048	400,471
Financial assets at FVTPL	1,491,336	977,874
Financial liabilities		
At amortised cost	(2,344,879)	(2,277,911)
Derivative financial instruments		
- foreign exchange forward contracts	(562)	(9,332)
Derivative instruments under hedge accounting		
(cash flow hedges-interest rate swaps)	-	(1,959)

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, equity instruments at FVTOCI, trade and other receivables, loan receivable, amount due from an associate, derivative financial instruments, bank balances and cash, trade and other payables, lease liabilities, bank borrowings, deferred consideration payables and obligation arising from put options. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk, foreign currency risk and other price risk), credit risk, liquidity risk and risks arising from the interest rate benchmark reform. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to lease liabilities (see note 27) and obligation arising from put options (see note 42). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 25) and variable-rate bank borrowings (see note 29). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates at HIBOR and LIBOR arising from the Group's HK$ and US$ denominated borrowings. The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in cash flow of the LIBOR and HIBOR bank borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest rates swaps are designated as effective hedging instruments and hedge accounting is used (see note 32).

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. Details of the impacts on the Group's risk management strategy arising from the interest rate benchmark reform and the progress towards implementation of alternative benchmark interest rates are set out under "interest rate benchmark reform" in this note.

Interest income of RMB105,515,000 was earned (2021: RMB81,853,000) from financial assets that are measured at amortised cost (including cash and cash equivalents) for the year ended 31 December 2022.

Interest expense of RMB49,086,000 was incurred (2021: RMB28,270,000) on financial liabilities not measured at fair value through profit or loss that are measured at amortised cost for the year ended 31 December 2022.

Sensitivity analysis

The directors of the Company consider that the interest rate risk in relation to bank balances is not significant as the fluctuation of the interest rates on bank balances is minimal and therefore, bank balances are not included in the sensitivity analysis.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Sensitivity analysis - continued

The sensitivity analyses below have been determined based on the exposure to interest rates, including derivatives which are designated as effective hedging instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point (2021: 50 basis point) increase or decrease in variable-rate bank borrowings and interest rate swaps designed to hedge cash flow interest rate risk are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2021: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2022 would decrease/increase by RMB2,797,000 (2021: RMB4,139,000). This is mainly attributable to the Group's exposure to interest rates on certain of its HIBOR bank borrowings

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 53% (2021: 44%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (representing financial assets at FVTPL, trade and other receivables, loan receivable and bank balances and cash) and monetary liabilities (representing trade and other payables, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000
US$	1,141,327	519,361	503,832	578,364
EUR	40,827	19,167	7,268	30,781
GBP	11,988	8,827	-	-
HK$	63,196	26,007	1,281,886	1,103,760
CHF	5,090	3,803	1,332	-
PHP	1,548	-	-	-

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The Group is mainly exposed to currency risk of the US$, Eur, GBP, HK$ and CHF. The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2021: 5%) change in foreign currency rates. The sensitivity analysis includes financial assets at FVTPL, derivative financial instruments, loan receivable, bank balances, trade and other payables, bank borrowings and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 5% (2021: 5%) against the relevant foreign currencies. If there is a 5% (2021: 5%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year:

	2022 RMB'000	2021 RMB'000
RMB (as functional currency of the relevant group entities) against US$	(23,906)	2,213
RMB (as functional currency of the relevant group entities) against EUR	(1,258)	436
RMB (as functional currency of the relevant group entities) against GBP	(450)	(331)
RMB (as functional currency of the relevant group entities) against HK$	45,701	40,416
RMB (as functional currency of the relevant group entities) against CHF	(141)	(143)
RMB (as functional currency of the relevant group entities) against PHP	(58)	-

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during both years.

Other price risk management

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in pharmaceutical industry sector quoted in the LSE, ENV and NYSE.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Other price risk management - continued

Sensitivity analysis

The following details the Group's sensitivity to a 10% (2021: 10%) increase and decrease in the quoted market price of the equity securities. 10% (2021: 10%) is the sensitivity rate used when reporting other price risk internally to key management personnel and represents management's assessment of the reasonably possible change in the quoted market price of the equity securities measured at FVTOCI. If there is a 10% (2021:10%) higher/lower in the quoted market price of the equity securities, the other comprehensive income would be increased/decreased by RMB6,400,000(2021: RMB6,357,000)

The management considers that the other price risk in respect of financial asset at FVTPL is minimal due to the insignificant balance as at 31 December 2022 and 2021.

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances amount due from an associate and loan receivables. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix based on share credit risk characteristics by reference to repayment history for recurring customers and current past due exposure for the new customers.

Except for the derivative financial instruments, financial assets at FVTPL and equity instruments at FVTOCI, the Group performed impairment assessment for financial assets and other items under ECL model.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade receivables arising from contracts with customers

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed every year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued or guaranteed by reputable PRC banks, if trade receivables are settled by bills and therefore the management of the Group considers the credit risk arising from the endorsed or discounted bills is insignificant.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which almost accounted for 100% (2021: 100%) of the total trade receivables as at 31 December 2022. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for credit-impaired trade receivables, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for new customers and forward looking information. Impairment of RMB45,000 (2021: RMB381,000) is recognised for the year ended 31 December 2022. Details of the quantitative disclosures are set out below in this note.

Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on this, the 12m ECL on bank balances is considered to be insignificant.

Amount due from an associate

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated through the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. The Group assessed the loss allowance for trade related balance with the associate on lifetime ECL basis and non-trade related balance with the associate on 12m ECL basis. The Group performs impairment assessment under ECL model on this trade balance individually and the directors of the Company believe that there are no significant increases in credit risk at the reporting date of these amounts and the trade receivables due from the associate have been subsequently settled. For the years ended 31 December 2022 and 2021, the Group assessed the ECL for amount due from an associate to be insignificant and thus no loss allowance was recognised.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other receivables and deposits

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportable and forward-looking information available without undue costs or effort. The directors of the Company believe that there are no significant increase in credit risk at the reporting date of these amounts and most of the other receivables have been subsequently settled. For the years ended 31 December 2022 and 2021, the Group assessed the ECL for other receivables and deposits to be insignificant and thus no loss allowance for credit losses was recognised.

Loan receivable

The Group has a policy for assessing the impairment on loans receivables on individual basis. These debtors include a supplier of the Group and an entity in which the Group has invested in its equity interest and accounted for as equity instrument at fair value through other comprehensive income. The ECL rates are estimated based on the credit quality classification and forward-looking information, including but not limited to the financial status of each borrower.

Based on assessment by the management, the probability of default is low and the management considers the ECL for loan receivables is insignificant and therefore no loss allowance was recognised.

The Group's internal credit risk scoring assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Normal risk	The counterparty has either a low risk of default and does not have any past-due amounts or frequently settles after due dates but usually settle in full	Lifetime ECL - not credit-impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	Internal credit rating	12m or lifetime ECL	2022 Gross carrying amount		2021 Gross carrying amount	
				RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost							
Trade receivables	22	Note 1	Lifetime ECL - not credit-impairment				
			Provision matrix	1,445,612		1,399,321	
		Loss	Credit-impaired	6,066	1,451,678	6,001	1,405,322
Bills receivables (Note 2)	22	Low risk	12m ECL	269,579		453,350	
Amount due from an associate (Notes 2 and 3)	24	Low risk	12m ECL	30,000		30,000	
			Lifetime ECL - Not credit-impaired	328,072	358,072	320,036	350,036
Bank balances (Note 2)	25	Low risk	12m ECL	4,376,376		3,385,739	
Other receivables and deposits (Note 2)	22	Low risk	12m ECL	120,584		141,738	
Loan receivable (Note 2)		Low risk	12m ECL	70,168		31,879	

Notes:

(1) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for credit-impaired balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by internal credit rating.

Provision matrix - internal credit rating

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2022 and 2021 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amount of RMB6,066,000 as at 31 December 2022 (2021: RMB6,001,000) were assessed individually.

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) - continued

Gross carrying amount

Internal credit rating	2022 Average loss rate	2022 Trade receivables RMB'000	2021 Average loss rate	2021 Trade receivables RMB'000
Normal risk	0.2%	1,391,932	0.1%	1,313,638
Doubtful	2.7%	53,680	2.0%	85,683
		1,445,612		1,399,321

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2022, the Group provided RMB45,000 (2021: RMB381,000) impairment allowance for trade receivables based on provision matrix. Impairment allowance of RMB65,000 (2021: RMB924,000) were made on credit-impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2021	3,151	5,077	8,228
Impairment losses recognised	381	924	1,305
As at 31 December 2021	3,532	6,001	9,533
Impairment losses recognised	45	65	110
As at 31 December 2022	3,577	6,066	9,643

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Notes: - continued

(1) - continued

Gross carrying amount - continued

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

(2) The Group assessed the loss allowance for bills receivables, other receivables, bank balances, amount due from an associate and loan receivable on 12m ECL basis. In determining the ECL of the bank balances, the Group has taken into account the counterparties are reputable banks with high credit ratings assigned by international credit agencies and forward looking information as appropriate. The Group assessed 12m ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies and the management considers that the expected credit loss on the bank balances is immaterial. In determining the ECL other than the bank balances, the Group has taken into account the historical default experience and forward looking information as appropriate, including changes in growth rate of gross domestic product of the PRC. There had been no significant increase in credit risk since initial recognition. The Group has considered the consistently low historical default rate in connection with payments and concluded that the expected credit loss on these balances is immaterial.

(3) The Group assessed the loss allowance for amount due from an associate with trade nature on lifetime ECL basis. In determining the ECL, the Group has taken into account the value of the assets held by this entity and the power to participate in the financial and operating policy decision of this entity. There had been no significant increase in credit risk since initial recognition. No additional impairment loss on trade balances has been provided during the years ended 31 December 2022 and 2021 and the entire balance has been subsequently settled.

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

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2022, the Group has available unutilised banking facilities of approximately RMB2,027,858,000 (2021: RMB500,000,000) respectively. Details of which are set out in note 29.

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

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments, The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual settlement dates as the management of the Group considers that the settlement dates are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2022
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2022					
Non-derivative financial liabilities					
Trade and other payables	-	395,860	-	395,860	395,860
Deferred consideration payables	10.00	1,000	1,000	2,000	1,909
Variable-rate bank borrowings	2.60	1,806,270	-	1,806,270	1,783,337
Obligation arising from put options	8.00	-	175,133	175,133	163,773
Lease liabilities	4.75	15,514	15,893	31,407	29,295
		2,218,644	192,026	2,410,670	2,374,174
Derivative financial liabilities					
Foreign exchange forward contracts		562	-	562	562

36. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2021
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2021					
Non-derivative financial liabilities					
Trade and other payables	-	445,189	-	445,189	445,189
Deferred consideration payables	10.00	2,000	1,000	3,000	2,736
Variable-rate bank borrowings	1.15	1,116,496	582,101	1,698,597	1,677,573
Obligation arising from put options	8.00	-	175,133	175,133	152,413
Lease liabilities	4.75	17,726	19,543	37,269	34,732
		1,581,411	777,777	2,359,188	2,312,643
Derivative financial liabilities					
Interest rate swap		3,434	635	4,069	1,959
Foreign exchange forward contracts		2,524	6,808	9,332	9,332
		5,958	7,443	13,401	11,291

Interest rate benchmark reform

As listed in note 29, several of the Group's HIBOR and LIBOR bank loans will or may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

As at 31 December 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US dollar settings (other than the 1-week and 2-month settings) which will be ceased immediately after 30 June 2023.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist. The Group's bank loans linked to HIBOR will continue till maturity and hence, not subject to transition.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

36. FINANCIAL INSTRUMENTS - continued

Interest rate benchmark reform - continued

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year, for a floating rate loan that is linked to HIBOR, the Group had confirmed with the relevant counterparty HIBOR will continue to maturity.

The Group has no plan to transition the majority of its remaining LIBOR-linked contracts through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from LIBOR to alternative reference rate at an agreed point in time.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2022. The amounts of liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts	Hedge accounting	Transition progress for financial instruments
		RMB$'000		
Bank loans linked to LIBOR	24 March 2023	278,584	Designated in cash flow hedge	LIBOR will continue till maturity
Bank loans linked to LIBOR	27 March 2023	222,867	Designated in cash flow hedge	LIBOR will continue till maturity
Bank loans linked to HIBOR	25 April 2023	611,911	N/A	HIBOR will continue till maturity
Bank loans linked to HIBOR	7 September 2023	669,975	N/A	HIBOR will continue till maturity

Fair value measurements of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis - continued

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities at measurement date;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/liabilities	Fair value as at 31/12/2022	Fair value as at 31/12/2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
1) Interest rate swaps classified as derivative financial instruments	Assets - RMB8,901,000	Liabilities - RMB1,959,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Nil
2) Foreign exchange forward contracts classified as derivative financial instruments	Assets - RMB33,120,000 Liabilities - RMB562,000	Liabilities - RMB9,332,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate and contracted exchange rate, discounted at a rate that reflects the credit risk of various counterparties.	Nil
3) Equity instruments at FVTOCI - listed equity securities	Listed equity securities on the LSE, ENV and NYSE- RMB64,001,000	Listed equity securities on the LSE and ENV - RMB63,569,000	Level 1	Quoted bid prices in an active market.	Nil
4) Equity instruments at FVTOCI - unlisted equity securities	Nil	Unlisted equity investments - RMB292,264,000	Level 2	Recent Transaction method, quoted bid prices in an inactive market	Nil

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis - continued

Financial assets/liabilities		Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
		31/12/2022	31/12/2021			
5)	Equity instruments at FVTOCI - unlisted equity securities	Nil	Unlisted equity investments - RMB44,638,000	Level 3	Market return method, take the return on a listed of comparable indices	Market return method take the return on a list of comparable indices since the venture nature of the investment provide more relevent comparison. (Note c)
6)	Equity instruments at FVTOCI - unlisted equity securities	Unlisted equity investments - RMB233,047,000	Nil	Level 3	Market approach by applying adjusting factors to the most recent transaction prices	Adjusting factors estimated by external valuer to reflect the market return from the most recent date of transaction (Note d)
7)	Financial asset at FVTPL - listed equity securities	Nil	Assets - RMB610,000	Level 1	Quoted bid prices in an active market.	Nil
8)	Financial asset at FVTPL - unlisted equity securities	Assets - RMB445,935,000	Assets - RMB338,132,000	Level 2	Recent Transaction method, quoted bid prices in an inactive market	Nil
9)	Financial asset at FVTPL - capital funds	Assets - RMB734,102,000	Assets - RMB382,824,000	Level 3	Market approach by applying market multiples such as the ratio of market capital to net book value from comparable companies.	The ratio of market capital to net book value from comparable companies is determined by the mean of comparable companies as at the valuation date (Note a)
10)	Financial assets at FVTPL - unlisted equity securities	Nil	Assets - RMB256,308,000	Level 3	Current value method	Discount for lack of marketability taking into account the external valuer's estimate on the length of time and effort required by the management to dispose of the equity interest which is determined as 25%; Minority discount estimated by external valuer of 15 percent deduction in value to reflect the minority discount (Note b)
11)	Financial asset at FVTPL - unlisted equity securities	Assets - RMB311,299,000	Nil	Level 3	Market approach by applying adjusting factors to the most recent transaction prices	Adjusting factors estimated by external valuer to reflect the market return from the most recent date of transaction (Note d)

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis - continued

Sensitivity analysis

Notes:

(a) Financial asset at FVTPL - Capital funds

The higher the ratio of market capital to net book value from comparable companies, the higher the fair value of the equity instrument, and vice versa. The higher of the discount for lack of marketability, the lower the fair value of the equity instrument, and vice versa. No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

(b) Financial assets at FVTPL - unlisted equity securities

No sensitivity is presented as the directors of the Company considered that the slight change in relevant inputs would not have a significant impact to the fair values.

(c) Equity instruments at FVTOCI - unlisted equity securities

If the indexes used in the valuation model had been 5% higher/lower while all other variables were held constant, the Group's fair value of equity instruments as at 31 December 2022 would have increased/decreased by approximately RMB nil (2021: RMB49,000).

(d) The higher the multiples, the higher the fair value of the equity instrument/ financial assets at FVTPL, and vice versa. If the adjusting factors used in the valuation model had been 5% higher/ lower while all other variables were held constant, the Group's fair value of equity instruments at FVTOCI and Financial assets at FVTPL as at 31 December 2022 would have increased/ decreased by approximately RMB11,652,000 and RMB15,565,000, respectively.

36. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments - continued

(ii) Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI	Financial assets at FVTPL	Derivative financial instrument - warrant	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2021	98,896	3,884	49	102,829
Purchases	-	574,714	-	574,714
Transfers into level 1 upon the equity securities listed on ENV	(30,607)	-	-	(30,607)
Total gains (losses)				
- in profit or loss	-	60,534	(49)	60,485
- in other comprehensive income	(23,651)	-	-	(23,651)
As at 31 December 2021	44,638	639,132	-	683,770
Purchases	-	332,077	-	332,077
Disposal	(2,841)	-	-	(2,841)
Transfers into level 2	-	(115,725)	-	(115,725)
Transfers into level 3 from level 2	191,076	117,387		308,463
Total gains				
- in profit	-	72,530	-	72,530
- in other comprehensive income	174	-	-	174
As at 31 December 2022	233,047	1,045,401	-	1,278,448

(iii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings RMB'000 (note 29)	Deferred consideration payables RMB'000 (note 30)	Dividend payables RMB'000 (note 13)	Lease liabilities RMB'000 (note 27)	Obligation rising from put options RMB'000	Total RMB'000
At 1 January 2021	587,251	4,416	-	12,906	-	604,573
Financing cash flows	1,061,968	-	(1,154,834)	(14,007)	-	(106,873)
Release on deferred difference on initial recognition of financial instruments	-	(1,929)	-	-	-	(1,929)
Dividends declared	-	-	1,154,834	-	-	1,154,834
Finance costs	15,397	249	-	2,211	10,413	28,270
Net foreign exchange gain	12,957	-	-	-	-	12,957
Commencement of new leases	-	-	-	33,622	-	33,622
Obligation rising from put options	-	-	-	-	142,000	142,000
At 31 December 2021	1,677,573	2,736	-	34,732	152,413	1,867,454
Financing cash flows	(88,435)	(1,000)	(1,276,239)	(18,948)	-	(1,384,622)
Acquisition of a subsidiary	3,000	-	-	-	-	3,000
Dividends declared	-	-	1,276,239	-	-	1,276,239
Finance costs	35,455	173	-	2,098	11,360	49,086
Net foreign exchange gain	155,744	-	-	-	-	155,744
Commencement of new leases	-	-	-	11,413	-	11,413
At 31 December 2022	1,783,337	1,909	-	29,295	163,773	1,978,314

38. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Capital expenditure in respect of the acquisition of below items contracted for but not provided in the consolidated financial statements		
- property, plant and equipment	576	653
- financial assets at FVTPL	773,150	835,502
- interests in associate	53,883	90,000

39. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related financial parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the consolidated financial statements.

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

Name of related company	Relationship	Nature of transactions	2022 RMB'000	2021 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	1,316,329	1,046,701
Tibet Pharmaceutical	Associate	Service fee	-	1,698
Tibet Pharmaceutical	Associate	Purchase of goods	611	2,718

(b) Pursuant to a transfer agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) and a further agreement dated 16 December 2007 between Shenzhen Kangzhe and Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D")", the Group acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, of which 83.23% equity interest is indirectly held by a controlling shareholder as at 31 December 2022 and the date of this report. Pursuant to the terms of the agreement, as consideration for the transfer of CMS024, Shenzhen Kangzhe paid US$3.1 million to Kangzhe R&D as compensation for the actual research and development costs incurred by Kangzhe R&D, and further agreed to pay a royalty fee of 13% of the quarterly sales revenue generated by the Group after CMS024 is successfully launched. The Group has appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist the Group in the application for a new-drug permit for CMS024. The Group has not paid any fee to Kangzhe R&D during the years ended 31 December 2022 and 2021.

(c) On 8 May 2015, A&B entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to a drug, Traumakine in China (including Hong Kong SAR, Macau SAR and Taiwan) (the "Territory"), intellectual properties related to Traumakine from the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory (the "Acquisition of Assets"). The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The Acquisition of Assets was not yet completed up to the date of this report and the Group has not paid any consideration to A&B in respect of this acquisition during the years ended 31 December 2022 and 2021.

39. RELATED PARTY TRANSACTIONS - continued

(d) On 31 July 2018, the Group entered into an asset transfer and license agreement with Acticor. According to the terms of such agreement, the Group acquired all assets (the "Assets of ACT017") related to Acticor's product ACT017 and any follow-up products developed on the basis of the same compound of ACT017 (the "Product of ACT017") in China (including Hong Kong SAR, Macau SAR and Taiwan), Singapore, Philippines, Republic of Korea, Malaysia and other designated Asian countries (excluding Japan, India and Western Asia countries) (the "Asia Pacific Territory") in consideration of an upfront payment of EUR50,000 (equivalent to RMB384,000) which has been paid as at 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets (see note 23) as at 31 December 2022 and 2021. The Assets of ACT017 include without limitation all the know-how, intellectual property or the right of application for the intellectual property, necessary regulatory approvals, documents, dossiers, data or information exclusive for Asia Pacific Territory and other rights as necessarily required to develop, register, manufacture and commercialise the Product of ACT017 in the Asia Pacific Territory. In addition, the Group also acquired all the necessary licenses related to the transaction under this agreement in consideration of (1) a royalty at a fixed rate on the basis of the net sales of Product of ACT017 generated in Asia Pacific Territory and (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement.

(e) On 14 August 2018, the Group entered into an asset transfer and license agreement with Blueberry Therapeutics Limited ("Blueberry"), which is one of Group's unlisted equity investments under note 20(b)(iii). According to the terms of such agreement, the Group has acquired all related assets of Blueberry's leading product BB2603 (for the treatment of onychomycosis and tinea pedis) in China (including Hong Kong SAR Macau SAR and Taiwan), Republic of Korea and Mongolia (the "Asia Territory") and the Group further acquired access to all related assets of other pipeline products being or to be developed subsequently by Blueberry utilizing its unique nanoformulation delivery system in dermatology and other fields (such as products used for treating atopic dermatitis and acne, etc., together with the product BB2603 as the "Product of BB2603") in the Asia Territory in consideration of (1) an upfront payment of USD600,000 (equivalent to RMB4,090,000), (2) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of BB2603 in Asia Territory. The aforementioned assets include, among others, all the national patents covering the development, commercialization and formulation of the Product of BB2603, national trademarks and necessary regulatory approvals in or for the Asia Territory.

As the milestone as well as the commercialisation of Product of BB2603 has not yet been achieved as at 31 December 2022 and 2021, the Group has only paid the upfront payment of USD600,000 (equivalent to RMB4,090,000) as the consideration for Product of BB2603 during year ended 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets (see note 23) as at 31 December 2022 and 2021.

39. RELATED PARTY TRANSACTIONS - continued

(f) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices (the "Product of PoNS") developed by or for Helius Medical Technologies group ("Helius"), which is one of Group's unlisted equity investments under note 20(b)(iii). According to the terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of PoNS (the "Assets of PoNS") in the Territory (the "Transaction of PoNS"). The Assets were originally purchased by A&B from Helius, in which A&B has equity interest. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of PoNS under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction at a later stage prior to the launch of the Product of PoNS in the Territory. As at 31 December 2022, the Group and A&B has not yet negotiated and agreed on the terms of the Transaction of PoNS and the Group has not paid any consideration to A&B in respect of the Transaction of PoNS during the years ended 31 December 2022 and 2021.

(g) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 etc. and/or line extensions developed by or for Neurelis, Inc. ("Neurelis") (collectively, the "Product of NRL-1"). Neurelis is one of Group's unlisted equity investments under note 20(b)(iii). According to terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of NRL-1 (the "Assets of NRL-1") in the Territory (the "Transaction of NRL-1"). A&B obtained the Assets of NRL-1 from its related entity which in turn obtained the Assets of NRL-1 from Neurelis. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of NRL-1 under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction of NRL-1 at a later stage prior to the launch of the Product of NRL-1 in the Territory. As at 31 December 2022, the Group and A&B have not yet negotiated and agreed on the terms of the Transaction of NRL-1 and the Group has not paid any consideration to A&B in respect of the Transaction of NRL-1 during the years ended 31 December 2022 and 2021.

(h) On 19 September 2018, the Group entered into license and collaboration agreement with VAXIMM AG ("VAXIMM"), which is one of Group's unlisted equity investments under note 20(b)(iii) and was sold during the year ended 31 December 2022. According to the terms of such agreement, the Group gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current pharmaceutical products portfolio and line extension of or under the control of VAXIMM (the current leading product is VXM01) as well as designated pharmaceutical products and line extension that will be solely owned and under the control of VAXIMM (the "Product of VXM01") in Asia Pacific Territory in consideration of (1) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement, (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of VXM01 in Asia Pacific Territory.

As Product of VXM01 has not yet been commercialised, the Group has not paid any consideration in relation to Product of VXM01 during years ended 31 December 2022 and 2021.

39. RELATED PARTY TRANSACTIONS - continued

(i) On 29 January 2019, the Group entered into a license, collaboration and distribution agreement with Midatech. According to the terms of such agreement, the Group will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialise Midatech's current products mainly including MTD201, MTX110 (subject to receipt of consent from Secura Bio) and any new pharmaceutical products or line extension, the intellectual property rights and other rights of which Midatech controls and which Midatech or its affiliates have given a codename within three years from 29 January 2019 (the "Products") in China (including Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) and certain Southeast Asian countries selected by the Group (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Group once a regulatory approval is granted by the US Food and Drug Administration, the European Medicines Agency or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland).

As Products have not yet been commercialised, the Group has not paid any consideration in relation to Products during year ended 31 December 2022 and 2021.

(j) During the year ended 31 December 2017, the Group entered into an agreement with Destiny. According to the terms of such agreement, the Group will gain exclusive sub-licensable rights to develop and commercialise Destiny's current products mainly including XF-73 (the "Products of XF-73") in Asia Pacific Territory.

As Products of XF-73 have not yet been commercialised, the Group has not paid any consideration in relation to Products during year ended 31 December 2022 and 2021.

(k) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 9.

40. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

The employees employed in Macau are required to join the Social Security Fund (the "FSS"). Contributions to FSS are made in accordance with the statutory limits prescribed by the Social Security System of Macau.

The employees employed in Dubai are required to be entitled to gratuity based on the years of services under the labour law of United Arab Emirates Ministry of Human Resources and Emiratisation.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB217,855,000 (2021: RMB136,722,000).

41. EMPLOYEE BENEFIT SCHEME

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

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

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

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

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

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

(a) The Bonus Scheme

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.

ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

41. EMPLOYEE BENEFIT SCHEME - continued

(b) The New KEB Scheme

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.

ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

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

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

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 0% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subject to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

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

During the year ended 31 December 2022, the Company recognised an expense of RMB5,760,000 (2021: RMB nil) on the Master Scheme based on the Group's financial performance. RMB5,760,000 (2021: RMB nil) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

42. ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2022

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

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

Assets acquired and liabilities recognised at the date of acquisition:

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

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

Goodwill arising on acquisition:

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

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year nded 31 December 2022 - continued

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

Goodwill arose in the acquisition of Xuli was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, management team, sale and promotion channel and future market development of Xuli. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash during the current year	28,374
Less: cash and cash equivalent balances acquired	(1,371)
	27,003
Consideration prepaid in cash during the year ended 31 December 2021	15,000
	42,003

Impact of acquisition on the results of the Group:

Included in the profit for the period is loss of RMB13,312,000 attributable to the additional business generated by Xuli. Revenue for the period includs RMB49,976,000 generated from Xuli.

Had the acquisition of Xuli been completed at 1 January 2022, the revenue of the Group for the year ended 31 December 2022 would have been RMB9,152,693,000, and the profit for the period would have been RMB3,274,374,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2022, nor is intended to be a projection of future results.

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

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year nded 31 December 2022 - continued

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

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

Consideration transferred:

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

Assets acquired and liabilities recognised at the date of acquisition:

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

Goodwill arising on acquisition:

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

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year nded 31 December 2022 - continued

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

Goodwill arose in the acquisition of Heling was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, management team, sale and promotion channel and future market development of Heling. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Non-controlling interests

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

Net cash outflow arising on acquisition:

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

Impact of acquisition on the results of the Group:

Included in the loss for the period is RMB16,000 attributable to the additional business generated by Heling.

Had the acquisition of Heling been completed at 1 January 2022, the revenue of the Group for the year ended 31 December 2022 would have been RMB9,150,357,000, and the profit for the period would have been RMB3,275,933,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2022, nor is intended to be a projection of future results.

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

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021

(a) Acquisition of Luqa

On 1 February 2021, the Group entered into a share purchase agreement (the "Luqa Agreement") to acquire 100% equity interest in Luqa from several independent third parties (the "Sellers"). Luqa is a dermatology specialty company incorporated in Hong Kong, its products mainly includes dermatology prescription medicines, medical devices and medical aesthetic products. The purpose of the acquisition is to enrich the dermatology product portfolio of the Group, and enable the Group to enter into medical aesthetic field after acquiring the product rights owned by Luqa. It would have a big synergistic effect by taking full advantage of the promotion system and channel resource of the Group. The above acquisition had been completed on 1 February 2021 (the "Completion Date") and accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Cash	513,000
Consideration Shares and Bonus Share transferred (note i)	106,500
Put options on the Consideration Shares and Bonus Share (note ii)	57,264
	676,764

Notes:

(i) Pursuant to the Luqa Agreement, on the Completion Date, the Group transferred two issued ordinary shares (the "Consideration Shares") of a wholly-owned subsidiary, CMS Aesthetics Holdings Limited ("CMS Aesthetics"), representing 2% of the issued share capital of CMS Aesthetics to an entity designated by the Sellers to receive and hold the Consideration Shares.

In addition, on the Completion Date, the Group transferred one series A redeemable share (the "Bonus Share") of CMS Aesthetics, representing 1% of the issued share capital of CMS Aesthetics to an entity designated by the Sellers to receive and hold the Bonus Share.

(ii) As stipulated in the Luqa Agreement, the Sellers were granted the right to demand the Group to repurchase the Consideration Shares and Bonus Share, at any time from the Completion Date up to date falling on the fifth anniversary of the Completion Date at pre-determined exit prices.

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(a) Acquisition of Luqa - continued

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	47
Intangible assets	101,599
Inventories	486
Trade and other receivables	129,046
Bank balances and cash	31,985
Trade and other payables	(43,725)
Tax recoverable	116
Deferred tax liabilities	(2,792)
	216,762

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB129,046,000 at the date of acquisition had gross contractual amounts of RMB129,046,000, being the best estimate of the contractual cash flows expected to be collected at acquisition date.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	676,764
Less: fair value of identifiable net assets acquired	(216,762)
Goodwill arising on acquisition	460,002

Goodwill arose in the acquisition of Luqa was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, management team, sale and promotion channel and future market development of Xuli. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash	513,000
Less: cash and cash equivalent balances acquired	(31,985)
	481,015

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(a) Acquisition of Luqa - continued

Impact of acquisition on the results of the Group:

Included in the profit for the year is RMB5,193,000 attributable to the additional business generated by Luqa. Revenue for the year includes RMB27,687,000 generated from Luqa.

Had the acquisition of Luqa been completed on 1 January 2021, revenue for the year of the Group would have been RMB8,333,928,000, and profit for the year would have been RMB2,961,788,000. 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.

In determining the 'pro-forma' revenue and profit of the Group had Luqa been acquired at the beginning of the current year, the directors of the Company calculated depreciation of property, plant and equipment and amortization of intangible assets based on the recognised amounts of property, plant and equipment and intangible assets at the date of the acquisition.

Share-based payment transaction:

Pursuant to the Luqa Agreement, on the Completion Date, the Group transferred one series A redeemable share (the "Employment Share") of CMS Aesthetics, representing 1% of the issued share capital of CMS Aesthetics to a key employee of Luqa with a condition that who shall serve the Group up to 31 December 2023. The key employee was granted the right to demand the Group to repurchase the Employment Share, up to date falling on the fifth anniversary of the Completion Date at pre-determined exit prices. The Employment Share and related put option were accounted for share-based payment under IFRS 2.

The estimated fair values of the employment share and related option granted on the date are RMB35,500,000 and RMB19,088,000, respectively. These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	1 February 2021
Weighted average share price (RMB'000)	35,500
Exercise price (RMB'000)	49,701
Expected volatility	39.267%
Expected life	5
Risk-free rate	3.001%
Expected dividend yield	0

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(a) Acquisition of Luqa - continued

Share-based payment transaction: - continued

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on the valuer's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the year ended 31 December 2022, the Group recognised share-based payment expense of RMB18,716,000 (2021: RMB17,156,000) in relation to Employment Share and related put option granted by the Company.

Obligation arising from put options:

On the Completion Date, an amount representing the present value amounting to RMB142,000,000 of the amount that the Group could be required to pay the non-controlling shareholder pursuant to the put options over the Consideration Shares, Bonus Share and Employment Share in CMS Aesthetics held by the non-controlling shareholder, with a corresponding debit in non-controlling interests, is recognised in obligation arising from put options.

For the period from the Completion Date to 31 December 2021, interest on obligation arising from put options amounted to RMB10,413,000 was recognised in profit or loss.

(b) Acquisition of Carnation

On 17 May 2021, the Group entered into an equity transfer agreement with an independent third party (the "Seller") to acquire 50% equity interest in Carnation at a cash consideration of RMB38,000,000. On the same date, the Group entered into a capital increase agreement with the Seller to subscribe additional 14.81% equity interest in Carnation at a consideration of RMB32,000,000. After completion, the Group holds 64.81% equity interest in Carnation. Carnation is incorporated in the PRC and is engaged in research and development and manufacture of medical aesthetic solution using focused ultrasound technology. The purpose of the acquisition is to acquire Carnation's focused ultrasound technology platform and to develop product rights for enriching the Group's photoelectric medical aesthetic product portfolio. The acquisition had been completed on 8 June 2021 and accounted for as acquisition of business using the acquisition method.

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(b) Acquisition of Carnation - continued

Consideration transferred

	RMB'000
Cash	38,000
Capital injection	32,000
	70,000

Assets acquired and liabilities recognised at the date of acquisition:

	RMB'000
Property, plant and equipment	13
Intangible assets	38,706
Inventories	32
Amount due from a shareholder	32,000
Trade and other receivables	318
Bank balances and cash	110
Amount due to a non-controlling shareholder	(9,630)
Trade and other payables	(406)
Deferred tax liabilities	(9,677)
	51,466

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB318,000 at the date of acquisition had gross contractual amounts of RMB318,000, being the best estimate of the contractual cash flows expected to be collected at acquisition date.

Non-controlling interests

The non-controlling interest (35.19%) in Carnation recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Carnation and amounted to approximately RMB18,108,000.

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(b) Acquisition of Carnation - continued

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	70,000
Plus: non-controlling interests	18,108
Less: fair value of identifiable net assets acquired	(51,466)
Goodwill arising on acquisition	36,642

Goodwill arose in the acquisition of Carnation was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of focused ultrasound technology platform, research and development team, potential market development and future revenue growth of Carnation. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition:

	RMB'000
Consideration paid in cash	38,000
Less: cash and cash equivalent balances acquired	(110)
	37,890

Impact of acquisition on the results of the Group:

Included in the profit for the year is loss of RMB3,339,000 attributable to the additional business generated by Carnation. No revenue were generated from Carnation for the year.

Had the acquisition of Carnation been completed on 1 January 2021, revenue for the year of the Group would have been RMB8,337,221,000, and profit for the year would have been RMB3,024,724,000. 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.

42. ACQUISITIONS OF SUBSIDIARIES - continued

For the year ended 31 December 2021 - continued

(b) Acquisition of Carnation - continued

Impact of acquisition on the results of the Group: - continued

In determining the 'pro-forma' revenue and profit of the Group had Carnation been acquired at the beginning of the current year, the directors of the Company calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

As at 31 December 2022 and 2021, the details of the Company's principal subsidiaries are set as follows:

Name of subsidiaries	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2022	31 December 2021	31 December 2022		31 December 2021		
				Directly	Indirectly	Directly	Indirectly	
CMS International	British Virgin Island	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB36,750,000	RMB36,750,000	-	100%	-	100%	Production of medicines
Tibet Kangzhe Enterprise Management Co. Ltd. (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB500,000,000	RMB500,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Lengshuijiang Kangzhe Pharmaceutical Co., Ltd, (wholly-owned domestic enterprise) (Note)	PRC	-	RMB22,359,050	-	-	-	100%	Production of medicines
Xili Pharmaceutical (sino-foreign equity joint venture)	PRC	RMB11,360,000	RMB11,360,000	-	52.01%	-	52.01%	Production of medicines

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
		31 December 2022	31 December 2021	31 December 2022		31 December 2021		
				Directly	Indirectly	Directly	Indirectly	
Tibet Kangzhe Development (wholly-owned domestic enterprise)	PRC	RMB100,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
CMS Bridging Limited (formerly known as Everest Fortune Limited)	Hong Kong	HK$1,000,000,000	HK$1,000,000,000	-	100%	-	100%	Investment holding
CMS Medical Venture Investment Limited	British Virgin Island	US$50,000	US$50,000	-	100%	-	100%	Investment holding
CMS Medical Venture Investment (HK) Limited	Hong Kong	HK$100	HK$100	-	100%	-	100%	Investment holding
CMS International Development and Management Limited	Macau	MOP$113,340,100	MOP$113,340,100	-	100%	-	100%	Trading of drugs
CMS Pharma DMCC	Dubai	DH104,490,000	DH104,490,000	-	100%	-	100%	Trading of drugs
CMS Bridging DMCC	Dubai	DH261,220,000	DH261,220,000	-	100%	-	100%	Investment holding
CMS Aesthetics DMCC	Dubai	DH50,000	DH50,000	-	96%	-	96%	Trading of drugs
Luqa Ventures Co., Limited	Hong Kong	HK$8,847,825	HK$8,847,825	-	96%	-	96%	Trading of drugs
Shanghai Carnation Medical Technology Co., Ltd	PRC	RMB2,842,105	RMB2,842,105	-	62.2%	-	62.2%	Trading of drugs
Shanghai Kangzhe Aesthetics Pharmaceutical Co., Ltd	PRC	RMB10,000,000	RMB10,000,000	-	96%	-	96%	Marketing and promotion
Hainan Kangzhe Aesthetics Technology Co., Ltd	PRC	RMB145,000,000	RMB145,000,000	-	96%	-	96%	Marketing, promotion and sale of drugs
Shenzhen Kangzhe Zhiyuan Enterprise Management Co., Ltd	PRC	RMB200,000,000	RMB200,000,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe Yingtai Technology Co.,Ltd	PRC	-	-	-	100%	-	100%	Investment holding
Hainan Kangzhe Venture Capital Co. Ltd	PRC	RMB520,050,000	RMB350,050,000	-	100%	-	100%	Investment holding
CMS Aesthetics Limited	Hong Kong	HK$1	HK$1	-	96%	-	96%	Trading of drugs
Shanghai Xuli Medical Devices Company Limited	PRC	RMB10,000,000	-	-	96%	-	-	Trading of drugs
Heling Medical (Guangzhou) Company Limited	PRC	RMB3,000,000	-	-	57.6%	-	-	Trading of drugs

Note: The company was liquidated on 28 March 2022.

The above table lists the subsidiaries of the Company, in the opinion of the directors of the Company, which principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 RMB'000	2021 RMB'000
Non-current asset		
Interests in subsidiaries	4,289,164	4,604,171
Current assets		
Amount due from a subsidiary	2,000,000	1,000,000
Derivative financial instruments	21,794	-
Bank balances and cash	39,618	17,901
	2,061,412	1,017,901
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Other payables and accruals	3,027	2,234
Bank borrowings	1,281,886	1,103,760
Derivative financial instruments	562	-
	1,288,433	1,108,952
Net current assets (liabilities)	772,979	(91,051)
Total assets less current liabilities	5,062,143	4,513,120
Capital and reserves		
Share capital (note 33)	83,991	84,177
Reserves	4,978,152	4,428,943
Total equity	5,062,143	4,513,120

Movement in reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Total RMB'000
Balance at 1 January 2021	2,304,879	6,960	1,924,406	502,306	4,738,551
Repurchase of ordinary shares	(151,062)	-	-	-	(151,062)
Profit and total comprehensive income for the year	-	-	996,288	-	996,288
Dividends paid	-	-	(652,528)	(502,306)	(1,154,834)
Dividends proposed	-	-	(557,594)	557,594	-
Balance at 31 December 2021	2,153,817	6,960	1,710,572	557,594	4,428,943
Repurchase of ordinary shares	(48,196)	-	-	-	(48,196)
Profit and total comprehensive income for the year	-	-	1,873,644	-	1,873,644
Dividends paid	-	-	(718,645)	(557,594)	(1,276,239)
Dividends proposed	-	-	(591,910)	591,910	-
Balance at 31 December 2022	2,105,621	6,960	2,273,661	591,910	4,978,152