China Shineway Pharmaceutical Group Limited
中國神威藥業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2877

Annual Report 2022

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Liu TieJun
(appointed on 1 November 2022)
Mr. Chen Zhong
(ceased on 1 November 2022)

Independent non-executive Directors

Ms. Cheng Li
Mr. Liu Shun Fai
Mr. Yew Yat On
(appointed on 1 October 2022)
Prof. Luo Guoan
(ceased on 1 October 2022)

Non-executive Director

Mr. Zhou Wencheng

BOARD COMMITTEES

Audit Committee

Mr. Liu Shun Fai *(Committee Chairman)*
Ms. Cheng Li
Mr. Yew Yat On
(appointed on 1 October 2022)
Prof. Luo Guoan
(ceased on 1 October 2022)

Remuneration Committee

Ms. Cheng Li *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Liu Shun Fai

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Mr. Liu Shun Fai
Mr. Yew Yat On
(appointed on 1 October 2022)
Prof. Luo Guoan
(ceased on 1 October 2022)

Corporate Social Responsibility and Sustainability Committee

Mr. Liu Shun Fai *(Committee Chairman)*
Ms. Xin Yunxia
Ms. Cheng Li
Mr. Yew Yat On (appointed on 1 October 2022)
Prof. Luo Guoan (ceased on 1 October 2022)

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

REGISTERED OFFICE

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

CORPORATE INFORMATION

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

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

WEBSITES

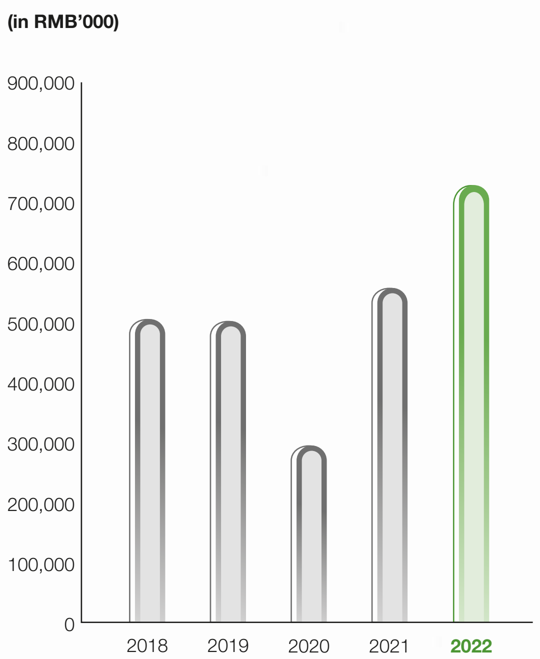
www.shineway.com.hk
www.shineway.com

FINANCIAL HIGHLIGHTS

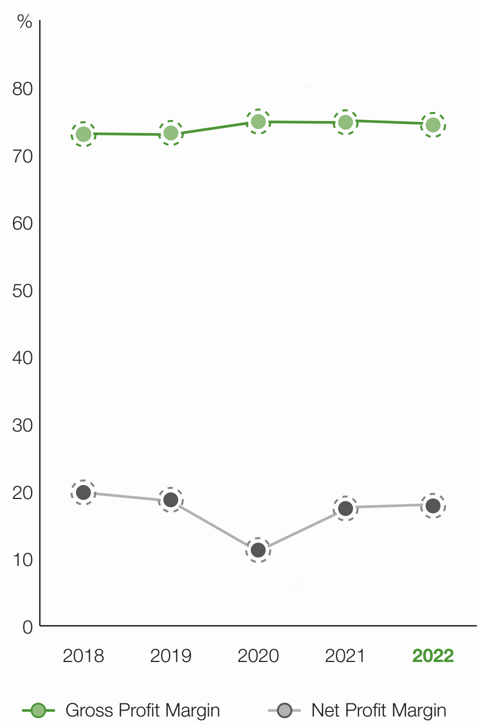
(in RMB'000)

	2018	2019	2020	2021	**2022**
RESULTS					
Turnover	2,570,196	2,705,996	2,655,701	3,223,550	**3,950,636**
Gross profit	1,876,047	1,981,565	1,987,846	2,410,336	**2,938,314**
Profit before taxation	669,130	642,772	395,024	720,103	**917,025**
Profit attributable to owners of the Company	505,876	503,150	295,033	556,674	**722,773**
Basic earnings per share	RMB0.62	RMB0.64	RMB0.39	RMB0.74	**RMB0.96**
Dividends	261,185	249,072	241,472	453,072	**241,728**
ASSETS AND LIABILITIES					
Total assets	6,731,791	7,131,341	7,213,508	7,203,958	**8,231,861**
Total liabilities	(966,010)	(1,354,414)	(1,419,326)	(1,302,477)	**(1,849,335)**
Total equity attributable the owners of the Company	5,765,781	5,776,927	5,794,182	5,901,481	**6,382,526**

Profit Attributable to Owners of the Company



Gross and Net Profit Margins



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

The Group has been always strengthening evidence-based medical research and academic promotion, providing strong academic support for our products. At the same time, the Group actively expanded our end-to-end coverage and marketing investment by entering more retail pharmacies and target hospitals. This, coupled with the government's supportive policies on revitalizing traditional Chinese medicine, drove the continuous growth of the Group's respiratory medications Qing Kai Ling Injection and Qing Kai Ling Soft Capsule, and exclusive oral products such as Huamoyan Granule, Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule and Dan Deng Tong Nao Soft Capsule, driving a notable increase of 6.3%, 24.5% and 18.1% in the overall sales revenue of injections, soft capsules and granules respectively during the year.

CHAIRMAN'S STATEMENT

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

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

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

Li Zhenjiang
Chairman of the Board
Hong Kong, 30 March 2023

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS HIGHLIGHTS

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

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

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

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

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

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

ORAL PRODUCTS CONTINUED TO THE KEY GROWTH DRIVERS

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

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

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

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

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

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

SALES OF TCM FORMULA GRANULES SURPASSED RMB1.1 BILLION

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

RAPID GROWTH OF EXCLUSIVE PRODUCTS

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

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

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

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

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

VIGOROUSLY DEVELOPING ETHNIC MEDICINE MARKET

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

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

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

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

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

RESEARCH AND DEVELOPMENT OF INNOVATIVE DRUG IS UNDER STEADY PROGRESS

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

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

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

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

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

CONTINUAL PROMULGATION OF SUPPORTIVE POLICIES AND REGULATIONS BY THE PRC GOVERNMENT TO REVITALIZE TRADITIONAL CHINESE MEDICINE

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Turnover

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

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

Cost of Sales

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

Gross Margin

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

Other Income

Other income mainly includes government subsidies of RMB106,379,000 (2021: RMB79,023,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Income

Investment income mainly includes interest income from bank deposits, interest income from structured deposits and investments in financial products of RMB92,357,000 (2021: RMB95,066,000), RMB74,000 (2021: Nil) and RMB6,668,000 (2021: RMB9,073,000) respectively.

Other gains and losses

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

Impairment Losses on Financial Assets

In 2022, respective impairment of RMB10,432,000 (2021: RMB5,424,000) and reversal of impairment of RMB1,604,000 (2021: impairment of RMB1,597,000) for trade receivables and trade receivables backed by bank bills were accounted for after the expected credit risk of financial assets assessment by the Group's management.

Selling and Distribution Costs

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

Administrative Expenses and Research and Development Costs

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

Income Tax Rates

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

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and were entitled to PRC EIT at concessionary rate of 15.0% (2021: 15.0%). Certain subsidiaries which were recognised as High and New-tech Enterprise have been granted tax concessions by the local tax bureau and are entitled to PRC EIT at concessionary rate of 15.0% for 2021 and 2022. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

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

Profit for the Year

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

Liquidity and Financial Resources

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Dividends

Details of dividends are set out in the directors' report on page 24 of this annual report.

Capital Structure

For the year ended 31 December 2022, there was no change in the capital structure of the Group and issued share capital of the Company.

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

As at 31 December 2022, trade receivables backed by bank bills and trade receivables decreased by 24.7% and increased by 58.6% respectively as compared to the balance as at 31 December 2021. Turnover days of trade receivables backed by bank bills and trade receivables were 32.4 days and 50.7 days (2021: 48.1 days and 41.7 days) respectively.

Inventories

As at 31 December 2022, inventories in the amount of RMB657,659,000, increased by approximately 11.9%, as compared to the balance as at 31 December 2021. As at 31 December 2022, raw materials, work in progress and finished goods accounted for 34.5%, 33.9% and 31.6% (2021: 29.5%, 34.5% and 36.0%) of inventories respectively. Turnover of finished goods inventories in 2022 was 75.6 days as compared to 87.7 days in 2021.

Property, Plant and Equipment

As at 31 December 2022, property, plant and equipment amounted to approximately RMB1,216,937,000, decreased by approximately 2.8% as compared to last year. The new construction works were mainly the workshop projects located in Sichuan and Yunnan and various workshops modification projects located in Shijiazhuang, which amounted to approximately RMB80,915,000 in total, and there were also new additions to owned properties, plant and machineries, office equipment and motor vehicles of approximately RMB52,981,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold lands, leased properties, leased motor vehicles and leased machineries, which had respective net book values of RMB109,407,000, RMB1,428,000, RMB1,187,000 and RMB1,941,000 as at 31 December 2022.

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

Intangible Assets

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

Goodwill

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

Trade Payables

As at 31 December 2022, turnover days of trade payables was 96.8 days (2021: 88.2 days).

Employees

As at 31 December 2022, the Group had 4,131 (2021: 3,674) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange loss for the year arose from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2022, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2022 (2021: Nil).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors ("ED")

LI Zhenjiang (李振江), aged 67, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 30 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th, 11th and 12th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group.

XIN Yunxia (信蘊霞), formerly known as XIN Yunxia (信雲霞), aged 59, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 30 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 55, is an executive Director. He obtained an EMBA degree from Chinese University of Hong Kong in 2016. He is primarily responsible for the marketing and sales of the Group's products and, since joining the predecessor of the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 25 years' experience. Mr. Li is the vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

LIU Tiejun (劉鐵軍), aged 48, was appointed as an executive Director on 1 November 2022. He joined the Group in 1999 and was appointed as vice president of Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") (an indirect wholly-owned subsidiary of the Company) on 16 May 2013. Mr. Liu is qualified as a senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1999 with a bachelor's degree in pharmacy. Mr. Liu is a member of the China Association of Chinese Medicine (Chinese Medicine Branch) and a deputy director of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection. He has received an award of "Model Worker of Hebei Province" * (「河北省勞動模範」) by the People's Government of Hebei Province. Mr. Liu is currently the rotating president and the legal representative of Shineway Pharmaceutical, being responsible for overseeing the Group's production technology management with more than 20 years of experience.

CHEN Zhong (陳鍾), aged 56, was appointed as an executive Director on 1 December 2014 and ceased to be an executive Director on 1 November 2022. He is qualified as a chief senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1990 with a bachelor's degree in pharmacy.

Independent Non-Executive Directors ("INED")

CHENG Li (程麗), aged 63, was appointed as an INED in 2006 and ceased to be an INED on 1 April 2023. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino- Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

DIRECTORS AND SENIOR MANAGEMENT

LIU Shun Fai (廖舜輝), aged 51, was appointed as an INED on 1 November 2021. He is currently an executive director, the company secretary and the chief financial officer of AMVIG Holdings Limited (together with its subsidiaries, the "AMVIG Group"). He is responsible for the accounting, finance and treasury function of the AMVIG Group. He graduated from the Chinese University of Hong Kong with a bachelor's degree and a master's degree in Business Administration in 1992 and 1999 respectively and is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Liu has more than 25 years of auditing and accounting experience. Before joining the AMVIG Group in August 2007, Mr. Liu had been the financial controller and the qualified accountant of two other companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for 9 years and had also worked in an international accounting firm for 8 years.

YEW Yat On (姚逸安), aged 51, was appointed as an INED on 1 October 2022. He has near 30 years of experience in investment banking and finance. He held various senior positions in several international, Hong Kong and China investment banks and handled a number of initial public offering and merger and acquisition deals. He is the founder and managing director of Alliance Capital Partners Limited, a leading boutique corporate finance house carrying Type 1 and Type 6 regulated activities under the Securities and Futures Ordinance. Mr. Yew holds an Executive Diploma in Organization Leadership from Saïd Business School, University of Oxford, and obtained a Master of Science degree in Investment Management from The Hong Kong University of Science and Technology, and a Bachelor of Arts degree from The University of Hong Kong. Mr. Yew is a chartered financial analyst.

LUO Guoan (羅國安), aged 76, was appointed as an INED on 16 June 2017 and ceased to be an INED on 1 October 2022. He graduated with biochemical engineering profession, and subsequently obtained master degree in chemistry from East China University of Science and Technology.

WANG Guihua (王桂華), aged 62, was appointed as an independent non-executive Director on 1 April 2023. Ms. Wang is a holder of undergraduate degree and is a deputy chief pharmacist. She has nearly 30 years of experience in operation and management of Chinese medicine enterprises. She served as a director of Shandong Wohua Pharmaceutical Technology Co., Ltd.* (山東沃華醫藥科技股份有 限公司)(the shares of which are listed on the Shenzhen Stock Exchange ("SZSE") (stock code: 002107)) from February 2019 to February 2022; an independent director of Chongqing Huasen Pharmaceutical Co., Ltd.* (重慶華森製藥股份有限公司)(the shares of which are listed on the SZSE(stock code: 002907)) from September 2015 to September 2021; and an independent director of Guangdong Taiantang Pharmaceutical Co., Ltd.* (廣東太安堂藥業股份有限公司)(the shares of which are listed on the SZSE (stock code: 002433)) ("Guangdong Taiantang") from May 2016 to January 2023, and has served as the secretary general of the China Association of Traditional Chinese Medicine/National Technical Committee of Standardization of Traditional Chinese Medicine* (中國中藥協會/全國中藥標準化技術委員會) since August 2005; an independent director of Hainan Huluwa Pharmaceutical Group Co., Ltd. (海南葫蘆娃藥業集團股份有限公司)(the shares of which are listed on the Shanghai Stock Exchange ("SZSE") (stock code: 605199)) since November 2018; an independent director of Beijing Tongrentang Co., Ltd.* (北京同仁堂股份有限公司)(the shares of which are listed on the SHSE (stock code: 600085)) and an independent director of Sailing Pharmaceutical Technology Group Co., Ltd* (賽靈藥業科技集團股份有限公司) since June 2021.

Non-Executive Director ("NED")

ZHOU Wencheng (周文成), aged 47, was appointed as a non-executive director on 1 October 2020. Mr. Zhou graduated from the Faculty of Finance and Taxation of the Hebei University of Economics and Business, is a certified tax agent of the People's Republic of China. Mr. Zhou has more than 20 years' experience in financial and taxation management. He has been the chief executive officer of Kexin Enterprise Consulting Group Company Limited since 2017, and has provided financial and taxation consultancy services for various large and medium-sized domestic enterprises.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

ZHANG Yudong (張宇棟), aged 49, joined the Group in 1994. He graduated from Hebei University of Economics and Business with major in marketing and obtained a bachelor's degree in pharmacy. He has served as director of Investment, general manager of hospital division and general manager of terminal division. Since November 2017, he has been the general manager of sales and marketing. He is responsible for the sales and marketing management of the Group with more than 20 years' experience.

HUNG Randy King Kuen (孔敬權), aged 57, is the Director of Investor Relation of the Group. Mr. Hung has more than 20 years of experience as CFO, executive director and independent non-executive director of various listed companies in Hong Kong. He was an executive director of the Group from 2005 to 2010, and was appointed as a non-executive director of the Group in 2011 and continued to serve as an independent non-executive director of the Group from 2014 to March 2017. Currently, Mr. Hung is also serving as a council member and the Chairman of Training Committee of the Hong Kong Institute of Directors, and the Vice Chairman of Hong Kong Investor Relations Association.

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

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 50, is the Financial Controller and Company Secretary of the Group. He joined the company in 2011 as the Financial Controller and was appointed as the Company Secretary and an Authorised Representative with effect from 1 July 2017. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Accounting and Financial Analysis and a master's degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007.

DIRECTORS' REPORT

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group and future development of the Group's business are provided in "Management Discussion and Analysis" set out on pages 8 to 19 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year under review, if any, can be found in the abovementioned section and the notes to the consolidated financial statements.

Environmental Policies and Performance

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

Compliance with the Applicable Laws and Regulations

In 2022, the Group has complied with the relevant laws and regulations which have significant impact on the operations of the Group.

Relationships with Employees, Customers and Suppliers

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

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

Principal Risks and Uncertainties

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

Product Liability

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

DIRECTORS' REPORT

Healthcare Reform in China

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

Tender and Price Control

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

RESULTS

The results of the Group for the year ended 31 December 2022, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 62 of this annual report.

DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 and resolved to declare the first interim dividend of RMB31 cents per share amounting to RMB 234,174,000 in respect of the year ending 31 December 2023 which are calculated on the basis of 827,000,000 shares issued less 71,600,000 shares held for share award scheme as at 31 December 2022, which will be paid on 17 May 2023 to the shareholders whose names appear on the Company's register of members on 4 May 2023.

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

DIVIDEND POLICY

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

DIRECTORS' REPORT

FINANCIAL HIGHLIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in notes 26 and 36 to the consolidated financial statements respectively. As at 31 December 2022, the Company's reserves available for distribution to shareholders amounted to RMB1,023,848,000 (2021: RMB874,930,000).

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

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

Executive Directors:

Mr.Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Liu Tiejun (appointed on 1 November 2022)
Mr. Chen Zhong (ceased on 1 November 2022)

Independent Non-Executive Directors:

Ms. Cheng Li (ceased on 1 April 2023)
Mr. Liu Shun Fai
Mr. Yew Yat On (appointed on 1 October 2022)
Prof. Luo Guoan (ceased on 1 October 2022)
Ms. Wang Guihua (appointed on 1 April 2023)

Non-Executive Director:

Mr. Zhou Wencheng

The biographical details of the Directors are set out on pages 20 to 21 of this annual report.

During the year, Prof. Luo Guoan ("Prof. Luo") ceased to serve as an INED in order to devote more time to pursue his personal interests, effective from 1 October 2022. Prof. Luo confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his cessation as INED. Mr. Yew Yat On ("Mr. Yew") was appointed as an INED with effect from 1 October 2022. Details of Mr. Yew's appointment and biographical information were disclosed in the announcement of the Company dated 30 September 2022.

Mr. Chen Zhong ("Mr. Chen") ceased to serve as an Executive Director to devote more time to pursue his personal interests, effective from 1 November 2022. Mr. Chen confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his cessation as ED. Mr. Liu Tiejun ("Mr. Liu") was appointed as an ED with effect from 1 November 2022. Details of Mr. Liu's appointment and biographical information were disclosed in the announcement of the Company dated 31 October 2022.

Each of Mr. Li Zhenjiang, Ms. Xin Yunxia and Mr. Li Huimin have entered into a service contract with the Company for a term of two years commencing from 1 October 2022. Mr. Liu Tiejun has entered into a service contract with the Company for a term of two years commencing from 1 November 2022. Each service contract will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

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

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

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

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

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

CHANGE IN DIRECTOR'S INFORMATION

Save as the cessation of Prof. Luo Guoan on 1 October 2022 as INED, cessation of Mr. Chen Zhong as ED on 1 November 2022, appointment of Mr. Yew Yat On on 1 October 2022 as INED, and the appointment of Mr. Liu Tiejun on 1 November 2022 as ED, the Company is not aware of any changes in the Directors' information during the year required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

No contracts other than employment contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2022, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

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

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

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2022, interest of every person (not being a Director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2022, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

The maximum number of shares in respect of which options may be granted under the 2015 Scheme and any other share option schemes of the Company shall not in aggregate exceed 82,700,000 representing 10% of the shares in issue as at 29 May 2015 (being the date of the extraordinary general meeting approving the 2015 Scheme) and as at the date of this annual report. The number of options available for grant under the scheme mandate at the beginning and the end of the year ended 31 December 2022 is 82,700,000.

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

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

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

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

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

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

		No. of shares comprised in share options						
Name of grantees	**Date of grant**	**As at 1 Jan 2022**	**Granted during the year**	**Lapsed during the year**	**Cancelled during the year**	**As at 31 Dec 2022**	**Notes**	**Exercise price per share (HK$)**
Other Employees	1 Jun 2016	1,000,000	–	1,000,000		–	1	8.39
Other Employees	30 Aug 2017	3,000,000	–	–	3,000,000	–	2	7.21
		4,000,000	–	1,000,000	3,000,000	–		

Notes:

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

The options are exercisable in tranches:

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

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

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

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

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

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

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

(2) *The options have a validity period of 10 years, from 30 August 2017 to 29 August 2027 (both dates inclusive).The share option was cancelled on 3 August 2022 due to mutual agreement between company and the employee.*

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

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

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

SHARE AWARD SCHEME

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

Eligible participants include any employee (including without limitation any Director) of the Company and its subsidiaries (but excluding any employee who is resident in a place where (i) the award of shares and/or vesting or transfer of shares pursuant to the terms of the Scheme is not permitted under the laws and regulations of such place or (ii) where in the view of the Board compliance with applicable laws or regulations in such place makes it necessary or expedient to exclude such employee, in each case as determined by the Board in its absolute discretion.

The Scheme shall be valid and effective for a period of 10 years commencing on its adoption date.

Unless otherwise determined or revoked by the Board at its discretion, the awarded shares shall vest in the selected employees at such time and upon such conditions as the Board may determine at its discretion, provided that the selected employee remains at all time on or before relevant vesting date an employee of the Company or its subsidiary.

The Board shall not make any further share award under the Scheme which will result in the number of Shares awarded by the Board under the Scheme would represent in excess of 10 per cent of the issued share capital of the Company as at its adoption date (being 827,000,000 shares) (which also equals to the issued share capital of the Company as at the date of this annual report).

The maximum aggregate number of the shares which may be awarded to a selected employee under the Scheme shall not exceed 1 per cent of the issued share capital of the Company as at the adoption date (which also equals to the issued share capital of the Company as at the date of this annual report).

Subject to the Scheme, the Board may impose any conditions, restrictions or limitations or wavier or amend any such conditions, restrictions or limitations from time to time in relation to the share award as it may at its absolute discretion think fit.

No share awards have been granted under the Scheme since its adoption.

During the year ended 31 December 2022, there were no disposal or purchase of shares by the trustee. During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market at an average price of approximately HK$5.50 (equivalent to RMB4.58) per share. The proceeds from disposal of those shares amounted to HK$4,403,000 (equivalent to RMB3,663,000). The difference of HK$2,885,000 (equivalent to RMB2,400,000) between the cost of the shares and the proceeds was credited to accumulated profits.

At the end of the reporting period, there are 71,600,000 (2021: 71,600,000) shares held by the trustee.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

EQUITY-LINKED AGREEMENT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers combined of the Group were 4.8% and 14.2% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers combined of the Group were 2.8% and 11.5% respectively of the Group's purchases for the year.

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

CONNECTED TRANSACTIONS

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

Technical Services Agreement between Shineway Pharmaceutical and Shineway Medical

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

Land Lease Agreement with Shineway Medical

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

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

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

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

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

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

Equipment Lease Agreement with Shineway Medical

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

Car Lease Agreement with Shineway Medical

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

CONTINUING CONNECTED TRANSACTIONS

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

General Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2022 are RMB10,430,000 and RMB11,500,000 respectively.

The proposed annual caps for General Service Agreement I for the year ending 31 December 2023 is RMB12,500,000.

General Services Agreement between Hebei Shineway and Shineway Sanhe

On 17 December 2020, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Sanhe entered into a general services agreement ("General Services Agreement II"). Pursuant to the General Services Agreement II, Shineway Sanhe has agreed to provide Hebei Shineway with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2022 are RMB2,555,500 and RMB3,200,000 respectively.

The proposed annual caps for General Service Agreement II for the year ending 31 December 2023 is RMB3,400,000.

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

On 17 December 2020, a Hotel Services Agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Kang Yue Hotel. Pursuant to the Hotel Service Agreement, Kang Yue Hotel has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period of three years from 1 January 2021. The payment to be made by the Group under the hotel service agreement contains different components and therefore different accounting treatments should be applied. The Hotel Service Agreement contains two components which are room rentals and hotel services. The entering into of the Hotel Services Agreement in respect of the hotel services of the Hotel constitute a continuing connected transaction of the Company. The transaction amount and cap amount of hotel services for the year ended 31 December 2022 are RMB176,896 and RMB3,000,000 respectively.

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

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

On 17 December 2020, a Training Agreement (the "Training Agreement") was entered into between Shineway Pharmaceutical and Shineway Training School, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Training Agreement, Shineway Training School has agreed to provide Shineway Pharmaceutical with training services and training venue for a period of three years from 1 January 2021. The transaction amount and cap amount of such transaction for the year ended 31 December 2022 are RMB1,061,551 and RMB5,000,000 respectively.

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

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

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

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

(b) on normal commercial terms or better; and

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

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

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

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

EMOLUMENT POLICY

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

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

DIRECTORS' REPORT

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

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

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

There was no compensation paid during the financial year ended 31 December 2022 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance.The Company's governance report is set out page 38 to 55 which contains the details of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility and Sustainability Committee.

PENSION SCHEMES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year of 2022 as required under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

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

CHARITABLE DONATIONS

During the year, the Group has devoted 78 hours and donated RMB7.2206 million to charitable activities which will be disclosed in "Community Contribution" in the Environmental, Social and Governance Report to be published.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from Wednesday, 3 May 2023 to Thursday, 4 May 2023 (both days inclusive) for the purpose of determining Shareholders', entitlement to the 2023 first interim dividend, during which period no transfer of shares will be registered. In order to qualify for the first interim dividend for the year ending 31 December 2023, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 2 May 2023.

The register of members of the Company will be closed from Tuesday, 23 May 2023 to Tuesday, 30 May 2023, both days inclusive, for the purpose of determining Shareholders' eligibility to attend, act and vote at the Annual General Meeting, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 22 May 2023.

AUDITOR

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

On behalf of the Board

Li Zhenjiang
Director

Hong Kong, 30 March 2023

CORPORATE GOVERNANCE REPORT

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2022, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules for the time being in force, except for code provision C.2.1 as described below.

The Stock Exchange published its consultation conclusions on the consultation paper entitled "Review of the Corporate Governance Code & Related Listing Rules, and Housekeeping Rule Amendments" in December 2021. The revised Listing Rules and new CG Code have come into effect on 1 January 2022, and the requirements under the new CG Code will be applied to corporate governance reports for financial years commencing on or after 1 January 2022. The Company has complied with most of the new requirements and has already implemented certain new requirements including, but not limited to, adopting the Shareholders Communication Policy, the Whistleblowing Policy and the Anti-Fraud and Anti-Corruption Policy. The provisions of the updated CG Code will be fully complied with in the Company's 2022-2023 Annual Report unless otherwise expressly specified.

CORPORATE CULTURE, PURPOSE, VALUES, AND STRATEGY

The board of directors of the Company has set out the following values to provide guidance on employees' behaviors and business activities, and to ensure they are embedded throughout the Company's vision, mission, policies and business strategies:

(a) Focus on stringent management and detailed works – the work is meticulous, emphasizing quality and safety;

(b) Social Responsibility – Increase wealth for the society, promote the country's health care through public welfare activities;

(c) Promote Innovation – Strengthen innovation incentives and increase investment in innovation;

(d) Respect for life – provide consumers with efficient, safe and cost efficient drugs to protect their health and enhance their quality of life; and

(e) Sustainability – We are committed to a sustainable future.

The Group will continuously review and adjust, if necessary, its business strategies and keep track of the changing market conditions to ensure prompt and proactive measures will be taken to respond to the changes and meet the market needs to foster the sustainability of the Group.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of inside information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that, in respect of the year ended 31 December 2022, they had complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

As at 31 December 2022, the Board comprises four executive Directors, three INEDs and one NED. The names of the Directors and their respective biographies are set out on pages 20 to 21 of this annual report.

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

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

INDEPENDENCE OF THE BOARD

The Group has established mechanisms to ensure independent views and input are available to the Board and such mechanisms will be reviewed annually by the Board. The Board has reviewed the implementation and effectiveness of the following mechanisms at the Board meeting in 2022 and considered that such mechanisms are effective:

(a) Three out of the eight Directors are INEDs, which comply with the requirement of the Listing Rules that at least one-third of the Board are independent non-executive directors.

(b) The Nomination Committee will assess the independence of a candidate who is nominated to be a new INED before appointment and the continued independence of the current long-serving INEDs on an annual basis. All INEDs are required to submit a written confirmation to the Company annually to confirm the independence of each of them and their immediate family members, and their compliance with the requirements as set out in the Rule 3.13 of the Listing Rules.

(c) All Directors are entitled to retain independent professional advisors as and when it is required.

(d) All Directors are encouraged to express their views in an open manner during the Board/Board Committees meetings.

(e) The Chairman of the Board will meet with the INEDs at least annually without the presence of the EDs.

(f) A Director (including INED) who has material interest in any contract, transaction or arrangement shall abstain from voting and not be counted in the quorum on any Board resolution approving the same.

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

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

All directors are entitled to retain independent professional advisors at the Company's cost when necessary. The implementation and effectiveness of such mechanism to ensure independent views and input are available to the board is reviewed on an annual basis.

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

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

2. discussion and review of the board composition, board diversity;

3. review the implementation and effectiveness of the Company's policy on board diversity;

4. the declaration of interim dividend.

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2022, the Board held five Board meetings and one AGM in 2022. Details of the attendance of the Board are as follows:

	Attended/Held Board Meeting	AGM
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	5/5	1/1
Ms. Xin Yunxia	5/5	1/1
Mr. Li Huimin	5/5	1/1
Mr. Liu Tiejun (appointed on 1 November 2022)	1/1	0/0
Mr. Chen Zhong (ceased on 1 November 2022)	4/4	1/1
Independent Non-executive Directors		
Ms. Cheng Li (ceased on 1 April 2023)	5/5	1/1
Mr. Liu Shun Fai	5/5	1/1
Mr. Yew Yat On (appointed on 1 October 2022)	2/2	0/0
Prof. Luo Guoan (ceased on 1 October 2022)	3/3	1/1
Non-executive Director		
Mr. Zhou Wencheng	5/5	1/1

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Throughout the year ended 31 December 2022, the Company has applied and complied with the principles in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules, except for code provision C.2.1 as described below.

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2022. During the year ended 31 December 2022, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management.

Pursuant to code provision A.6.5 of the Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2022, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

	Attending training course	Self-study of relevant materials and/or regulatory updates
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	✓	✓
Ms. Xin Yunxia	✓	✓
Mr. Li Huimin	✓	✓
Mr. Liu Tiejun (appointed on 1 November 2022)	✓	–
Mr. Chen Zhong (ceased on 1 November 2022)	✓	–
Independent Non-executive Directors		
Ms. Cheng Li (ceased on 1 April 2023)	✓	✓
Mr. Liu Shun Fai	✓	✓
Mr. Yew Yat On (appointed on 1 October 2022)	✓	✓
Prof. Luo Guoan (ceased on 1 October 2022)	✓	✓
Non-executive Director		
Mr. Zhou Wencheng	✓	✓

TERM OF OFFICE AND RE-ELECTION

INEDs Mr. Liu Shun Fai and Mr. Yew Yat On have been appointed for a term of two years. INED Ms. Cheng Li and NED Mr. Zhou Wencheng does not have service contracts with the Company. Ms. Cheng Li has been on the board of directors for more than nine years. The board has identified a suitable candidate and will replace INED on April 1, 2023. Ms. Cheng will also retire from INED on April 1, 2023.

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

WHISTLEBLOWING POLICY

In compliance with code provision D.2.6 of the CG Code, the Board revised the Whistleblowing Policy on 30 November 2022. It provides employees and the relevant third parties who deal with the Group (e.g., customers, suppliers) with guidance and reporting channels on reporting any suspected improprieties in any matters related to the Group directly addressed to the designated Executive Director. All reported matters will be investigated independently and, in the meantime, all information received from a whistleblower and its identity will be kept confidential. The Board and the Audit Committee will regularly review the Whistleblowing Policy and mechanism to improve its effectiveness.

ANTI-FRAUD AND ANTI-CORRUPTION POLICY

In compliance with code provision D.2.7 of the CG Code, the Board adopted an Anti-Fraud and Anti-Corruption Policy on 30 November 2022. It outlines guidelines and the minimum standards of conduct, all applicable laws and regulations in relation to the anti-corruption and anti-bribery, the responsibilities of employees to resist fraud, to help the Group defend against corrupt practices and to report any reasonably suspected case of fraud and corruption or any attempts thereof, to the management or through an appropriate reporting channel. The Group would not tolerate all forms of fraud and corruption among all employees and those acting in an agency or fiduciary capacity on behalf of the Group, and in its business dealing with third parties. The Board and the Audit Committee will review the Anti-Fraud and Anti-Corruption Policy and mechanism periodically to ensure its effectiveness and enforce the commitment of the Group to prevent all forms of fraud and corruption.

REMUNERATION COMMITTEE

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

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

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

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

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

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

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

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

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

As at the date of this annual report, the Remuneration Committee comprises two INEDs, Ms. Cheng Li, Mr. Liu Shun Fai and one executive Director Ms. Xin Yunxia. Ms. Cheng Li is the chairman of the Remuneration Committee. The Remuneration Committee met four times during the year to assess the performance of executive Directors and to discuss renewal of service contracts of Directors and has duly discharged the above duties.

Individual attendance of each Remuneration Committee member was as follows:

	Attendance
Ms. Cheng Li *(Chairman)*	4/4
Ms. Xin Yunxia	4/4
Mr. Liu Shun Fai	4/4

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

The emolument policy and basis of determining the emolument payable to the Director are set out in the Directors' Remuneration Policy which is reproduced as follows:

Directors' Remuneration Policy

Purpose

1. The policy aims to provide a fair market level of remuneration to attract, retain and motivate high quality Executive Directors, non-executive directors and independent non-executive directors. At the same time, awards must be aligned with shareholders' interests.

Key elements for Executive Director Remuneration

2. Remuneration packages and structure shall reflect a fair reward system for all participants with an emphasis on performance.

3. Fixed compensation including basic salary and allowances depends on market trends, market benchmarks, company performance and individual performance and contribution.

4. Performance bonus determine by company performance and individual performance and contribution.

5. Share options depend on company performance, individual performance and potential as well as long-term contribution to the Company.

Key elements for Non-executive Directors and independent non-executive directors' remuneration

6. Remuneration shall be set at an appropriate level to attract and retain first-class non-executive talent.

7. Remuneration of Non-Executive Directors (subject to shareholders' approval) shall be set by the Board and should be proportional to their commitment and contribution to the Company.

The Group's share option scheme and share award scheme as described on pages 29 to 31 of this annual report are adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the Code. As at the date of this annual report, the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang, and two Independent Non-executive Directors, Mr. Liu Shun Fai and Mr. Yew Yat On (from date of appointment on 1 October 2022), Prof. Luo Guoan(ceased to be a member of the Nomination committee with effect from 1 October 2022).

Individual attendance of each Nomination Committee member during the year ended 31 December 2022 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Mr. Liu Shun Fai	2/2
Mr. Yew Yat On (appointed on 1 October 2022)	1/1
Prof. Luo Guoan (ceased to be a member of the Nomination committee on 1 October 2022)	1/1

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

During the Year, the Nomination Committee has reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business. The Nomination Committee will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption and monitor the implementation of the Board Diversity Policy.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. The Company shall comply with the requirements on board composition under the Listing Rules from time to time.

2. The number of INEDs should be not less than three and one-third of the Board.

3. At least one of the INEDs must have appropriate professional qualifications or accounting or related financial management expertise.

4. At least one Director should be the professional or have intensive experience of the industry on which the business of the Group is.

The Board achieved the above measurable objectives in the Board Diversity Policy during the year ended 31 December 2022. The current Board composition reflects diverse mix of gender, educational background, professional knowledge and industry experience. As of the date of this report, the Board comprises 6 male directors and 2 female directors.

The independence of the INEDs was also assessed according to the relevant rules and requirements under the Listing Rules. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its continued effectiveness.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board Diversity Policy, which is reproduced as follows:

Board Diversity Policy

INTRODUCTION

The Company is committed to equality of opportunity in its business and does not discriminate on the grounds of race, gender, disability, nationality, religious or philosophical belief, age, sexual orientation, family status or any other factor. The Company also recognizes and embraces the benefits of having a diverse board of directors (the "Board") to enhance the quality of its performance.

THE POLICY

This Policy is intended to assist the Company in the attainment of its strategic objectives and sustainable development, by increasing diversity at the Board level. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

MESURABLE OBJECTIVES

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, age, length of service) will be disclosed in the Corporate Governance Report annually.

MONITORING AND REPORTING

The Nomination Committee will report annually, in the Corporate Governance Report, on the Board's composition under diversified perspectives, and monitor the implementation of this Policy.

REVIEW OF THIS POLICY

The Nomination Committee will review this Policy, as appropriate, to ensure the effectiveness of this Policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Board Diversity Policy was last reviewed by the Board on 26 October 2022 and was considered suitable and effective.

The Company currently has two female Directors, and the Board will endeavour to at least maintain female representation on the Board and take opportunities to increase the proportion of female members over time as and when suitable candidates are identified. As at December 31, 2022, among the 4,131 employees (including senior management) of the Group, the percentages of male employees and female employees are 51.54% and 48.46%, respectively, With a male-to-female ratio of approximately 1:1. The Board considers that the Group's workforce (including senior management) are diverse in terms of gender.

NOMINATION POLICY

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

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

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

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Liu Shun Fai, Ms. Cheng Li, Mr. Yew Yat On (from date of appointment on 1 October 2022) and Prof. Luo Guoan (up to date of cessation on 1 October 2022).

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

The Audit Committee's primary responsibilities include overseeing the relationship with the Company's external auditor, review of financial information of the Group, and oversight of the Group's financial reporting system, internal control procedures and risk management. The Audit Committee is also responsible for performing the corporate governance functions and to oversight the Company's risk management and internal control systems and arrangements under the Company's Whistleblowing Policy. While recognising corporate governance is the collective responsibility of all of its members, the Board has delegated the corporate governance functions to the members of the Audit Committee who are considered to be better positioned to provide an objective and independent guidance on governance-related matters. During the year, the Audit Committee has reviewed and adopted certain corporate governance policies including the Anti-Fraud and Anti-Corruption Policy, Shareholder's Communication Policy and revised Whistleblowing Policy. The Company has adopted terms of reference of the audit committee which complies with the provisions of the Code. The terms of reference of the Audit Committee is available on the Company's websites and the website of the Stock Exchange.

Individual attendance of each Audit Committee member during the year ended 31 December 2022 was as follows:

	Attendance
Mr. Liu Shun Fai *(Chairman)*	4/4
Ms. Cheng Li	4/4
Mr. Yew Yat On (appointed on 1 October 2022)	1/1
Prof. Luo Guoan (ceased to be a member of the audit committee on 1 October 2022)	3/3

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 56 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITTEE

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

Mr. Liu Shun Fai is the chairman of the Corporate Social Responsibility and Sustainability Committee. As at the date of this annual report, the members of the Corporate Social Responsibility and Sustainability Committee comprise one executive Director, Ms. Xin Yunxia and two INEDs Ms. Cheng Li, Mr. Yew Yat On (from date of appointment on 1 October 2022) and Prof. Luo Guoan (up to date of cessation on 1 October 2022).

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

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

Individual attendance of each Corporate Social Responsibility and Sustainability Committee during the year ended 31 December 2022 was as follows:

	Attendance
Mr. Liu Shun Fai *(Chairman)*	2/2
Ms. Cheng Li	2/2
Ms. Xin Yunxia	2/2
Mr. Yew Yat On (appointed on 1 October 2022)	1/1
Prof. Luo Guoan (ceased to be a member of the Corporate Social Responsibility and Sustainability Committee on 1 October 2022)	1/1

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

6. to review and adopt certain corporate governance policy including the Anti-Fraud and Anti-Corruption Policy, shareholder's Communication Policy and revised Whistleblowing Policy.

During 2022, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

REMUNERATION OF SENIOR MANAGEMENT

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

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

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$2,250,000 (2021: HK$2,200,000), and in addition to a total of HK$390,000 (2021: HK$430,000) for other non-audit services, including the review of interim financial statements and tax services.

ACCOUNTABILITY AND AUDIT

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 57 to 61.

In preparing the consolidated financial statements for the year ended 31 December 2022, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

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

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2022, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

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

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

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

Shareholders' Communication Policy

A Shareholders' Communication Policy ("SC Policy") was first adopted by the Board on 30 November 2022.Such policy aims at providing the Shareholders and potential investors with ready, equal and timely access to balanced and understandable information of the Company. The Board will review the SC Policy annually to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

A summary of the SC Policy is as follows:

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Shareholders can choose the means of receiving corporate communications such as annual reports, interim reports and circulars by assessing the corporate communications published on the HKEX's website at www.hkexnews.hk and the Company's website at www.shineway.com.hk;

(b) financial highlights, monthly newsflash and results roadshows presentations are also posted on the Company's website;

(c) periodic announcements are made through the Stock Exchange and published on the respective websites of the HKEX and the Company;

(d) corporate information is made available on the Company's website and the Articles of Association have been posted on the websites of both the HKEX and the Company;

(e) participate in roadshows and investors' conferences to meet Shareholders/investors, media and financial analysts;

(f) AGMs and EGMs provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management;

(g) the Registrar serves the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters; and

(h) Shareholders and the investment community shall be provided with designated contacts, email addresses and enquiry lines in order to enable them to make any query in respect of the Company.

Having considered the multiple channels of communication and engagement in place, the Board is satisfied that the SC policy has been properly implemented during the Year and is effective.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

– not less than fourteen clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

(ii) Procedures for putting enquiries to the Board

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

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

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

INVESTOR RELATIONS

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

CODE OF CONDUCT

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

AUDIT COMMITTEE REPORT

Dear Shareholders,

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

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2022 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Liu Shun Fai (Chairman)
Ms. Cheng Li
Mr. Yew Yat On (Appointed on 1 October 2022)
Prof. Luo Guoan (ceased on 1 October 2022)

30 March 2023

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 144, 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 ("IFRS Standards") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter

Impairment assessment on goodwill

We identified the impairment assessment on goodwill as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amounts of the cash-generating units to which goodwill has been allocated.

At 31 December 2022, the Group has goodwill with carrying amounts of RMB165,956,000 relating to cash-generating units of manufacturing and trading of pharmaceutical products. Based on the assessment made by management of the Group, no impairment was recognised during the year ended 31 December 2022. Details are disclosed in note 16 to the consolidated financial statements.

The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

How our audit addressed the key audit matter

Our procedures in relation to the impairment assessment on goodwill included:

- Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions for each cash-generating unit;

- Challenging the reasonableness of the key assumptions and inputs made by the management, including the growth rates and gross profit margin based on the historical financial performance and the industry trend;

- Engaging our internal valuation expert to evaluate the appropriateness of the valuation technique, i.e. discounted cash flows method, and the reasonableness of discount rates used in the value in use calculations; and

- Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the value in use.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	**2022** **RMB'000**	2021 RMB'000
Revenue	5	**3,950,636**	3,223,550
Cost of sales		**(1,012,322)**	(813,214)
Gross profit		**2,938,314**	2,410,336
Other income		**113,368**	102,227
Investment income	6	**99,099**	104,139
Other gains and losses		**(8,388)**	(19,374)
Impairment losses on financial assets under expected credit loss model, net of reversal	7	**(8,828)**	(7,021)
Selling and distribution costs		**(1,818,652)**	(1,499,682)
Administrative expenses		**(279,804)**	(256,557)
Research and development costs		**(117,454)**	(112,711)
Finance costs	8	**(630)**	(1,254)
Profit before taxation	9	**917,025**	720,103
Taxation	10	**(194,252)**	(163,429)
Profit and total comprehensive income for the year		**722,773**	556,674
Earnings per share	13		
– Basic (RMB)		**96 cents**	74 cents
– Diluted (RMB)		**96 cents**	74 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,216,937**	1,251,999
Intangible assets	15	**47,348**	66,426
Goodwill	16	**165,956**	165,956
Deferred tax assets	17	**19,221**	20,465
		1,449,462	1,504,846
Current assets			
Inventories	18	**657,659**	587,956
Trade receivables	19	**673,380**	424,457
Trade receivables backed by bank bills	19	**301,682**	400,726
Prepayments, deposits and other receivables	19	**103,183**	80,251
Structured deposits	20	**20,230**	–
Bank balances and cash	21	**5,026,265**	4,205,722
		6,782,399	5,699,112
Current liabilities			
Trade payables	22	**308,540**	228,620
Trade payables backed by bank bills	22	**205**	–
Other payables and accrued expenses	22	**1,063,519**	666,232
Contract liabilities	22	**153,118**	85,885
Lease liabilities	23	**6,530**	7,587
Amounts due to related companies	24	**13,784**	13,784
Deferred income	25	**12,103**	31,167
Tax payable		**107,794**	65,096
		1,665,593	1,098,371
Net current assets		**5,116,806**	4,600,741
Total assets less current liabilities		**6,566,268**	6,105,587

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

		2022	2021
		RMB'000	*RMB'000*
Non-current liabilities			
Lease liabilities	23	**912**	7,324
Deferred tax liabilities	17	**18,844**	25,188
Deferred income	25	**163,986**	171,594
		183,742	204,106
Net assets		**6,382,526**	5,901,481
Capital and reserves			
Share capital	26	**87,662**	87,662
Reserves		**6,294,864**	5,813,819
Total equity		**6,382,526**	5,901,481

The consolidated financial statements on pages 62 to 144 were approved and authorised for issue by the board of directors on 30 March 2023 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

LI HUIMIN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Share options reserve RMB'000	Shares held for share award scheme RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2021	87,662	422,140	83,758	395,356	154,760	7,537	(584,712)	5,227,681	5,794,182
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	556,674	556,674
Transfers	–	–	–	49,752	–	–	–	(49,752)	–
Release upon disposal of a subsidiary	–	–	–	(2,500)	–	–	–	2,500	–
Disposal of shares under share award scheme	–	–	–	–	–	–	6,063	(2,400)	3,663
Dividends paid (note 12)	–	–	–	–	–	–	–	(453,072)	(453,072)
Recognition of equity-settled share-based payments	–	–	–	–	–	34	–	–	34
At 31 December 2021	**87,662**	**422,140**	**83,758**	**442,608**	**154,760**	**7,571**	**(578,649)**	**5,281,631**	**5,901,481**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**722,773**	**722,773**
Transfers	**-**	**-**	**-**	**53,006**	**-**	**-**	**-**	**(53,006)**	**-**
Lapse of share options	**-**	**-**	**-**	**-**	**-**	**(2,173)**	**-**	**2,173**	**-**
Cancellation of share options	**-**	**-**	**-**	**-**	**-**	**(5,398)**	**-**	**5,398**	**-**
Dividends paid (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(241,728)**	**(241,728)**
At 31 December 2022	**87,662**	**422,140**	**83,758**	**495,614**	**154,760**	**-**	**(578,649)**	**5,717,241**	**6,382,526**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
Operating activities		
Profit before taxation	**917,025**	720,103
Adjustments for:		
Depreciation of property, plant and equipment	**166,784**	167,170
Amortisation of intangible assets	**19,078**	15,216
Impairment losses on financial assets under expected credit loss model, net of reversal	**8,828**	7,021
(Gain) loss on disposal of property, plant and equipment	**(127)**	18,173
Gain on disposal of a subsidiary	**–**	(1,700)
Net unrealised exchange (gain) loss	**(6,325)**	6,514
Interest income	**(92,431)**	(95,066)
Investment income from short-term financial products	**–**	(337)
Investment income from financial products	**(6,668)**	(8,736)
Government grant recognised as other income	**(30,339)**	(25,133)
Finance costs	**630**	1,254
Share-based payments expense	**–**	34
Gain on early termination of lease contracts	**(67)**	–
Operating cash flows before movements in working capital	**976,388**	804,513
Increase in inventories	**(69,703)**	(140,132)
Increase in trade receivables	**(158,707)**	(66,966)
(Increase) decrease in prepayments, deposits and other receivables	**(21,860)**	14,001
Increase in trade payables	**80,125**	55,385
Increase in other payables and accrued expenses	**392,854**	162,709
Increase in contract liabilities	**67,233**	18,213
Cash generated from operations	**1,266,330**	847,723
PRC Enterprise Income Tax paid	**(136,304)**	(132,323)
Withholding tax paid	**(20,350)**	(12,250)
Net cash from operating activities	**1,109,676**	703,150

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Investing activities			
Placement of financial products		**(300,000)**	(370,000)
Placement of structured deposits		**(20,230)**	–
Proceeds from redemption of financial products		**306,668**	378,736
Net proceeds from short-term financial products	6	**–**	337
Withdrawal of pledged bank deposits		**–**	300,000
Interest received		**90,439**	75,747
Government grants received		**3,667**	12,836
Proceeds from disposal of property, plant and equipment		**2,579**	81,599
Purchase of property, plant and equipment		**(129,463)**	(93,633)
Net cash inflow on acquisition of a subsidiary	28	**–**	8,510
Net cash inflow on disposal of a subsidiary	29	**920**	879
Net cash (used in) from investing activities		**(45,420)**	395,011
Financing activities			
Proceeds from disposal of shares held for share award scheme		**–**	3,663
Repayment of bank borrowings		**–**	(369,319)
Dividends paid		**(241,728)**	(453,072)
Repayment to related companies		**–**	(1,000)
Repayment of lease liabilities		**(7,680)**	(7,714)
Interest paid		**(630)**	(1,493)
Net cash used in financing activities		**(250,038)**	(828,935)
Net increase in cash and cash equivalents		**814,218**	269,226
Cash and cash equivalents at beginning of the year		**4,205,722**	3,943,010
Effect of exchange rate changes of cash and cash equivalents		**6,325**	(6,514)
Cash and cash equivalents at end of the year, Representing by bank balances and cash		**5,026,265**	4,205,722

1. GENERAL INFORMATION

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

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

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

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

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

In the current year, the Group has applied the following amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendment 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 IFRS Standards	*Annual Improvements to IFRS Standards 2018 – 2020*

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

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

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

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

IFRS 17 (including the June 2020 and December 2021 Amendments to 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 amendments to IFRS Standards mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

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

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

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

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

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

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

New and amendments to IFRS Standards in issue but not yet effective *(Continued)*

Amendments to IAS 8 "Definition of Accounting Estimates"

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

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

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

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

3.1 Basis of preparation of consolidated financial statements

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

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

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 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

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

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

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

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

3.2 Significant accounting policies

Basis of consolidation

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

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisitions

Optional concentration test

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

Asset acquisitions

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

Business combinations

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.

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.

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

3.2 Significant accounting policies *(Continued)*

Business combinations or asset acquisitions *(Continued)*

Business combinations (Continued)

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 IASB in March 2018 (the "Conceptual Framework") except for transactions and events within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies", 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;

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or 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 an 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.

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

3.2 Significant accounting policies *(Continued)*

Property, plant and equipment

Property, plant and equipment are 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.

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

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" under the heading of property, plant and equipment in the consolidated financial statements. 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.

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

3.2 Significant accounting policies *(Continued)*

Financial instruments

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees 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.

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

A financial asset is held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 "Financial Instruments"

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, trade receivables backed by bank bills, deposits and other receivables, 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. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables backed by bank bills.

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

(i) Significant increase in credit risk

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

(ii) Definition of default

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

(iv) Write-off policy

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

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 *(Continued)*

(v) Measurement and recognition of ECL

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

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

Lifetime ECL is assessed separately for trade receivables fully backed by bank bills and trade receivables (not backed by bank bills). To measure the ECL, trade receivables with significant balances or credit-impaired balances are assessed individually, the remaining trade receivables are assessed on a collectively basis taking into consideration past due information, forward looking information, background of the debtors and relevant credit information. Trade receivables backed by bank bills are assessed individually taking into consideration of the credit rating and reputation of the banks issuing the bills.

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

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

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 and trade receivables backed by bank bills 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, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

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

3.2 Significant accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

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 amortised cost

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

Derecognition of financial liabilities

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation 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 followings have been demonstrated:

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

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.

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

3.2 Significant accounting policies *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are 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 cost 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 or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

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

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

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

Bank balances and cash presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits; 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 bank balances and cash as defined above.

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

3.2 Significant accounting policies *(Continued)*

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.

Revenue from contracts with customers

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

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

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

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

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

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

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

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)*

Existence of significant financing component

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

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

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

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

3.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as a lessee (Continued)

Short-term leases

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- 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 remeasurement of lease liabilities.

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

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

Refundable rental deposits

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

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

3.2 Significant accounting policies *(Continued)*

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities

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

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

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the relevant right-of-use asset) whenever the lease term has changed, 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 Group presents lease liabilities as a separate line item in the consolidated statement of financial position.

Lease modifications

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

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

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

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

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

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

3.2 Significant accounting policies *(Continued)*

Government grants

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

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

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

Retirement benefit costs

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

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Share options granted to employees

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

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)

Share options granted to employees *(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 options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

Share award scheme

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

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

Taxation

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

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

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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

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 the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities results in net deductible temporary differences.

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

Current and deferred tax are recognised in profit or loss.

Borrowing costs

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

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

Foreign currencies

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

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

As at 31 December 2022, the carrying amount of goodwill is RMB165,956,000 (2021: RMB165,956,000) (net of accumulated impairment loss of RMB56,794,000 (2021: RMB56,794,000)). Details of the recoverable amount calculation are disclosed in note 16.

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

Estimated impairment of property, plant and equipment and intangible assets

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

As at 31 December 2022, the carrying amounts of property, plant and equipment and intangible assets subject to impairment assessment are RMB1,216,937,000 and RMB47,348,000 (2021: RMB1,251,999,000 and RMB66,426,000), respectively, after taking into account of the accumulated impairment losses of RMB4,073,000 and RMB168,734,000 (2021: RMB4,073,000 and RMB168,734,000) in respect of property, plant and equipment and intangible assets, respectively.

5. REVENUE AND SEGMENT INFORMATION

Operating segments

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major products

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

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

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

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

Geographical information

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

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

Information about major customers

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

6. INVESTMENT INCOME

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

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

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

	2022 RMB'000	2021 RMB'000
Impairment losses recognised on trade receivables	**10,432**	5,424
Impairment losses (reversed) recognised on trade receivables backed by bank bills	**(1,604)**	1,597
	8,828	7,021

Details of impairment assessment are set out in note 34.

8. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	**–**	274
Interest on lease liabilities	**630**	980
	630	1,254

9. PROFIT BEFORE TAXATION

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

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

During the year ended 31 December 2022, government subsidies of (a) RMB76,040,000 (2021: RMB53,890,000) represent incentives received in relation to engagement of the subsidiaries of the Company in high technology business. The grants were unconditional, approved and received during the year; (b) RMB30,339,000 (2021: RMB10,079,000) represent recognition of deferred income upon completion of related research activities and development projects (note 25); and (c) nil (2021: RMB15,054,000) represented recognition of deferred income in relation to disposal of property, plant and equipment in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC due to a land resumption by local government, which associated with a government grant received in 2011.

10. TAXATION

	2022 RMB'000	2021 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**187,123**	146,304
Overprovision in prior years	**(8,121)**	(9,616)
Withholding tax on distributed profits	**20,350**	12,250
	199,352	148,938
Deferred tax (note 17)	**(5,100)**	14,491
	194,252	163,429

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

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

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

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

10. TAXATION *(Continued)*

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

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

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

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

	Fees RMB'000	Salaries and allowance RMB'000	Pension costs RMB'000	Total remuneration RMB'000
Year ended 31 December 2022				
Executive directors:				
Li Zhenjiang	297	4,163	–	4,460
Xin Yunxia	1,062	2,035	16	3,113
Li Huimin	71	2,000	16	2,087
Liu Tiejun (appointed on 1 November 2022)	–	81	10	91
Chen Zhong (resigned on 1 November 2022)	590	942	13	1,545
Non-executive director:				
Zhou Wencheng	138	–	–	138
Independent non-executive directors:				
Cheng Li	138	–	–	138
Liu Shun Fai	138	–	–	138
Yew Andric Yat On (appointed on 1 October 2022)	35	–	–	35
Luo Guoan (resigned on 1 October 2022)	104	–	–	104
	2,573	9,221	55	11,849

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

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

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

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

Of the five individuals with the highest emoluments in the Group, three (2021: three) were directors, including Mr. Li Zhenjiang as the chief executive of the Company, whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining two (2021: two) highest paid individuals in the capacity as an employee are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries and other benefits	**3,347**	2,791
Pension costs	**32**	30
	3,379	2,821

The emoluments were within the following band:

	Number of employees	
	2022	2021
HKD1,500,001 to HKD2,000,000	**2**	2

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

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

12. DIVIDENDS

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

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

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

13. EARNINGS PER SHARE

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

	2022	2021
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**722,773**	556,674

	Number of shares	
	2022	2021
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic and diluted earnings per share	**755,400,000**	755,141,096

The computation of diluted earnings per share does not assume the exercise of all the Company's options at exercise prices of HK$8.39 and HK$7.21 (2021: HK$8.39 and HK$7.21) because the exercise prices of those options were higher than the average market price for shares for the years ended 31 December 2022 and 2021.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets										
	Leasehold land	Leased properties	Leased motor vehicles	Leased machineries	Sub-total	Owned properties	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2021	166,177	9,545	3,559	5,821	185,102	1,271,384	1,292,199	93,482	2,639	115,495	2,960,301
Additions	–	–	–	–	–	1,055	38,675	8,819	–	32,075	80,624
Acquisition of a subsidiary (note 28)	10,200	–	–	–	10,200	17,511	15,474	478	77	–	43,740
Disposals and write-off	(54,121)	(631)	–	–	(54,752)	(52,860)	(65,495)	(2,822)	(2,093)	–	(178,022)
Reclassifications	–	–	–	–	–	6,857	10,399	146	–	(17,402)	–
At 31 December 2021	122,256	8,914	3,559	5,821	140,550	1,243,947	1,291,252	100,103	623	130,168	2,906,643
Additions	–	1,659	–	–	1,659	2,297	43,703	6,698	283	80,915	135,555
Disposals	–	(4,355)	–	–	(4,355)	–	(12,613)	(1,374)	(163)	–	(18,505)
Reclassifications	–	–	–	–	–	8,134	9,736	152	–	(18,022)	–
At 31 December 2022	122,256	6,218	3,559	5,821	137,854	1,254,378	1,332,078	105,579	743	193,061	3,023,693
DEPRECIATION AND IMPAIRMENT											
At 1 January 2021	12,465	3,921	–	–	16,386	546,967	927,354	72,280	2,543	–	1,565,530
Charge for the year	6,260	2,251	1,186	1,940	11,637	59,110	88,618	7,788	17	–	167,170
Eliminated on disposals and write-off	(11,997)	(369)	–	–	(12,366)	(17,556)	(43,766)	(2,367)	(2,001)	–	(78,056)
At 31 December 2021	6,728	5,803	1,186	1,940	15,657	588,521	972,206	77,701	559	–	1,654,644
Charge for the year	6,121	1,961	1,186	1,940	11,208	60,470	88,087	6,964	55	–	166,784
Eliminated on disposals	–	(2,974)	–	–	(2,974)	–	(10,213)	(1,337)	(148)	–	(14,672)
At 31 December 2022	12,849	4,790	2,372	3,880	23,891	648,991	1,050,080	83,328	466	–	1,806,756
CARRYING VALUES											
At 31 December 2022	109,407	1,428	1,187	1,941	113,963	605,387	281,998	22,251	277	193,061	1,216,937
At 31 December 2021	115,528	3,111	2,373	3,881	124,893	655,426	319,046	22,402	64	130,168	1,251,999

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

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

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

The Group as lessee

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

	2022 **RMB'000**	2021 RMB'000
Expense relating to short-term leases	**1,620**	1,480
Total cash outflow for leases	**9,930**	10,174

For both years, the Group leases various offices, hotel rooms, staff quarter, motor vehicles, machineries and lands for its operations. Lease contracts are entered into for fixed term of 1 to 3 years (2021: 1 to 3 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for warehouses and offices. As at 31 December 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.

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

15. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2021	430,157
Acquisition of a subsidiary *(note 28)*	44,683
At 31 December 2021 and 31 December 2022	474,840
AMORTISATION AND IMPAIRMENT	
At 1 January 2021	393,198
Charge for the year	15,216
At 31 December 2021	408,414
Charge for the year	19,078
At 31 December 2022	427,492
CARRYING VALUES	
At 31 December 2022	47,348
At 31 December 2021	66,426

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

16. GOODWILL

	RMB'000
COST	
At 1 January 2021	159,291
Additions *(note 28)*	63,459
At 31 December 2021 and 31 December 2022	222,750
IMPAIRMENT	
At 1 January 2021, 31 December 2021 and 31 December 2022	56,794
CARRYING VALUES	
At 31 December 2022	165,956
At 31 December 2021	165,956

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

	2022 **RMB'000**	2021 RMB'000
Cash-generating unit A ("Unit A")	**102,497**	102,497
Cash-generating unit B ("Unit B")	**–**	–
Cash-generating unit C ("Unit C")	**63,459**	63,459
	165,956	165,956

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

16. GOODWILL *(Continued)*

Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2021: 5-year), and discount rate of 11% (2021: 11%). Unit A's cash flows beyond the 5-year period (2021: 5-year) are extrapolated using the estimated constant growth rate of 1% (2021: 1%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

During the years ended 31 December 2022 and 2021, management of the Group determines that there is no impairment on Unit A. The recoverable amount is significantly above the carrying amount of Unit A. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

Unit B

Considering the related product of Unit B have been removed from various provincial drug reimbursement lists due to the change in drug reimbursement policy effective in year of 2020, the directors of the Company considered the demand of the products would decrease. As a result, the directors of the Company had determined a full impairment of goodwill directly related to Unit B amounting to RMB56,794,000, while impairment amounting to RMB4,073,000 and RMB168,734,000 had been allocated pro-rata to property, plant and equipment and intangible assets, respectively, to the extent the carrying amount of the asset was not reduced below the highest of its fair value less costs of disposal, its value in use and zero, in previous years. The recoverable amount of this unit had been determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 18.2%. Unit B's cash flows beyond the 5-year period were extrapolated using the estimated constant growth rate of 2.6%. This growth rate was based on the relevant industry growth forecasts and did not exceed the average long-term growth rate for the relevant industry.

During the year ended 31 December 2022, management of the Group determines that no additional impairment or reversal of previously recorded impairment was required for Unit B, taking into account its business prospectus and operational performance.

16. GOODWILL *(Continued)*

Unit C

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year (2021: 5-year), and discount rate of 18.5% (2021: 18.5%). Unit C's cash flows beyond the 5-year (2021: 5-year) are extrapolated using the estimated constant growth rate of 2% (2021: 2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

During the year ended 31 December 2021, management of the Group determines that there is no impairment on Unit C. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

During the year ended 31 December 2022, if the discount rate was increased by 0.5%, which management considers a reasonably possible change, while other parameters remain constant, the recoverable amount of Unit C would be reduced to RMB129,539,000 and an impairment of goodwill in Unit C of RMB2,547,000 would be recognised. If the budgeted sales covering a 5-year period were reduced by 10%, while other parameters remain constant, the recoverable amount of Unit C would be reduced to RMB111,552,000 and an impairment of goodwill in Unit C of RMB20,534,000 would be recognised.

17. DEFERRED TAXATION

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

	2022 **RMB'000**	2021 RMB'000
Deferred tax assets	**19,221**	20,465
Deferred tax liabilities	**(18,844)**	(25,188)
	377	(4,723)

17. DEFERRED TAXATION *(Continued)*

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

	Accelerated tax depreciation	Deferred income	Fair value adjustment arising from acquisition of subsidiaries	Withholding tax on undistributed profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	4,118	17,444	(4,508)	–	753	17,807
(Charge) credit to profit or loss	(138)	(4,629)	2,140	(14,000)	2,136	(14,491)
Acquisition of a subsidiary	–	–	(8,039)	–	–	(8,039)
At 31 December 2021	3,980	12,815	(10,407)	(14,000)	2,889	(4,723)
(Charge) credit to profit or loss	(138)	(793)	2,336	4,000	(305)	5,100
At 31 December 2022	3,842	12,022	(8,071)	(10,000)	2,584	377

At the end of the reporting period, the Group has unused tax losses of RMB332,870,000 (2021: RMB338,719,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB198,305,000 (2021: RMB207,499,000) that will expire in 5 years (2021: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB4,843,786,000 (2021: RMB4,406,980,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	226,862	173,586
Work in progress	222,637	203,094
Finished goods	208,160	211,276
	657,659	587,956

19. TRADE AND OTHER RECEIVABLES

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

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

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB149,079,000 (2021: RMB86,993,000) which are past due as at the reporting date. Out of the past due balances, RMB80,130,000 (2021: RMB39,058,000) has been past due 90 days or more and is not considered as in default based on repayment records of those customers and continuous business with the Group.

As at 31 December 2022, total bills received with carrying amount amounting to RMB301,682,000 (2021: RMB400,726,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables of RMB29,292,000 (2021: RMB27,300,000), prepayments of RMB32,012,000 (2021: RMB35,059,000), consideration receivable for disposal of a subsidiary of nil (2021: RMB920,000), value added tax recoverable of RMB2,109,000 (2021: RMB12,649,000) and a short-term receivable of RMB36,077,000 (2021: nil) for development purpose.

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

20. STRUCTURED DEPOSITS

During the year ended 31 December 2022, the Group subscribed principal guaranteed structured deposits of approximately RMB20,230,000 with maturity date of March 2023 carrying at interest rate linked to the performance of exchange rate between United States Dollar and Canadian Dollar. Such deposits are classified as financial assets at FVTPL. The related fair values are made reference to the market values provided by financial institutions with fair value hierarchy of Level 2. No material fair value change is recognised in profit or loss during the year ended 31 December 2022.

21. BANK BALANCES AND CASH

Bank balances and cash are cash and cash equivalents, which include bank deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.01% to 4.18% (2021: 0.01% to 4.18%).

At the end of the reporting period, bank balances and cash of RMB4,800,098,000 (2021: RMB4,099,298,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

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

22. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2022 **RMB'000**	2021 RMB'000
Trade payables	**308,540**	228,620
Trade payables backed by bank bills *(Note)*	**205**	–
	308,745	228,620

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

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

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

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

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

Other payables and accrued expenses of the Group mainly represent payables for acquisition of property, plant and equipment of RMB72,677,000 (2021: RMB68,244,000), accrued expenses of RMB787,099,000 (2021: RMB433,133,000), deposits received of RMB126,729,000 (2021: RMB102,366,000) and value added tax payable of RMB55,881,000 (2021: RMB36,292,000).

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

	2022	2021
	RMB'000	RMB'000
Contract liabilities	**153,118**	85,885

The Group receives certain amount of the contract values as receipt in advance upon receiving the purchase orders from customers. The receipt in advance results in contract liabilities being recognised until the customer obtains control of the goods. The significant increase in contract liabilities in the current year was mainly due to the surge in demand for the Group's pertinent products being used for the treatment of influenza in late 2022.

As at 1 January 2021, contract liabilities amounted to RMB67,672,000. The contract liabilities as at 1 January 2021 and 1 January 2022 were fully recognised as revenue during the year ended 31 December 2021 and 31 December 2022, respectively.

23. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
Within one year	**6,530**	7,587
Within a period of more than one year but not more than two years	**566**	7,324
Within a period of more than two years but not more than five years	**346**	–
	7,442	14,911
Less: Amount due for settlement with 12 months shown under current liabilities	**(6,530)**	(7,587)
Amount due for settlement after 12 months shown under non-current liabilities	**912**	7,324

The weighted average incremental borrowing rates applied to lease liabilities is at range from 4.75% to 5.88% (2021: from 4.75% to 5.35%).

	2022 RMB'000	2021 RMB'000
Lease obligations that are denominated in currency other than the functional currency of the relevant group entity are set out below:		
HK$	**1,445**	615

24. AMOUNTS DUE TO RELATED COMPANIES

	2022 RMB'000	2021 RMB'000
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**4,776**	4,776
	13,784	13,784

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

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

25. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
At 1 January	**202,761**	215,058
Addition during the year	**3,667**	12,836
Recognised as other income	**(30,339)**	(25,133)
At 31 December	**176,089**	202,761
Analysed for reporting purpose as		
Current liabilities	**12,103**	31,167
Non-current liabilities	**163,986**	171,594
	176,089	202,761

Included in the deferred income at 31 December 2022 are government subsidies amounting to RMB102,107,000 (2021: RMB123,469,000) in relation to research and development expenses on certain new products which are not yet recognised. The subsidies are recognised as deferred income until the conditions attaching to the subsidies have been fulfilled. During the year, the Group received RMB3,667,000 (2021: RMB12,836,000) government subsidies in relation to research and development expenses and recognised RMB25,029,000 (2021: RMB4,476,000) in profit or loss.

25. DEFERRED INCOME *(Continued)*

Included in the deferred income at 31 December 2022 is a government subsidy amounting to RMB28,378,000 (2021: RMB30,938,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB2,560,000 (2021: RMB2,853,000) is transferred to profit or loss during the year. During the year ended 31 December 2021, deferred income amounting to RMB15,054,000 was transferred to profit or loss in relation to disposal of property, plant and equipment in the Qionglai Pharmaceutical Area due to a land resumption by local government.

Included in the deferred income at 31 December 2022 is a government subsidy amounting to RMB45,604,000 (2021: RMB48,354,000) received in 2018 and 2019 in relation to a development project, including the construction of production facilities, in 楚雄州 (Chuxiong Prefecture) in Yunnan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2021 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB2,750,000 (2021: RMB2,750,000) is transferred to profit or loss during the year.

26. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2021, 31 December 2021 and 31 December 2022	**5,000,000**	HK$500,000
Issued and fully paid:		
At 1 January 2021, 31 December 2021 and 31 December 2022	**827,000**	HK$82,700
Shown in the financial statement as		RMB87,662

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

During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market. Details are set out in note 27.

27. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

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

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

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

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

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

The 2015 Scheme will expire on 28 May 2025.

As at 31 December 2022, number of shares in respect of which options have been granted and remained outstanding under the 2015 Scheme was nil (2021: 4,000,000), representing 0.00% (2021: 0.48%) of the shares of the Company in issue at that date.

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

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

Share option scheme *(Continued)*

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

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

Date of grant	Vesting period	Vesting proportion	Exercise period*	Exercise price
				HK$
1.6.2016	1.6.2016 – 31.5.2017	20%	1.6.2017 – 31.5.2022	8.39
	1.6.2016 – 31.5.2018	20%	1.6.2018 – 31.5.2022	8.39
	1.6.2016 – 31.5.2020	20%	1.6.2020 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39
	1.6.2016 – 31.5.2021	20%	1.6.2021 – 31.5.2022	8.39
30.8.2017	30.8.2017 – 29.8.2018	100%	30.8.2017 – 29.8.2027	7.21

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

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

Share option scheme *(Continued)*

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

Date of grant	Exercise price HK$	Number of share options: Outstanding at beginning of the year	Lapsed during the year	Cancelled during the year	Outstanding at end of the year
For the year ended 31 December 2022					
Employees					
1.6.2016	**8.39**	**1,000,000**	**(1,000,000)**	**–**	**–**
30.8.2017	**7.21**	**3,000,000**	**–**	**(3,000,000)**	**–**
		4,000,000	**(1,000,000)**	**(3,000,000)**	**–**
Exercisable at end of the year					**–**
Weighted average exercise price (HK$)		**7.51**	**8.39**	**7.21**	**–**

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

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

Share option scheme *(Continued)*

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

Share award scheme

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

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

During the year ended 31 December 2021, 800,000 shares were disposed of by the trustee to the market at an average price of approximately HK$5.50 (equivalent to RMB4.58) per share. The proceeds from disposal of those shares amounted to HK$4,403,000 (equivalent to RMB3,663,000). The difference of HK$2,885,000 (equivalent to RMB2,400,000) between the cost of the shares and the proceeds was credited to accumulated profits. No shares were granted to eligible employees pursuant to the share award scheme. There were no disposal or purchase of shares by the trustee during the year ended 31 December 2022.

At the end of the reporting period, there are 71,600,000 (2021: 71,600,000) shares held by the trustee.

28. ACQUISITION OF A SUBSIDIARY

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

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

	RMB'000
Analysis of net cash inflow in respect of acquisition of a subsidiary:	
Cash consideration	(137,140)
Deposit for acquisition of a subsidiary	137,140
Bank balances and cash acquired	8,510
	8,510

28. ACQUISITION OF A SUBSIDIARY *(Continued)*

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

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

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

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

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

29. DISPOSAL OF A SUBSIDIARY

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

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

30. RETIREMENT BENEFITS PLANS

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

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

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB40,018,000 (2021: RMB34,833,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

31. CAPITAL COMMITMENTS

	2022 **RMB'000**	2021 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**166,666**	152,216

32. 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	Lease liabilities	Accrued interest expenses	Dividends payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	369,319	22,819	239	–	392,377
Financing cash flows	(369,319)	(8,694)	(513)	(453,072)	(831,598)
Dividends declared	–	–	–	453,072	453,072
Early termination of a lease contract	–	(194)	–	–	(194)
Interest expenses	–	980	274	–	1,254
At 31 December 2021	–	14,911	–	–	14,911
Financing cash flows	–	(8,310)	–	(241,728)	(250,038)
Dividends declared	–	–	–	241,728	241,728
Early termination of a lease contract	–	(1,448)	–	–	(1,448)
New leases entered	–	1,659	–	–	1,659
Interest expenses	–	630	–	–	630
At 31 December 2022	–	7,442	–	–	7,442

33. CAPITAL RISK MANAGEMENT

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

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

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

34. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Amortised cost	**6,066,732**	5,059,175
FVTPL	**20,230**	–
Financial liabilities		
Amortised cost	**521,936**	413,014

Financial risk management objectives and policies

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

Foreign currency risk

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

Included in bank balances of the Group are the following amounts denominated in currencies other than the functional currency of the Group (i.e. RMB) to which they relate.

	2022 RMB'000	2021 RMB'000
HK$	**129,550**	64,452
United states Dollars ("USD")	**3,527**	3,256

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to HK$ and USD as disclosed above with the functional currencies of those entities in RMB.

The following table details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in RMB against HK$ and USD. 5% (2021: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2021: 5%) change in HK$ and USD. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% (2021: 5%) against HK$ and USD. For a 5% (2021: 5%) weakening of RMB against HK$ and USD, there would be an equal and opposite impact on the profit for the year.

	2022	2021
	RMB'000	RMB'000
Decrease in profit for the year	**(5,556)**	(2,827)

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

Other price risk

The Group is exposed to price risk through its structured deposits, investments from short-term financial products and financial products measured at FVTPL. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise. No sensitivity analysis is presented, as the management considered that the fluctuation of price on structured deposits, short-term financial products and financial products is not significant and majority of these investments are redeemed at the end of the reporting period.

Interest rate risk

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

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

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

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

Trade receivables arising from contracts with customers

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

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2021: 100%) of the total trade receivables as at 31 December 2022.

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

Management assessed the expected loss on trade receivables and trade receivables backed by bank bills individually or collectively by estimation based on internal credit rating, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the end of reporting period.

Trade receivables with significant outstanding balances or credit-impaired balances with gross carrying amounts of RMB69,002,000 and RMB2,335,000 (2021: RMB58,356,000 and RMB1,239,000) respectively as at 31 December 2022 are assessed individually and the remaining balances with gross carrying amount of RMB627,728,000 (2021: RMB380,115,000) are assessed collectively based on internal credit rating as at 31 December 2022 within lifetime ECL (not credit-impaired). Impairment allowance of RMB10,432,000 (2021: RMB5,424,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The table below details the credit risk exposures of the Group's trade receivables which are subject to collective ECL assessment:

	2022		2021	
Internal credit rating	Average loss rate	Gross carrying amount RMB'000	Average loss rate	Gross carrying amount RMB'000
Low	2.30%	367,525	2.14%	261,485
Normal	4.90%	209,678	4.62%	75,751
High	12.38%	50,525	11.16%	42,879

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. During the year ended 31 December 2022, the Group provided RMB9,335,000 (2021: RMB5,990,000) impairment allowance for trade receivables under lifetime ECL (not credit-impaired).

As at 31 December 2022, the Group assessed the ECL of trade receivables backed by bank bills with a gross carrying amount of RMB195,601,000 (2021: RMB252,969,000) backed by banks with external credit rating ranged from Aaa to Ba1 (2021: A1 to Ba1) at the loss rates ranged from 0.05% to 0.28% (2021: 0.07% to 0.40%) and the remaining balances with a gross carrying amount of RMB107,189,000 (2021: RMB149,969,000) backed by banks that do not have external crediting rating at the loss rate of 0.8% (2021: 1.13%). During the year ended 31 December 2022, the Group reversed RMB1,104,000 (2021: provided RMB1,097,000) impairment allowance for trade receivables backed by bank bills under lifetime ECL (not credit-impaired).

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables and trade receivables backed by bank bills under simplified approach:

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2021	9,139	1,805	10,944
Changes due to financial instruments recognised as at 1 January 2021:			
– Impairment loss recognised	571	496	1,067
– Impairment loss reversed	(7,583)	(1,657)	(9,240)
– Transfer to credit-impaired	(4)	4	–
New financial assets originated or purchased	14,103	1,091	15,194
As at 31 December 2021	16,226	1,739	17,965
Changes due to financial instruments recognised as at 1 January 2022:			
– Impairment loss recognised	205	–	205
– Impairment loss reversed	(14,116)	(1,618)	(15,734)
New financial assets originated or purchased	22,142	2,215	24,357
As at 31 December 2022	24,457	2,336	26,793

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

	2022 (Decrease) increase in lifetime ECL		2021 (Decrease) increase in lifetime ECL	
	Not credit-impaired RMB'000	**Credit-impaired RMB'000**	Not credit-impaired RMB'000	Credit-impaired RMB'000
Settlement in full of trade receivables with a gross carrying amount of RMB794,961,000 (2021: RMB749,280,000)	**(14,116)**	**(1,618)**	(7,583)	(1,657)
New trade receivables with gross carrying amount of RMB953,668,000 (2021: RMB820,825,000)	**22,142**	**2,215**	14,103	1,091

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

Other receivables

For other receivables with gross carrying amount of RMB65,405,000 (2021: RMB28,270,000), the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022 and 2021, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank balances

As at 31 December 2022, the Group assessed the ECL of bank balances with a gross carrying amount of RMB5,026,733,000 (2021: RMB4,206,568,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2021: Aa3 to Baa3) at the loss rates ranged from 0.05% to 0.22% (2021: 0.07% to 0.30%) and bank balances with a gross carrying amount of RMB3,885,000 (2021: RMB3,585,000) placed in banks that do not have external crediting rating at the loss rate of 0.83% (2021: 1.13%). For the years ended 31 December 2022 and 2021, the Group assessed the ECL for bank balances were insignificant based on 12m ECL and thus no loss allowance was recognised.

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

	12m ECL RMB'000
As at 1 January 2021, 31 December 2021 and 31 December 2022	4,618

Liquidity risk

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

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

34. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2022							
Trade payables	–	–	308,540	–	–	308,540	308,540
Trade payables backed by bank bills	–	–	205	–	–	205	205
Other payables	–	–	199,406	–	–	199,406	199,406
Amounts due to related companies	–	13,784	–	–	–	13,784	13,784
Lease liabilities	5.10%	–	6,788	604	353	7,745	7,442
Total		13,784	514,939	604	353	529,680	529,377

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

Fair value measurement of financial instruments

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

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

35. RELATED PARTY DISCLOSURES

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

Name of related parties	Nature of balances/transactions	**As at/ For the year ended 31 December 2022 RMB'000**	As at/ For the year ended 31 December 2021 RMB'000
Shineway Medical	Interest expenses on lease liabilities	**382**	603
	Service fee	**10,430**	9,836
	Lease liabilities	**4,834**	9,435
Shineway Sanhe	Interest expenses on lease liabilities	**92**	145
	Service fee	**2,556**	2,411
	Lease liabilities	**1,164**	2,272
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	**105**	166
	Hotel service fee	**152**	515
	Lease liabilities	**–**	2,590
	Training expenses	**25**	–
Shijiazhang Municipal Luancheng Country Shineway Training School ("Shineway Training School")	Service fee	**1,062**	1,065

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

Compensation of key management personnel

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

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 RMB'000	2021 RMB'000
Non-current asset		
Investments in subsidiaries	**63,599**	63,599
Current assets		
Other receivables	**–**	53
Amounts due from subsidiaries*	**447,080**	286,806
Bank balances and cash	**33,638**	46,053
	480,718	332,912
Current liabilities		
Other payables	**4,421**	3,486
Amounts due to subsidiaries	**1,637**	1,511
	6,058	4,997
Net current assets	**474,660**	327,915
Net assets	**538,259**	391,514
Capital and reserves		
Share capital	**87,662**	87,662
Reserves (note)	**450,597**	303,852
Total equity	**538,259**	391,514

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

Note:

	Reserves RMB'000
At 1 January 2021	548,098
Profit and total comprehensive income for the year	205,129
Recognition of equity-settled share-based payments	34
Disposal of shares under share award scheme	3,663
Dividends paid	(453,072)
At 31 December 2021	303,852
Profit and total comprehensive income for the year	380,902
Dividends paid	(241,728)
Lapse of share option	2,173
Cancellation of share option	5,398
At 31 December 2022	450,597

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

37. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2022 and 2021 are as follows:

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2022	2021	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2022	2021	Principal activities
Shineway Pharmaceutical Group Limited (note a) 神威藥業集團有限公司	PRC 30 December 2003	Registered capital – US$136,000,000	**100%**	100%	Research and development, manufacturing and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Company Limited (note a) 河北神威藥業有限公司	PRC 30 December 2003	Registered capital – US$12,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited (note a) 西藏神威藥業有限公司	PRC 7 November 2006	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Company Limited (note a) 神威藥業(海南)有限公司	PRC 21 May 2007	Registered capital – US$3,900,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited (note b) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacturing and trading of Chinese products
Shineway Pharmaceutical (Sichuan) Limited) (note b) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB405,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2022	2021	Principal activities
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (note b) 神威藥業(石家莊)中藥飲片有限公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products and agricultural products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (note b) 神威藥業(民樂)現代農業有限公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Hebei Tongshun Bioenergy Technology Limited (note b) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical Group (Shandong) Company Limited (note b) 神威藥業集團(山東)有限公司	PRC 27 April 1993	Registered capital – RMB28,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Yunnan Shineway Spirin Pharmaceutical Company Limited (note b) 雲南神威施普瑞藥業有限公司	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Beijing Wanter Bio-Pharmaceutical Co., Ltd. (note b) 北京萬特爾生物製藥有限公司	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products

37. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company		Principal activities
			2022	2021	
Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited (note b) 京津冀聯創藥物研究(北京)有限公司	PRC 19 January 2017	Registered capita – RMB10,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Kunming Shineway (notes b and c) 神威藥業(昆明)有限公司	PRC 4 June 1997	Registered capital – RMB1,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Chuxiong Shineway Spirin Medicine Research Limited (note b) 楚雄神威施普瑞药物研究有限公司	PRC 1 June 2018	Registered capital – RMB5,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shi Jia Zhuang Ji Zhong Feed Technology Limited (note b) 石家莊市冀中飼料技術開發有限公司	PRC 4 March 2014	Registered capital – RMB500,000	**100%**	100%	Inactive

Notes:

(a) Being foreign wholly-owned enterprises.

(b) Being PRC domestic enterprises.

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

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.