



ANNUAL REPORT

2022

中智藥業控股有限公司
Zhongzhi Pharmaceutical Holdings Limited

Cell-wall Broken Herbs (CaoJingHua®) Better Absorption Convenient Medication

(Incorporated in the Cayman Islands with limited liability) Stock code: 3737

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破壁饮片

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian (Chairman)
 Mr. Lai Ying Feng
 Mr. Lai Ying Sheng
 Mr. Cao Xiao Jun

Non-executive Directors

Ms. Jiang Li Xia
 Mr. Peng Zhiyun

Independent Non-executive Directors

Mr. Ng Kwun Wan
 Mr. Wong Kam Wah
 Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan (Chairman)
 Mr. Wong Kam Wah
 Mr. Zhou Dai Han

Remuneration Committee

Mr. Wong Kam Wah (Chairman)
 Mr. Lai Zhi Tian
 Mr. Lai Ying Feng
 Mr. Ng Kwun Wan
 Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah (Chairman)
 Mr. Lai Zhi Tian
 Mr. Lai Ying Feng
 Mr. Ng Kwun Wan
 Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
 Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

REGISTERED ADDRESS

Windward 3
 Regatta Office Park
 P.O. Box 1350
 Grand Cayman
 KY1-1108
 Cayman Islands

HEADQUARTER IN THE PRC

No. 3 Kangtai Road South
 Torch Development Zone
 Zhongshan
 Guangdong Province
 PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10B, 15/F
 Cable TV Tower
 9 Hoi Shing Road
 Tsuen Wan, New Territories
 Hong Kong

OFFICE IN SHENZHEN

Unit A-H on the 20th Floor
 Dream City Office Tower
 Mei Lin Lu, Futian Qu, Shenzhen
 PRC

AUDITOR

Ernst & Young

27/F, One Taikoo Place
 979 King's Road
 Quarry Bay, Hong Kong

Corporate Information

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Ltd.
Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITES

www.zeus.cn
www.caojinghua.cn

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破壁草本



Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present to you the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2022 (the "Reporting Period").

BUSINESS REVIEW

In 2022, the continuous impact of the Covid-19 pandemic resulted in occasional outbreaks in many places in the middle of the year, leading to the normalisation of pandemic control measures. At the end of the year, with the relaxation of prevention and control measures, there was a surge in demand for pandemic supplies in the society, which brought about sharp fluctuations in the prices of Chinese herbs and raw, auxiliary and packaging materials, posing significant challenges to the Group's pharmaceutical production and retail segments.

The Group adjusted its operating strategy in a timely manner, significantly expanded its business, and controlled our operating expenses amid difficulties. Yunfu Factory was put into operation during the year, passed the inspection and acceptance, and achieved a certain operating scale. The Chinese patented medicines segment focused on its core products, such as Cough Tablets (克咳片), Yinhuang Granules (銀黃顆粒) and Yinqiao Detoxification Granules (銀翹解毒顆粒), with the advertisements displayed on the frontline media to expand its brand influence and broaden its sales channels, resulting in a significant increase in market share and a pleasant growth in sales. Upon relaxation of the pandemic control measures, the production enterprises and chain pharmacies worked overtime and increased capacity for production and operation, thus effectively ensuring the demand for drugs of the society and contributing to the pandemic prevention.

FUTURE AND OUTLOOK

In 2023, the changes in pandemic prevention and control measures will lead to economic recovery and frequent interaction among people. The Company will expand new retail and other businesses in an active manner with the aim of promoting the healthy growth and sustainable development of each segment.

Manufacturing Segment

Chinese medicine has played an irreplaceable role in the prevention and control of the Covid-19 pandemic, and the government has attached unprecedented importance to Chinese medicine. In 2023, the Group will continue to exert unremitting efforts to promote the concept of Chinese medicine for healthcare to increase the public's use of Chinese medicine. Moreover, we will continue to strengthen the sales channels of Caojinghua, enhance consumer education, and continue to facilitate the construction of a quality assurance system for the entire Chinese medicine production chain. After the Yunfu Factory was completed and put into operation in 2022, it has been in the stage of stable production and supply. We will continue to expand our channels for and increase the market share of the Chinese patent medicines, while commencing the design and construction of a new modern factory, so as to lay a solid foundation for new growth points of the Company in the years to come.

Chairman's Statement

Chain Pharmacies Segment

In 2022, the Company completed the relocation of the chain pharmacies headquarters and distribution center, and successfully launched an intelligent and automated logistics sorting and distribution system to ensure business expansion. After the easing of the Covid-19 pandemic prevention and control, we have withstood the pressure and deployed every resource to guarantee the public's needs for pandemic prevention supplies. At the same time, the Company also experienced ups and downs of public demand. In the post-pandemic era, there had been a decrease in visiting customers coupled with a decline in demand. The Company will optimise internal management, strengthen costs control, and expand new retail and other businesses. In particular, the introduction of the Measures for the Supervision and Administration of Online Pharmaceuticals Sales will be conducive to promoting the online sales business. In view of this, the Company will capture the opportunity arising therefrom to expand its business in online pharmaceutical sales to achieve an overall growth in turnover.

APPRECIATION

In 2022, the Company experienced ups and downs amid challenges and opportunities. In response to this, all employees of the Company coped with the challenges and opportunities in an active manner and timely adjusted the business strategies. Looking forward to 2023, we are confident to achieve success through our unremitting efforts, passion and perseverance. On behalf of the Company, I would like to express my sincere gratitude to all our valued shareholders, customers, suppliers, banks, as well as the management and employees for their continuous trust and support to the Group. We expect the year ahead to be full of challenges, difficulties and opportunities. As always, we will be committed to creating greater value for our shareholders and investors.

By order of the Board

Lai Zhi Tian

Chairman and Executive Director

Hong Kong, 22 March 2023

Management Discussion and Analysis

BUSINESS OVERVIEW

During the year ended 31 December 2022 (the "Reporting Period"), the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 4.5% to approximately RMB1,825.9 million.

Profit attributable to owners of the parent increased by approximately 104.1% to RMB106.4 million.

FINANCIAL ANALYSIS

Revenue

In prior years, the Group managed its business based on distribution channels and had three reportable operating segments including pharmaceutical manufacturing, operation of chain pharmacies and operation of online pharmacies. In 2022, the Group has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change. The financial information of operation of chain pharmacies and operation of online pharmacies is reported to the chief operating decision maker aggregately. Accordingly, two operating segments are presented, being pharmaceutical manufacturing and operation of chain pharmacies. Below is an analysis of revenue by segment.

	Revenue			% of total revenue		
	for the year ended 31 December 2022	2021	Change	for the year ended 31 December 2022	2021	Change
	RMB'000	RMB'000	(%)	(%)	(%)	(%)
Pharmaceutical manufacturing	1,129,905	1,053,280	7.3	61.9	60.3	1.6
Operation of chain pharmacies	696,030	693,220	0.4	38.1	39.7	-1.6
	1,825,935	1,746,500	4.5	100.0	100.0	

Pharmaceutical manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under the Group's brands in the PRC. The Group's brands include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 7.3% to RMB1,129.9 million for the year ended 31 December 2022 (2021: RMB1,053.3 million) and accounted for 61.9% of the total revenue during the year (2021: 60.3%). The increase in revenue was primarily attributable to the continuous innovation and iteration in the Group's exploration of new marketing mode, which resulted in a significant increase in Chinese patent medicines during the year.

Operation of chain pharmacies

The Group has been operating chain pharmacies in Guangdong province under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2022, the Group has 429 self-operated chain pharmacies in Guangdong province (2021: 398), of which 381 are medical insurance designated pharmacies (醫保定點藥店).

Management Discussion and Analysis

Segment revenue of the operation of chain pharmacies basically remained stable at approximately RMB696.0 million for the year ended 31 December 2022 (2021: RMB693.2 million) and accounted for 38.1% of the total revenue during the year (2021: 39.7%), which was mainly attributable to the increase in sales of operation of chain pharmacies due to the relaxation of the pandemic measures and the decline in online channel sales due to the adjustments of the Company's marketing strategies.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB1,072.3 million, representing an increase of RMB10.9 million or 1.0% as compared with RMB1,061.4 million for the year ended 31 December 2021. The analysis of gross profit by segment is as below:

	Gross profit			Gross profit margin		
	for the year ended 31 December			for the year ended 31 December		
	2022	2021	Change	2022	2021	Change
	RMB'000	RMB'000	(%)	(%)	(%)	(%)
Pharmaceutical manufacturing	777,455	761,715	2.1	68.8	72.3	-3.5
Operation of chain pharmacies	294,840	299,724	-1.6	42.4	43.2	-0.8
	1,072,295	1,061,439	1.0	58.7	60.8	-2.1

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 2.1% to RMB777.5 million for the year ended 31 December 2022 (2021: RMB761.7 million). The gross profit margin decreased to 68.8% for the year ended 31 December 2022 (2021: 72.3%). The increase in gross profit was mainly attributable to the increase in the sale of Chinese patent medicines and the decrease in gross profit margin was mainly due to the increase in the costs of materials purchased for industrial production and the change in the structure of sales varieties.

Operation of chain pharmacies

The gross profit of chain pharmacies segment decreased by approximately 1.6% to RMB294.8 million for the year ended 31 December 2022 (2021: RMB299.7 million). The gross profit margin of the chain pharmacies segment decreased to 42.4% for the year ended 31 December 2022 (2021: 43.2%). The decrease in gross profit margin was mainly due to the change in the structure of sales varieties.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, rental income and government grants. For the year ended 31 December 2022, other income and gains of the Group were approximately RMB33.7 million (2021: RMB29.8 million), representing an increase of approximately RMB3.9 million as compared to previous year, which was mainly attributable to (i) the increase in government grants of approximately RMB1.6 million; and (ii) the increase in changes in fair value of financial assets of RMB2.4 million.

Management Discussion and Analysis

Selling and Distribution Expenses

Selling and distribution expenses mainly consists of staff costs, advertisement and promotional costs and amortization of right-of-use assets of the Group's chain pharmacies. For the year ended 31 December 2022, selling and distribution expenses amounted to approximately RMB809.8 million (2021: RMB829.2 million), representing a decrease of approximately 2.3% as compared to previous year. Selling and distribution expense ratio decreased to approximately 44.4% (2021: 47.5%) against revenue for the year ended 31 December 2022, which was mainly due to the reduction in advertisement and promotion inputs of the Group.

Administrative Expenses

Administrative expenses mainly consists of salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2022, administrative expenses amounted to approximately RMB104.7 million (2021: RMB102.9 million), representing an increase of approximately 1.8% as compared to previous year. The increase was due to the increase in depreciation and amortisation and office expense of the Yunfu Factory and the chain building.

Other Expenses

Other expenses mainly represent research and development expenses. The research and development expenses mainly consist of various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2022, research and development expenses amounted to approximately RMB46.4 million (2021: RMB43.8 million), representing an increase of approximately 5.7% compared to that for the same period of previous year. The increase was mainly due to the increase in the research and development expenses for direct investment.

Finance Costs

Finance costs consist of interest on bank borrowings and interest on lease liabilities, which amounted to RMB6.6 million for the year ended 31 December 2022 (2021: RMB7.1 million), which was mainly due to the decrease in bank borrowings.

Income Tax Expense

Income tax expense amounted to RMB23.7 million for the year ended 31 December 2022 (2021: RMB9.4 million). The increase was primarily due to the increase in profit before tax.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent increased by 104.1% to RMB106.4 million for the year ended 31 December 2022 (2021: RMB52.1 million). The Group's net profit margin amounted to 5.8% for the year ended 31 December 2022 (2021: 3.0%).

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

Net Current Assets

The Group had net current assets of approximately RMB359.7 million as at 31 December 2022 (31 December 2021: RMB356.6 million). The Group's cash and bank balances increased from RMB233.4 million as at 31 December 2021 to RMB381.0 million (which consisted of cash and bank balances of RMB376.0 million and HK\$5.5 million denominated in RMB and HKD respectively) as at 31 December 2022. The current ratio of the Group decreased from approximately 1.7 as at 31 December 2021 to 1.5 as at 31 December 2022.

The equity attributable to shareholders of the Company as at 31 December 2022 amounted to approximately RMB1,005.9 million (31 December 2021: RMB901.2 million). The Group had outstanding unsecured borrowings of RMB1.0 million at a fixed interest rate and HK\$39.2 million at a floating interest rate as at 31 December 2022 (2021: RMB32.7 million and HK\$30.0 million).

The Group's gearing ratio (borrowings over total equity) as at 31 December 2022 was 3.6% (31 December 2021: 6.4%).

As at 31 December 2022, the Group had available unutilized banking facilities of RMB119.0 million (31 December 2021: RMB87.3 million) and HK\$1.0 million (31 December 2021: HK\$10.0 million).

The Group adopts a centralised management of its financial resources and always maintains a prudent approach for a steady financial position.

Financing

The Board considers that the existing financial resources together with funds generated from business operations will be sufficient to meet future expansion plans and, if necessary, the Group believes that it will be capable of obtaining additional financing with favorable terms.

CAPITAL STRUCTURE

The shares of the Company (the "Share(s)") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015. The capital of the Company comprises ordinary Shares and other reserves. As at 31 December 2022, the number of issued shares of the Company was 863,600,000 ordinary Shares of HK\$0.01 each.

Update in Contractual Arrangement

The Supplemental Agreement

As some of the registered shareholders (the "Registered Shareholders") of Zhongshan Yu Xin Investment Limited ("Zhongshan Yu Xin"), a shareholder of Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd.* (中山市中智中藥飲片有限公司) ("Zhongzhi Herb Pieces"), being present/former employees of the Group, have left the Group or retired, the Group considers it is in its best interest to simplify the shareholding structure of Zhongzhi Herb Pieces to optimise the governance of Zhongzhi Herb Pieces.

Management Discussion and Analysis

As such, on 3 November 2022, Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) (“Zhongzhi Pharmaceutical”) entered into a supplemental agreement (the “Supplemental Agreement”) to the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) (the “Existing Contractual Arrangements”) with Zhongzhi Herb Pieces, Mr. Lai Zhi Tian (“Mr. Lai”), Zhongshan Yu Xin and Guangdong Jun Ke Investment Limited* (廣東君科創業投資有限公司) (“Guangdong Jun Ke”), in order to (i) reflect the latest shareholding structure of Zhongzhi Herb Pieces upon completion of the proposed restructure; and (ii) confirm the terms and conditions of the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver (as defined in the announcement dated 3 November 2022) will continue to be complied by Mr. Lai.

Accordingly, Mr. Lai and Zhongshan Yu Xin entered into a share transfer agreement for the transfer of 10.00% equity interest of Zhongzhi Herb Pieces held by Zhongshan Yu Xin (the “Transfer”). The consideration of the Transfer was determined at the lowest price and to the extent permitted by the applicable PRC laws and regulations, which was settled using the Mr. Lai’s own financial resources. Upon the completion of the Restructure, Zhongzhi Herb Pieces is owned by Mr. Lai and Mr. Luo Tian Quan (one of the Registered Shareholders) as to 99.56% and 0.44% respectively.

Details of the Supplemental Agreement were published in the Company’s announcements dated 3 and 4 November 2022.

FOREIGN EXCHANGE EXPOSURE AND EXCHANGE RATE RISK

The Group’s transactions are mainly denominated in RMB. Certain of the Group’s cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year of 2022. Nevertheless, the Group will from time to time review and adjust the Group’s hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

EMPLOYEES AND EMOLUMENTS POLICY

The Group is committed to establishing fair remuneration system and will conduct performance evaluation for its employees on an annual basis. The key components of the Group’s remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group’s contribution to mandatory provident funds or state-managed retirement benefits scheme (the “Defined Contribution Schemes”). Other benefits include share options to be granted under the share option scheme and Shares to be granted under the share award plan.

As at 31 December 2022, the Group had 2,883 employees (2021: 3,152) with a total remuneration of RMB332.4 million during the Reporting Period (2021: RMB343.1 million) (including wages and salaries, pension scheme contributions, staff welfare expenses, equity-settled share award expenses and others). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

The contributions by the Group for the Defined Contribution Schemes are charged to the statement of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

Management Discussion and Analysis

The Group's contributions to the Defined Contribution Schemes vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2021 and 31 December 2022, there was no forfeiture of contributions under the Defined Contribution Schemes; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Schemes as at 31 December 2021 and 31 December 2022.

For each of the two years ended 31 December 2021 and 31 December 2022, the Group did not have any defined benefit plan.

SIGNIFICANT INVESTMENTS

Save as disclosed herein, the Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

EVENT AFTER THE REPORTING PERIOD

There were no significant events after the Reporting Period up to the date of this report.

CAPITAL COMMITMENT

As at 31 December 2022, the Group's capital commitment amounted to RMB16.9 million (2021: RMB33.2 million). The capital commitment is mainly related to purchasing of new equipment for research and development activities and to expand the Group's production capacity.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the prospectus, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. In particular, for the expansion of production capacity, the Group has completed the tender of new factories in Zhongshan, Guangdong province, for the construction of production plants of the Chinese patent medicines segment of Honeson Company in the future to cater for the increase in demand of the Group's products.

Save for the above, the Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

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

Biographical Details of Directors and Senior Management

Biographies of Directors and senior management team are set out below:

EXECUTIVE DIRECTORS

Mr. Lai Zhi Tian (賴智填), aged 55, is the founder, controlling shareholder, an executive Director and Chairman of the Board. He is also a member of each of the remuneration committee and the nomination committee of the Company. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group. He is the spouse of Ms. Jiang Li Xia, a non-executive Director, and father of both Mr. Lai Ying Feng, an executive Director and the Chief Executive, and Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

Mr. Lai has over 30 years of experience in the pharmaceutical industry and has extensive experience in pharmaceutical products development, manufacturing and distribution. From September 1981 to April 1994, he worked as a salesperson at the Puning Chang Mei Herbs Shop* (普寧市長美藥材站). From May 1994 to September 1998, he worked as a salesperson at Zhongshan Herbs Company* (中山市藥材公司). Mr. Lai was a manager of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") before its transformation from a collective enterprise to a limited liability company. In September 1999, he became a shareholder of our Group. Under the leadership of Mr. Lai, our Group's business expanded from the distribution of pharmaceutical products to the operation of chain pharmacies and the production of pharmaceutical products.

Mr. Lai is currently the vice chairman of China Pharmaceutical Materials Association* (中國醫藥物資協會) and the president of Guangdong Pharmacies Union* (廣東藥店聯盟). Mr. Lai is an adjunct associate professor and a mentor of the Master's programme at the Research Centre of Chinese Herbal Resources (Science and Engineering)* (中藥資源科學與工程研究中心) of Guangzhou University of Chinese Medicine* (廣州中醫藥大學).

Mr. Lai Ying Feng (賴穎豐), aged 31, was appointed as an executive Director on 14 May 2018, Chief Executive of the Company on 24 March 2021 and is a member of each of the remuneration committee and the nomination committee of the Company. He joined the Group since April 2014 and has served as a director of sales in several sales divisions, helping to formulate sales strategies, and has served as the head of branding for the Company, leading the Group's brand and marketing strategies. Since July 2016, Mr. Lai has served as a director of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), a subsidiary of the Company, mainly responsible for organizing the formulation of business plan of the Company, investment and financing plan, and making decisions on major issues. He is the son of Mr. Lai Zhi Tian, an executive Director and the Chairman, and Ms. Jiang Li Xia, a non-executive Director, and brother to Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

In July 2014, Mr. Lai obtained a bachelor's degree in economics from the Faculty of Arts and Social Sciences at Simon Fraser University in Canada and obtained a qualification certificate for the secretary of the board. Since April 2016, Mr. Lai has also been the vice president of the 1st Youth Entrepreneurs Association of Zhongshan Torch Hi-tech Industrial Development Zone* (第一屆中山火炬高技術產業開發區青年企業家協會).

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Lai Ying Sheng (賴穎盛), aged 29, was appointed as an executive Director on 24 March 2021. He joined our Group on 1 October 2018 as the Group's Assistant Financial Controller and on 24 March 2021 as the Chief Financial Officer. Mr. Lai graduated from the University of British Columbia, Canada, in 2016 with an undergraduate degree in Commerce, specialized in Accounting. Since then, he has worked in the audit practice of KPMG LLP, Vancouver office, and has completed his Chartered Professional Accounting Qualifications during his time at KPMG.

Upon joining the Group in 2018, Mr. Lai headed the Group's Accounting department in its daily operations and, over time, began to manage the Group's other management functions including Human Resources, Internal Controls, Investor Relationships and Purchasing. He is the son of Mr. Lai Zhi Tian, an executive Director and the Chairman, and Ms. Jiang Li Xia, a non-executive Director, and brother to Mr. Lai Ying Feng, an executive Director and the Chief Executive.

Mr. Cao Xiao Jun (曹曉俊), aged 55, was appointed as an executive Director on 30 January 2015 and the vice president of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

Mr. Cao has over 25 years of experience in the pharmaceutical industry. He served as the marketing manager in Guangdong Shiqi Pharmaceutical Company Limited* (廣東石岐製藥公司) from July 1989 to March 1997 and since then to June 2000, he became the deputy general manager of Shenzhen Wedge Pharmaceutical Chains Company Limited* (深圳市萬澤醫藥有限公司). From June 2000 to July 2009, he served as the deputy general manager of Shenzhen Naber Medicine Company Limited* (深圳市南北醫藥有限公司).

NON-EXECUTIVE DIRECTORS

Ms. Jiang Li Xia (江麗霞), aged 58, was appointed as an executive Director on 12 September 2014 and was re-designated as non-executive Director on 19 September 2016. She is the controlling shareholder of the Company. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and was responsible for supervising business administration of our Group. Her duties included overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group. She is the spouse of Mr. Lai Zhi Tian, an executive Director and the Chairman, and mother of both Mr. Lai Ying Feng, an executive Director and the Chief Executive, and Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

Mr. Peng Zhiyun (彭志雲), aged 53, was appointed as a non-executive Director on 10 December 2021. He has more than ten years of experience in equity investment. Mr. Peng served as a lawyer from 2003 to 2009. Since 2010, Mr. Peng has been acting the general manager of Shanghai Novich Venture Capital Co., Ltd.* (上海諾偉其創業投資有限公司) ("Novich"). He has also been acting the general manager of Shanghai Jinbang Equity Investment Management Co., Ltd.* (上海勁邦股權投資管理有限公司) ("Jinbang Capital") since 2011. In addition, Mr. Peng is also the director of multiple investment portfolio companies of Novich and Jinbang Capital. Mr. Peng serves as a director of Mingyue Optical Lens Co., Ltd., an A-share listed company (stock code: 301101.SZ) in mainland China.

Mr. Peng obtained an EMBA degree from China Europe International Business School in 2015. In addition, Mr. Peng received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in 1996 and the qualification certificate of fund practitioner issued by the Asset Management Association of China in 2016.

* For identification purpose only

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 59, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to October 1995 and from October 1995 to June 1998, Mr. Ng worked as a project manager for New World Development (China) Limited and New World Infrastructure Limited respectively. From July 1998 to August 2004, he worked for New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited (a subsidiary of South China (China) Limited (Stock Code: 413)). Mr. Ng is currently an independent non-executive director of China Boton Group Company Limited (stock code: 3318), CT Vision S.L. (International) Holdings Limited (stock code: 994), Asia Energy Logistics Group Limited (stock code: 351) and Sunray Engineering Group Limited (stock code: 8616).

Mr. Wong Kam Wah (黃錦華), aged 54, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of each of the remuneration committee and the nomination committee and a member of the audit committee of the Company. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

Mr. Wong has over 15 years of experience in legal practice. He is currently a partner of Messrs. Lau Edward, Wong & Lou.

Mr. Zhou Dai Han (周岱翰), aged 81, was appointed as an independent non-executive Director on 8 June 2015. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

Mr. Zhou has over 30 years of experience in the field of Chinese medicines. Since 1976, Mr. Zhou has been working at the Guangzhou College of Chinese Medicine as a lecturer, associate professor, associate dean of the tumor research center* (腫瘤研究室副主任), chief medical practitioner* (主任醫師), dean of the tumor department* (腫瘤科主任) and professor.

Mr. Zhou completed the Listed Companies Independent Directors Training Programme* (上市公司獨立董事培訓班) co-organised by the Securities Association of China and the Shenzhen Stock Exchange in January 2003.

* For identification purpose only

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Qiao Wei Lin (喬衛林), aged 47, holds a bachelor's degree and is a senior engineer and registered pharmacist. He is currently the vice president of Zhongzhi Pharmaceutical Group and is responsible for technical research and development, quality control, Chinese medicine resources management and administration.

Mr. Qiao graduated from Tongji Medical College of Huazhong University of Science & Technology in July 2000. He joined Grünenthal Pharmaceutical (China) Company Limited (格蘭泰製藥(中國)有限公司) in August 2000, during which he received systematic training on the German pharmaceutical manufacturing technology system. After three years of service, he joined the Company's subsidiary, Honeson Pharmaceutical, in August 2003 and worked in the quality control and production departments successively. Since 2010, he has been the director of quality and chief executive officer of the Group, responsible for implementing the Group's quality policy, ensuring the healthy operation of the quality control system, as well as being responsible for the external public affairs of the Company.

His current social positions include: deputy secretary general of Guangdong Chinese Medicine Association (廣東省中藥協會), director of Guangdong Provincial Association of Chinese Medicine, member of the Technical Committee on Chinese Medicine Standardization of Guangdong Province (廣東省中藥標準化技術委員會), member of the Professional Committee on Lingnan Chinese Herbal Resources of the Guangdong Pharmaceutical Association (廣東省藥學會嶺南中草藥資源專業委員會), etc.

Mr. He Gui Quan (何貴全), aged 43, joined Honeson Pharmaceutical in July 2003. He worked as a production workshop supervisor from July 2003 to December 2007. From January 2008 to December 2009, he was the production manager of Honeson Pharmaceutical. From January 2010 to December 2015, he worked as the assistant to the general manager of Honeson Pharmaceutical and worked as the general manager from January 2016 to December 2020, responsible for the overall management of Honeson Pharmaceutical. In January 2021, he was promoted to the vice president of the Group, responsible for the management of production segments of the Group.

Mr. He graduated from Guangdong Pharmaceutical University* (廣東藥學院) and is a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Ran Qiang (冉強), aged 49, joined Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) in March 2016 and is currently the vice president of the Group, the deputy secretary general of the Academic Expert Committee of the Key Research Laboratories (重點研究室學術專家委員會), member of the Professional Committee on Quality and Safety of Chinese Medicines of China Association of Traditional Chinese Medicine (中國中藥協會中藥品質與安全專業委員會) and executive director of Guangdong Provincial Association of Chinese Medicine. He graduated from Anhui College of Traditional Chinese Medicine in 1996 with a degree in pharmacology and from the Business School of Renmin University of China in 2005 with an MBA in Pharmaceutical Business Administration.

Prior to joining the Group, he worked for Buchang Pharmaceutical Co., Ltd. (步長製藥有限公司).

Ms. Shen Man Na (沈嫻娜), aged 42, currently works as the general manager of Zhongzhi Chain Pharmacies, and the representative of the People's Congress of Zhongshan. In 2001, she joined Zhongzhi Pharmaceutical Group and worked in quality department and procuring department successively. From 2007 to March 2017, she worked as the manager of the commodities department, manager of the procuring department and the director of the commodities department of Zhongzhi Chain Pharmacies successively. Since April 2017, she has served as the general manager of the Zhongzhi Chain Pharmacies.

She graduated from Shaoguan Health College (韶關衛生學校) in 2000, majoring in pharmaceutics and from Guangzhou University of Chinese Medicine in 2013, majoring in Chinese medicine. She obtained the qualification of Senior Nutritionist (高級營養師) in 2014, and the qualification of licensed pharmacist of Chinese medicine (執業中藥師) in 2015.

Mr. Chen Jiong (陳炯), aged 49, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from July 1997 to November 2001, Mr. Chen served as the production worker of Guangzhou Chen Li Ji Pharmaceutical Factory* (廣州陳李濟藥廠) responsible for the operation of the production line and maintaining the GMP production standard. From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was the general manager of Honeson Pharmaceutical from January 2010 to December 2015. Mr. Chen is now the general manager of Guangdong Caojinghua Cell-broken Herb Company Limited* (廣東草晶華破壁草本有限公司) ("Guangdong Caojinghua"), an indirect wholly owned subsidiary of the Company, and is responsible for the overall management of Guangdong Caojinghua.

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Tang Lin (唐琳), aged 59, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from August 1985 to May 1987, Mr. Tang worked as a pharmacist at Fuchuan Yaozu Autonomous Region People's Hospital* (富川瑤族自治縣人民醫院). From May 1987 to October 1994, he worked as an assistant factory manager of Guangxi Province Wuzhou Third Medicinal Factory* (廣西梧州地區第三製藥廠). From December 1997 to December 2000, he worked as a deputy head of the production department of Europharm Laboratories Co., Ltd.* (廣州歐化藥業有限公司). From March 2001 to October 2001, he worked as the head of the production department of Guangdong Jiangmen Ming Sheng Medicine Manufacturing Limited* (廣東江門名盛製藥有限公司).

From November 2001 to December 2009, Mr. Tang worked as the head of technical development department of Honeson Pharmaceutical. From January 2010 to December 2013, he worked as the general manager of the technical department of Zhongzhi Pharmaceutical. Since January 2010 and December 2017, he had been the chief engineer of Honeson Pharmaceutical and the director of the technical department of Zhongzhi Pharmaceutical respectively. Since January 2018, he has been the deputy general manager and chief engineer of Honeson Pharmaceutical. Mr. Tang is also responsible for reviewing the quality control procedures performed by our quality control team.

* For identification purpose only

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the principles of corporate governance and corporate responsibility consistent with prudent management. The Board believes that such commitment will in the long term serve to enhance the Shareholders' value. The Company has applied the principles and adopted all code provisions, where applicable, as set out in the Corporate Governance Code ("CG Code") as contained in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the year ended 31 December 2022, the Directors consider that the Company has applied the principles and complied with all applicable code provisions set out in the CG Code.

THE BOARD

The Board currently comprises four executive Directors, namely Mr. Lai Zhi Tian (Chairman), Mr. Lai Ying Feng, Mr. Lai Ying Sheng and Mr. Cao Xiao Jun; two non-executive Directors, namely Ms. Jiang Li Xia and Mr. Peng Zhiyun; and three independent non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. The number of independent non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 12 to 17 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the Executive Directors possess extensive experience in management and professional knowledge in business, while the three independent non-executive Directors possess professional knowledge and broad experience in finance, law and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2022. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 92 to 96.

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

Corporate Governance Report

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision C.1.4, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2022, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2022, the Directors participated in the following continuous professional development:

Name of Directors	Training organized by professional organization ¹	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lai Zhi Tian	✓	✓
Mr. Lai Ying Feng	✓	✓
Mr. Lai Ying Sheng (appointed on 24 March 2022)	✓	✓
Mr. Cao Xiao Jun	✓	✓
Non-executive Directors		
Ms. Jiang Li Xia	✓	✓
Mr. Peng Zhiyun	✓	✓
Independent Non-executive Directors		
Mr. Ng Kwun Wan	✓	✓
Mr. Wong Kam Wah	✓	✓
Mr. Zhou Dai Han	✓	✓

Notes:

- Professional training namely "Analysis of securities trading by Directors" was arranged by the Company to update the Directors' knowledge.
- The Company received from each of the Directors the confirmations on taking continuous professional training.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions C.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2022 and as at the date of this report, the roles of the chairman and the chief executive officer are separate. Mr. Lai Zhi Tian was the chairman while the role of the chief executive was performed by Mr. Lai Ying Feng.

TERM OF APPOINTMENT

All Directors are appointed for a specific term. Each of the executive Directors and the non-executive Directors is under a service contract with the Company for a term of 3 years, which will continue thereafter. Each of the independent non-executive Directors is appointed for a term of 3 years.

RE-ELECTION OF DIRECTORS

According to the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every 3 years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment, and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

The Company annually assesses the independence of each independent non-executive Director during their terms of appointment. During the Reporting Period, the Company received from each of the independent non-executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

Corporate Governance Report

PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet together for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM shall be called by at least 21 days' notice in writing, and a general meeting of the Company other than an AGM shall be called by at least 14 days' notice in writing. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the year ended 31 December 2022:

Name of Directors	Attendance/Number of Meetings Held				
	Regular Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	General Meeting
Executive Directors					
Mr. Lai Zhi Tian	4/4	—	1/1	1/1	1/1
Mr. Lai Ying Feng	4/4	—	1/1	1/1	1/1
Mr. Lai Ying Sheng (appointed on 24 March 2022)	4/4	—	—	—	1/1
Mr. Cao Xiao Jun	4/4	—	—	—	1/1
Mr. Cheng Jin Le (resigned on 24 March 2022)	0/0	—	—	—	—
Non-executive Directors					
Ms. Jiang Li Xia	4/4	—	—	—	1/1
Mr. Peng Zhiyun	4/4	—	—	—	1/1
Independent Non-executive Directors					
Mr. Ng Kwun Wan	4/4	*2/2	1/1	1/1	1/1
Mr. Wong Kam Wah	4/4	2/2	*1/1	*1/1	1/1
Mr. Zhou Dai Han	4/4	2/2	1/1	1/1	1/1

* representing chairman of the board or the committees

Corporate Governance Report

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkexnews.hk) and the Company website (www.zeus.cn). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee was established on 8 June 2015 with terms of reference (amended on 31 December 2015) in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

The external auditor was invited to attend two Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

Remuneration Committee

The Remuneration Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements including reviewing and/or approving matters relating to share option scheme and share award scheme. The Remuneration Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2022, the Remuneration Committee has held one meeting. Full minutes of the Remuneration Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

Corporate Governance Report

For the year ended 31 December 2022, the annual salary of the senior management of the Company falls within the following bands.

Remuneration bands (HK\$)	Number of senior management
Nil to 500,000	2
500,000 to 1,200,000	4

Nomination Committee

The Nomination Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

During the year ended 31 December 2022, the Nomination Committee has held one meeting. Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 29 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

Corporate Governance Report

The process to identify potential candidates for the Board would be as follows:

- (1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;
- (2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;
- (3) reviewing the profiles of the shortlisted candidates and interview them; and
- (4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

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 on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

COMPANY SECRETARY

Ms. Ho Wing Yan ("Ms. Ho") has been appointed as the company secretary of the Company since 5 May 2017 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Ho possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. Mr. Lai Zhi Tian, the chairman of the Company, is the primary corporate contact person of the Company with Ms. Ho. During the year ended 31 December 2022, Ms. Ho confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Ho to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2022.

INTERNAL CONTROL

Risk Management and Internal Control

The Board puts emphasis on risk management and has established and maintained suitable and effective risk management and internal control system. Such system aims to manage, rather than eliminate, risks of failure to achieve business objective, and provides reasonable, though not absolute, assurance against material misstatement or loss by the Group.

To attain the objective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards and best practices from excellent management companies, the management balances the actual situation and business features of the Company, while continuously allocates resources to optimize risk management and internal control system. The management assessed the effectiveness and appropriateness of the internal control system on the ground of the above to ensure the effective operation of the control system.

Risk Management Organization System

With respect to the organizational structure, the Group has established a set of complete organizational structure to manage risks that the Group is exposed to.

Risk Supervision Function

The Board's Responsibilities to Shareholders Regarding the Effectiveness of Comprehensive Risk Management

- Recognizing overall objectives of risk management, risk appetite and risk tolerance of the corporation, approving risk management strategies and substantial risk-mitigating plans as well as risk management measures;
- Understanding every material risk that the corporation will encounter and its current risk management status and making effective risk-control decisions;
- Approving the annual comprehensive risk management report;
- Overseeing the cultivation of risk management culture of the corporation.

Corporate Governance Report

Risk Management Function

Audit Committee is the top risk management body of the Company and is held accountable to the Board

- Considering the construction plan of comprehensive risk management system;
- Determining the plan on set-up of risk management organizational structure and their duties;
- Approving the regulation, system and the key procedures in risk management;
- Considering and assessing on the strategies of the Group in risk management;
- Approving the annual risk management work plan;
- Considering and assessing the significant solutions and measures in risk management;
- Reviewing and submitting annual comprehensive risk management report to the Board.

Daily Risk Management Function

Risk Management Project Team leads daily risk management works and reports to Audit Committee

- Responsible for the establishment and improvement of the risk management system and mechanism of the Company;
- Proposing annual risk management work plan and submitting the plan to Audit Committee for consideration;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to identify and assess risks on regular basis, and identify significant risks the Company is exposed to;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to discuss and formulate risk response strategies and solutions for the risks the Company is exposed to and to prepare comprehensive risk management report;
- Organizing or jointly organizing various functions and departments of the Group and the respective subsidiaries to improve the internal control system based on the risk response plan;
- Following up the implementation of the risk response plan performed by various functions and departments of the Group and the respective subsidiaries, and reviewing the operational effectiveness of the internal control system.

Corporate Governance Report

Risk Management Implementation Function

Respective functional departments of the Company commences risk management under the coordination of risk management project team

- Executing basic procedures for risk management and internal control;
- Identifying and assessing risks, and recognizing significant risks that the Company is exposed to under the guidance of risk management project team;
- Discussing and implementing risk control measures and solutions against risks the Company is exposed to under the guidance of the risk management project team;
- Enhancing the internal control system of the functions and departments in accordance with the risk response plan.

Internal Audit Function

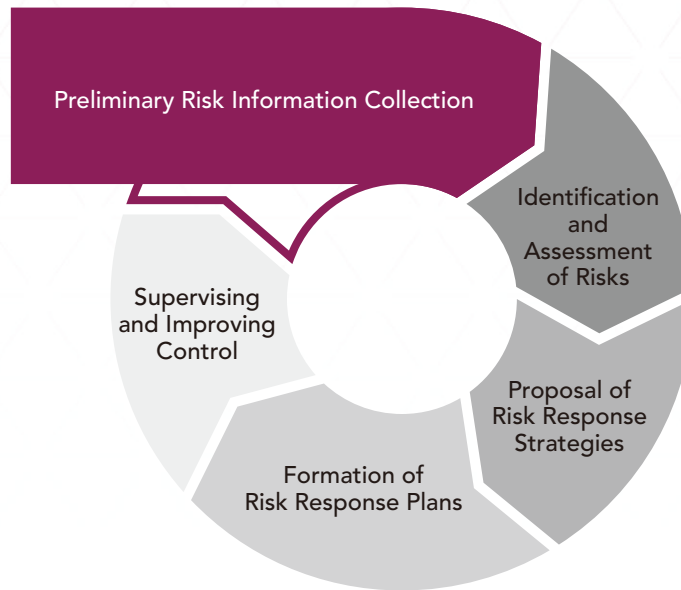
Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- Responsible for establishing and amending the internal reviewing system and work mechanism of the Company;
- Formulating internal audit plan and determining internal audit focuses, audit methods and procedures, time of audit and staff arrangement/engagement arrangement of third party professional institutions based on the substantial risks and business fields the Company is exposed to, and submitting the Board and Audit Committee for consideration;
- Reviewing the effectiveness of risk management and the internal control system, including the annual comprehensive risk management report, risk management plan and daily risk management solutions; assessing the design and operational effectiveness of the internal control system;
- Auditing the assessment results of risk management and internal control system issued by the third party;
- Reporting the risk management and internal control works to Audit Committee and the Board.

Corporate Governance Report

Risk Management Procedures

The Group has established a set of complete risk management procedures to identify, assess and manage substantial risks, to review the effectiveness of risk management and the internal control system, and to resolve serious deficiencies on internal control. Specific procedures of risk management are as follows:



(a) Preliminary Risk Information Collection:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to extensively and continuously collect internal and external preliminary information related to risk management for the list of risk information.

(b) Identification and Assessment of Risks:

Risk assessment questionnaires were designed based on the list of risk information by the risk management project team. Various functions and departments of the Company and the Group and the respective subsidiaries are regularly organized to carry out risk analysis and assessment. Risks are sorted and significant risks are identified according to the assessment results.

For material issues, the risk management project team organizes and convenes special assessment meetings for the assessment of material issues and risk issues in order to provide support regarding decisions-making.

(c) Proposal of Risk Response Strategies:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to select management strategies for each of the risks.

Corporate Governance Report

(d) Formation of Risk Response Plans:

The risk management project team organizes various functions and departments of the Group and the respective subsidiaries to discuss and propose risk response plans and designs, amends or optimizes internal control files based on the risk response plans.

(e) Supervising and Improving the Implementation of Risk Management of Each Business Unit:

The risk management project team supervises and assesses the implementation of risk management and the effectiveness of internal control of each business unit; Keeping track of the development of material risk issues.

Internal audit department analyzes and makes independent assessment on whether risk management and the internal control system of the Group are sufficient and effective.

Identification, Assessment and Management of Risks

In 2022, the risk management project team, in accordance with the risk management procedures aforementioned, commenced risk identification and assessment from five dimensions, namely strategies, marketing, operation, compliance and finance. Senior management as well as middle-and-basic level staff of the Group were extensively organized to identify and assess the risks exposed to in the course of their work. In the light of the top ten significant risks assessed and identified, the risk management project team organized senior management of the Group to discuss and determine risk response strategies and specific risk response plans based on the level of risk tolerance. For other identified risks, the risk management project team assessed the risk response plans of business units and formed a comprehensive risk management report by proposing adjustments or recommendations for improvement.

The risk management project team kept track on the execution of response plans and measures of significant risks and reported to senior management of the Group.

Assessment on the Effectiveness of the Risk Management and the Internal Control System

In 2022, the Board continuously supervised and performed annual review on the effectiveness of the risk management and the internal control system of the Group and its subsidiaries through the Audit Committee. The review covered aspects of significant control, such as financial control, operational control, supervision on compliance and risk management. The directors are of the view that, the operation of the internal control system is effective and sufficient, and effectively controls various risks that might disturb the Company from achieving its objectives. The Board was not aware of any significant issues that might affect the shareholders and needed to be brought to their attention, and believed that the internal control of the Group has complied with every code provision in connection with internal control within the CG Code, including the compliance of the requirements of laws and regulations.

Corporate Governance Report

The Board has, with reference to the assessment made by Audit Committee, reviewed in the board meeting on whether the resources in accounting, internal audit and financial reporting functions, staff's qualification and experience, and training courses provided to staff and the relevant budget were sufficient. In 2022, the Internal Audit Department, based on the aforementioned risk management procedures, entrusted third party professional institutions to conduct review and assessment on the effectiveness of design and operational compliance of the relevant internal control system in relation to risk management, control and governance practices, regarding the risk management system and the internal control system of significant business fields. Audit Committee under the Board reviewed the assessment results of risk management and internal control system of the Group for the year ended 31 December 2022 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

Management of Inside Information

The Group has formulated a set of complete procedures for inside information management to supervise the inside information revealed during business development and standardized the practice of conveying relevant information to shareholders, media and analysts. Those management procedures state expressly that confidential or inside information is strictly prohibited to use without permission and set out the reply procedures in respect of the enquiry towards the Group's affairs made by external parties.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2022. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the year ended 31 December 2022, the fee payable to Ernst & Young, is set out as follows:

Nature of Services	Fee paid/payable RMB'000
Audit services	2,600
Non-audit services	323

Non-audit services fees include fee for providing internal control services.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, 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.

Corporate Governance Report

In respect of the gender diversity of the Board, as at the date of the Annual Report, there are 8 male Directors and one female Director. The Company is well-aware of the requirements under the new CG Code where diversity on the Board needs to be achieved. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development.

Moreover, the current gender ratio of the company workforce (including senior management) is 906 males per 1,977 females, as compared with 1,000 males per 2,152 males of last year. The Company has already achieved gender diversity and will continue focusing on the area because workforce gender diversity is associated with resources that can provide a sustained competitive advantage to the company, which include market insight, creativity and innovation, and improved problem-solving. Men's and women's different experiences may provide insights into the different needs of male and female customers. Further, men and women may have different cognitive abilities, such as men's proficiency in mathematics and women's proficiency in verbal and interpersonal skills. Therefore, a mix of cognitive abilities in a gender diverse team may enhance the team's overall creativity and innovation as proved by research. Moreover, a gender diverse team produces high quality decisions. Although there may be some mitigating circumstances where gender diversity can be very hard to achieve (for instance, male workers are more commonly seen regarding physical labor and female workers are more often seen during psychological consultation), the Company will keep focusing on the workforce gender diversity to maintain its current strength as well as to further improve its competitiveness in the future.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure the effectiveness of the board diversity policy and also discusses any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Corporate Governance Report

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office and Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 29 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTORS RELATIONS

Constitutional Documents

There was no significant changes in the constitutional documents of the Company during the year ended 31 December 2022.

Corporate Governance Report

SHAREHOLDERS' COMMUNICATION POLICY

Purpose

The Company recognises the importance of providing current and relevant information to its shareholders (the "Shareholders"). This shareholders' communication policy (the "Policy") aims to set out the provisions with the objective to ensure that the Shareholders and potential investors are provided with equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to engage actively with the Company.

General Policy

The Board shall maintain an on-going dialogue with Shareholders and will regularly review the Policy to ensure its effectiveness.

Information is communicated to the Shareholders as well as the stakeholders through periodic disclosure through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and other corporate publications on the Stock Exchange's website and corporate communications on the Stock Exchange's website (www.hkex.com.hk) and the Company's website (<http://www.zeus.cn>).

Effective and timely dissemination of information to Shareholders shall be ensured at all times. Any questions, requests and comments can be addressed to the Company by mail to Unit 10B, 15/F Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong or by email to zeuschina@126.com or through the Company's share registrar.

The Company believes that communication with Shareholders by electronic means, particularly through its website, is an efficient way to distribute information in a timely and convenient manner. Shareholders are encouraged to access to the corporate communications posted on the Company's website to help reduce the quantity of printed copies and hence reduce the impact on the environment.

The Company's website will be updated with material posted to the Stock Exchange's website immediately thereafter. Such material includes but not limited to financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

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

The Company has reviewed the shareholders' communication policy conducted for the year ended 31 December 2022 and considered that the shareholders' communication policy has been well implemented and effective.

Environmental, Social and Governance Report

ABOUT THIS REPORT

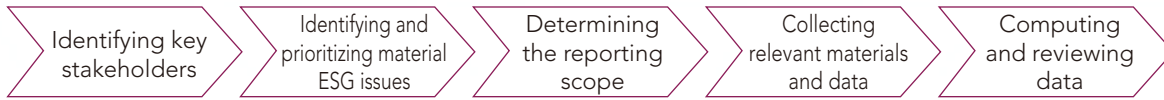
This report is the seventh environmental, social and governance (“ESG”) report (the “Report”) of Zhongzhi Pharmaceutical Holdings Limited (“Zhongzhi Pharmaceutical” or the “Company”; or together with its subsidiaries, the “Group” or “We”), aiming to present the Group’s ESG policies, measures and performance to stakeholders.

Reporting Period and Scope

The Report presents strategy and performance in relation to the sustainable development of the Group for the period from 1 January 2022 to 31 December 2022 (the “Reporting Period”). Unless otherwise specified, the reporting scope in the Report is consistent with the 2022 annual report of Zhongzhi Pharmaceutical.

Reporting Basis

The Report is prepared in accordance with the mandatory disclosure requirements and the “comply or explain” provisions of Environmental, Social and Governance Reporting Guide (the “Guide”) as set out in in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Report is formulated in accordance with its systematic procedures, which include:



Reporting Principles

The Report is prepared on the basis of the reporting principles summarized in the Guide:

Reporting principle	Responses of the Group
Materiality	The Group collected opinions from stakeholders through various channels, and conducted internal materiality assessment to identify material ESG issues. The material issues are prioritized and disclosed in the Report.
Quantitative	The Group collected environmental and social key performance indicators (“KPIs”) data and made quantitative disclosure with reference to the Appendix 2: Reporting Guidance on Environmental KPIs and Appendix 3: Reporting Guidance on Social KPIs of “How to prepare an ESG Report” issued by the Stock Exchange to monitor and evaluate the Group’s progress in implementing environmental and social responsibility initiatives.
Consistency	The Report adopts consistent methodologies for effective and meaningful comparisons of the data over time. Any changes in the methodologies and reporting scope are interpreted in remarks for reference.
Balance	The Report impartially presents the Group’s ESG performance in order to achieve comprehensive and fair reporting.

Environmental, Social and Governance Report

Information Source

The data and other information in the Report are mainly from the relevant documents, reports and statistic results of the Group. Zhongzhi Pharmaceutical, in the name of the Board, undertakes that the Report contains no false statements or misleading statements, and is responsible for the truthfulness, accuracy and completeness of its contents.

Confirmation and Approval

The Report is confirmed by the management and reviewed and approved by the Board on 22 March 2023.

Versions of and Access to the Report

The Report is prepared in both Chinese and English and has been uploaded to the website of the Stock Exchange and the official website of the Group. In the event of any conflict or inconsistency between the Chinese and English versions, the Chinese version shall prevail.

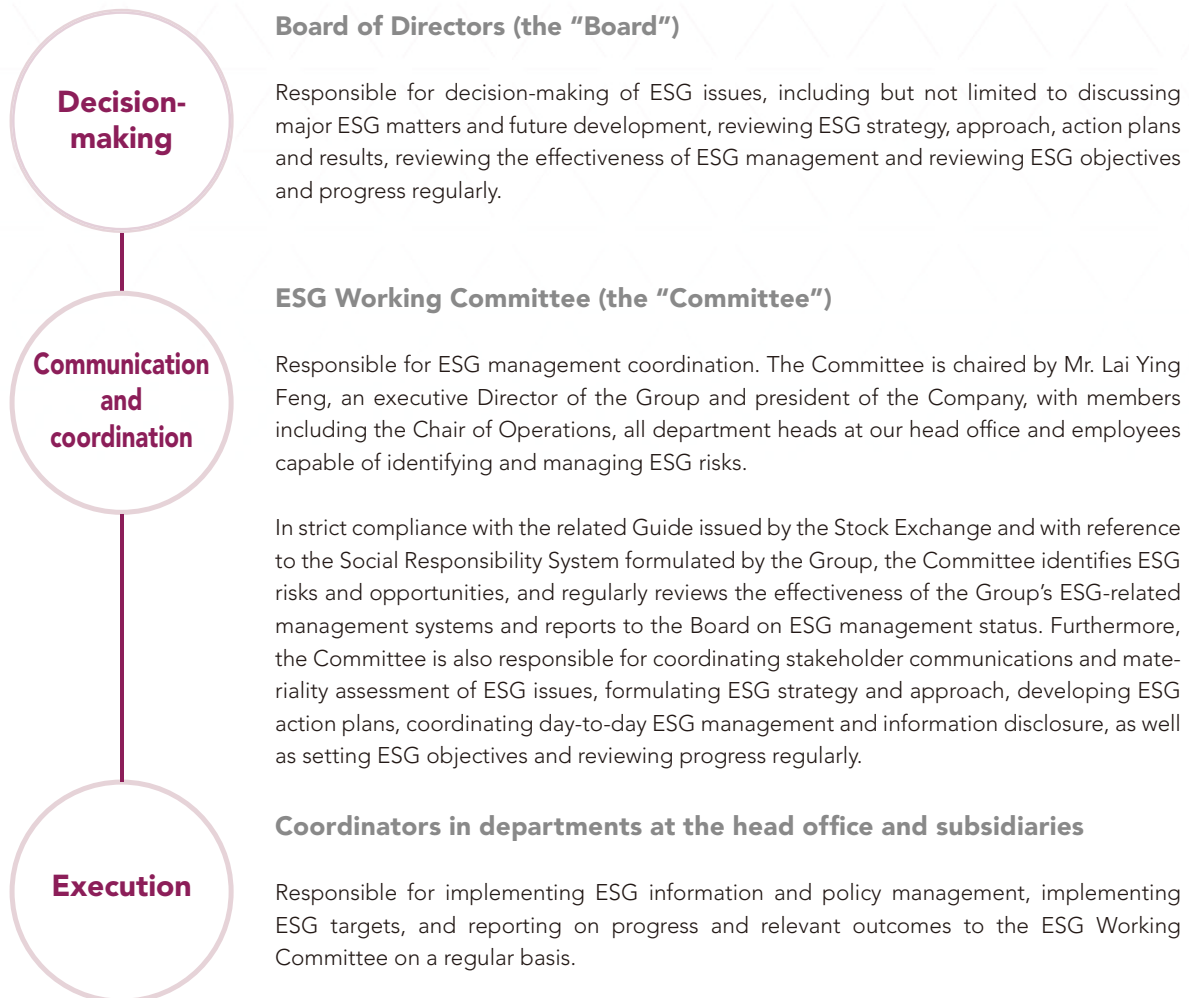
Feedback

Should you have any advice on the Report or the sustainable development strategy and performance of the Group, please contact us through the official website of the Group (<http://www.zeus.cn>).

Environmental, Social and Governance Report

SUSTAINABILITY GOVERNANCE

The Group believes a sound ESG mechanism will effectively promote the sustainable development of the Group. We has developed an ESG-related management system that divides the work in relation to the sustainable development policy into three levels of “decision-making”, “communication and coordination” and “execution”, so as to systematically manage the ESG issues. In addition, we have engaged Riskory Consultancy Limited, an independent ESG consultant, to assist in preparation of ESG Report and provide related consultancy services.



For the Group’s corporate governance structure and other related information, please refer to the Corporate Governance Report in the 2022 annual report of the Company.

Environmental, Social and Governance Report

STAKEHOLDER ENGAGEMENT

Zhongzhi Pharmaceutical maintains close communications with stakeholders through various channels such as face-to-face interview, telephone interview, and on-site visit to understand their needs and expectations, which are adequately addressed through different ways, including but not limited to the Report.

Communication Channels	Stakeholders	Needs and Expectations for the Group
<ul style="list-style-type: none"> General meetings Announcements and disclosures Investor relations 	 <p>Investors</p>	<ul style="list-style-type: none"> Investment return Timely and transparent disclosures
<ul style="list-style-type: none"> Customer satisfaction survey Customer service and complaint 	 <p>Customers and consumers</p>	<ul style="list-style-type: none"> Products and service quality Protection of consumers' interest
<ul style="list-style-type: none"> Supervision on suppliers Industry exchange and promotion activities 	 <p>Partners and industry partners</p>	<ul style="list-style-type: none"> Maintain sound industrial development Win-win partnership
<ul style="list-style-type: none"> Internal meetings Training, seminars and briefing sessions Intranet and emails Monthly and annual performance appraisal A feedback and communication mechanism with multiple channels 	 <p>Employees</p>	<ul style="list-style-type: none"> Reasonable remuneration and benefits Employee training, development and promotion Employee care and welfare Democratic management
<ul style="list-style-type: none"> Publicity materials and products Press conference Company website 	 <p>Media</p>	<ul style="list-style-type: none"> Positive interaction with media Keep information transparent
<ul style="list-style-type: none"> Press conference Company website 	 <p>Environmental groups</p>	<ul style="list-style-type: none"> Environmental protection Energy conservation and emission reduction
<ul style="list-style-type: none"> Volunteer service and public charity campaigns Press conference Company website 	 <p>Community</p>	<ul style="list-style-type: none"> Support for community charity Promote healthy knowledge and culture

Environmental, Social and Governance Report

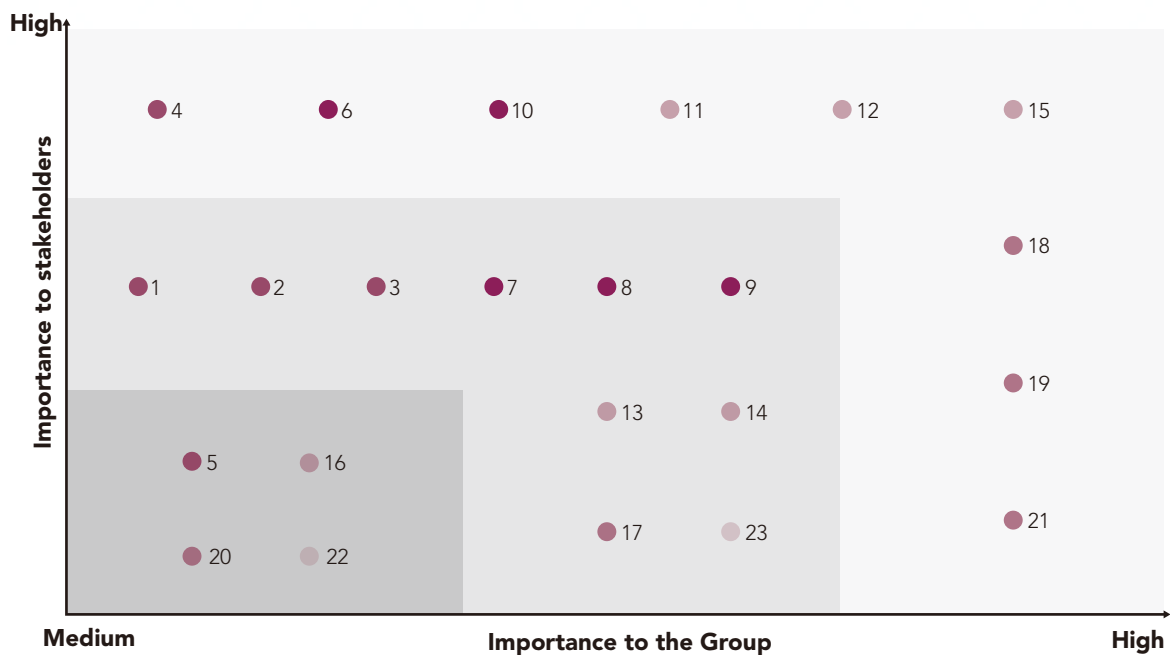
MATERIALITY ASSESSMENT

In order to effectively identify the material ESG issues to the Group, the Board reviewed the issues identified in 2021 based on the opinions of stakeholders and the operation conditions, to assess the applicability of each issue in this year.

The Group considered various factors, including the Group's main business and operating environment, the influence of stakeholders on the Group and the influence of Group on stakeholders to determine whether there are significant changes in major stakeholders during the Reporting Period. Then, taking into account the expectations of key stakeholders and the influence of ESG issues on the Group and with reference to the materiality topics of the industry issued by the Sustainability Accounting Standards Board (SASB) and the material issues identified and disclosed by industrial peers listed in Hong Kong, the Board reviewed and re-assessed the material issues identified in 2021 to confirm the material issues for the Reporting Period. After completing the review and assessment, the Group believes that there is no significant change in the material issues during the Reporting Period.

Materiality Matrix

The results of the materiality assessment are presented in the following materiality matrix, of which 9 issues in the top right quadrant of the matrix are the issues with higher importance to the Group:



Environmental, Social and Governance Report

Environmental protection	Operating practice	Product and service responsibility	Human rights and employees	Community contribution
1. Emission management (such as air, greenhouse gas and sewage)	6. Compliant operation	11. Product quality and safety	17. Employment relationship, employee welfare and benefits	22. Public welfare participation and contribution
2. Efficient use of resources (such as water, paper, packaging materials)	7. Supplier management (including environmental and social risk management)	12. Complaint handling	18. Equal opportunity, diversity and anti-discrimination	23. Universal access to health products and services
3. Waste management	8. Green procurement (such as the use of environmentally friendly raw materials, etc.)	13. New product research and development	19. Employee health and safety	
4. Ecology protection	9. Anti-corruption, anti-fraud and whistle-blowing mechanism	14. Information security and transparency	20. Employee training and development	
5. Climate change risk identification and management	10. Crisis or emergency handling	15. Protection of intellectual property rights	21. Prevention of child and forced labour	
		16. Advertising and promotion		

Environmental, Social and Governance Report

INTEGRITY AND COMPLIANCE

Zhongzhi Pharmaceutical has zero-tolerance for any unethical behaviors such as bribery, extortion, fraud and money laundering, and continues to promote operation with integrity, and advocates an honest corporate culture through the implementation of various anti-corruption activities. The Group strictly complies with relevant laws and regulations, including but not limited to the Interim Provisions on Banning Commercial Bribery, and has formulated internal policies. In the meantime, we have a legal department and legal counsels to deal with corruption behavior centrally and seriously.

During the Reporting Period, the Group did not have any cases of corruption litigation against the Company or employees, nor was it aware of any material non-compliance with the laws and regulations related to corruption, bribery, extortion, fraud and money laundering, that would have a significant impact on the Group.

Integrity Code of Conduct

The integrity policies formulated by the Group clearly state the stringent anti-corruption and anti-fraud requirements, and specify a range of requirements for business operation and employee behaviours.

Business operation	Professional ethics of employee
<ul style="list-style-type: none"> Advocate an honest corporate culture, encourage and protect employees to report the illegal and dishonest behaviors in the Company; Strengthen the safety management measures for whistle-blowing mailbox, hotline and e-mail, and strictly distinguish the division of responsibilities between whistle-blowing information management and whistle-blowing investigation. The usage of information and files shall undergo stringent approval procedures. 	<ul style="list-style-type: none"> Consciously resist fraud, strengthen employees' awareness of prevention of fraud, and effectively prevent and report fraud; Obey the supervision of the State and the capital market regulatory institutions according to law, and consciously safeguard the legitimate interests of the Company; Strictly comply with the laws, regulations and regulatory provisions on anti-commercial bribery, distinguish the boundaries between ordinary business dealings and irregular trading, rectify the unfair trading behaviors that violate business ethics and market rules and affect the fair competition in business activities, and cooperate with the regulatory authorities to investigate and handle the commercial bribery cases that violate laws or in which the property or other benefits are given or received.

Our employees shall also comply with the Directors and Management's Code of Ethics and the Staff Code of Ethics.

Environmental, Social and Governance Report

Enhancing Anti-corruption Awareness

In order to enhance employees' awareness on potential corruption incidents in their daily work and operation, all new employees of the Group will participate in the training of integrity. During the Reporting Period, the Group arranged a total of 454 new employees to participate in the training of integrity systems.

Reporting Corruption

The Group has formulated the Management Procedures of Staff Whistle-blowing and Complaints to encourage employees to truthfully report the improper behaviors in the Company. We disclose the whistle-blowing channels to employees, including but not limited to the whistle-blowing mailbox, hotline and e-mail, in order to strengthen the corporate governance and internal supervision, as well as safeguard the legitimate rights and interests of the Company and shareholders.

In addition, the Group actively communicates with suppliers to prevent commercial bribery and eliminate corruption. We clearly stipulate that all suppliers must sign the Business Integrity Agreement when entering into formal contracts. A reporting hotline was clearly stated in the Business Integrity Agreement to ensure smooth reporting channels.

PRODUCT RESPONSIBILITY

With the goal of "creating a healthy life through intelligent manufacturing", the Group attaches great importance to product quality and insists on providing healthy and safe products to the public. We continuously improve the quality management system to improve the core competitiveness of the Group.

As the executive vice president unit of Guangdong Chinese Medicine Association (廣東省中藥協會) and the main drafting unit of Chinese medicine quality standards, the Group assisted to complete 10 group standards such as the "Guidelines and Principles for Seeds and Seedlings, Production and Use of Chinese Medicine Materials", which were confirmed and implemented through the announcement of Guangdong Chinese Medicine Association to establish a benchmark for high-quality development in the industry.

We actively participated in the establishment of the professional authority of the Chinese medicine industry. The Group conducted quality control regarding each key aspect of the entire industry chain, including but not limited to the origin, seeds and seedlings, plantation, production processing and transportation of Chinese medicine, modern industry production, sales and management after product launch, to ensure product quality and assist the regulatory authorities in regulating industry development.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling and privacy matters relating to products and services and methods of redress that would have a significant impact on the Group.

Environmental, Social and Governance Report

Sustainable Quality Management System

Based on the relevant laws and regulations including but not limited to the Good Manufacturing Practice for Pharmaceutical Products (the "GMP"), the Good Supply Practice for Pharmaceutical Products (the "GSP"), the Specifications for Pharmacovigilance Quality Management, the Notice of the State Administration for Market Regulation on Strengthening the Quality and Safety Supervision of Solid Beverages (市場監管總局關於加強固體飲料質量安全監管的公告) and the Health Food Raw Material Directory and Technical Requirements of Coenzyme Q10, Melatonin, Fish Oil, Broken Ganoderma Lucidum Spore Powder and Spirulina, the Group established and improved the quality management systems of all subsidiaries to fully guarantee the safety, effectiveness and quality reliability of drugs in the process of development, production, operation and use.

During the Reporting Period, Zhongzhi Pharmaceutical established 10 quality awareness, which were thoroughly understood, transformed and applied through various forms of publicity in the Group, effectively improving the quality awareness of employees and improving the quality management. In order to maintain the quality of products and services, the Group required its subsidiaries to implement measures to ensure product quality:

Guangdong Caojinghua Cell-broken Herb Company Limited* (廣東草晶華破壁草本有限公司) ("Guangdong Caojinghua")

- The Quality Management Department comprehensively interpreted the Food Safety Law, strictly complied with the requirements of the revised contents, including the Marketing Authorization Holder ("MAH"), and supplemented and improved the existing quality management system of Guangdong Caojinghua;
- It amended and optimized the product quality standards, packaging design drafts, etc. according to the latest version of the Pharmacopoeia of the People's Republic of China and the laws and regulations and national standards related to health supplements and food, so as to ensure the quality control more in line with the requirements of current laws and regulations.

Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd.* (中山市中智中藥飲片有限公司) ("Zhongzhi Herb Pieces")

- It amended the Quality Standard of cell-broken of Traditional Chinese Medicine of Guangdong Province (廣東省中藥破壁飲片質量標準) according to the product characteristics and the Pharmacopoeia of the People's Republic of China, and updated the internal monitoring quality standards of products and the printing samples of the packaging to ensure that the products met the quality standards;
- According to the Regulations on the Administration of Annual Report of the Drug Marketing Authorization Holder System (藥品上市許可持有人年度報告管理規定) issued by the National Medical Products Administration, the Regulations on the Administration of Annual Report of Holders has been added to ensure the production more in line with the requirements of laws and regulations.

Case: Quality management training

In order to enhance employees' understanding of drug quality management, the Group organizes the GSP training programs every year, including job responsibilities, job skills and related professional knowledge. In the meantime, we provide the training programs on health supplements and food-related laws and regulations every year. The training contents include but are not limited to supplier management, incoming merchandise inspection, production process control and packaging design requirements. In addition to classroom training, we will also assess the trainers by oral questioning and/or written examination in combination with the requirements of the training management system.

* For identification purpose only

Environmental, Social and Governance Report

Product Quality Assurance

We attach great importance to the product quality and regard the product quality checking as one of the key tasks of the Group. In order to further implement the requirements of the MAH system in the Drug Administration Law and the Provisions on the Supervision and Administration of the Implementation of Main Responsibility for Food Safety by Enterprises (企業落實食品安全主題責任監督管理規定), Zhongzhi Pharmaceutical, led by the Administrative Quality Center of the Group, formulated annual quality audit work plan in accordance with the Administrative Measures for Supervision on Drug Production, and cooperated with the quality management department of each pharmaceutical production unit to carry out quality audit in accordance with the plan.

The internal quality audit team conducted at least one quality audit of the production units each year, conducted a comprehensive evaluation in accordance with the five elements of “human, machine, material, law and environment” in accordance with the GMP norms, and assisted each production unit to respond to the quality inspection from the drug supervision and management department to timely identify problems and provided recommendations and suggestions for improvement.

Case: Internal quality inspection

During the Reporting Period, the Group and its production units carried out 4 internal quality audits. The Group and its subsidiaries Zhongzhi Herb Pieces, Guangdong Caojinghua and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.* (廣東雲智中藥飲片有限公司) (“Guangdong Yunzhi”) all passed the random inspections by the relevant regulatory authorities, and no major quality incidents were found. After that, the Group and the above subsidiaries completed rectifications in time according to the guidance of on-site inspection experts.

The Group adheres to advancing the quality standardization of laboratories. During the Reporting Period, China National Accreditation Service for Conformity Assessment (the “CNAS”) appointed an accreditation team to continue to regularly monitor the physical, chemical and microbiological testing of Zhongzhi Herb Pieces testing center and Hengsheng Pharmaceutical Quality Control Laboratory. The centers satisfied the CNAS accreditation requirements after implementing various measures, marking further recognition of the testing capability of laboratory of Zhongzhi Pharmaceutical by China National Accreditation Service for Conformity Assessment.

* For identification purpose only

Environmental, Social and Governance Report

Drugs Recall System

In order to ensure the quality control of drugs by quality assurance procedures, the Administrative Quality Center of the Group cooperated with each production unit to interpret the Administrative Measures for Drug Recalls, and revised the documents according to the updated Administrative Measures for Drug Recalls. In addition, the Group has formulated relevant policies, which clearly set out the handling procedures and measures in case of significant quality and safety incidents, so as to trace and recall products in time, including but not limited to:

- the Emergency Plan for Material Quality and Safety Incidents of Products;
- the Management System for Sub-standard Product Disposal;
- the Operating Procedures for Quality Control Standard of Returned Products;
- the Management of Drug Inspection and Acceptance; and
- the Management of Drug Recalls.

During the Reporting Period, the Group did not have any sold products that required a recall due to safety and health concerns.

Emphasizing Customer Opinions

Zhongzhi Pharmaceutical strictly complies with the requirements of drug management in the Drug Administration Law and the Law on Protection of Consumer Rights and Interests to protect customer rights. The Group has formulated the Management of Consumer Complaints, the Complaint Management Standard and the Standard Operating Procedures for Complaint Handling and other management systems, and provided various communication channels including but not limited to service hotline, email box and official Weibo account to collect customer feedback. Each communication channel has a dedicated department responsible for follow-up with customer feedback. During the Reporting Period, the Group received a total of 70 complaints related to its products and services, all of them were properly handled.

Protecting Customer Rights and Interests

The Group attaches great importance to the protection of consumers' privacy, strictly complies with the Measures for the Supervision and Administration of Online Sale of Medicinal Products, and have formulated the Management and Measures of Consumer Privacy Protection to comprehensively guarantee the security of personal information of customers in the online and offline pharmaceutical business process of consulting and purchasing products, and seriously deal with those responsible for illegal leakage of consumer privacy information.

In the meantime, we also continuously improve the construction of information system security. To improve employees' legal and professional qualities, we carry out standardized data security and privacy protection laws and regulations and company system announcements for all employees in the pharmaceutical business unit. We follow the policies to provide regular training sessions to employees and all employees are required to keep consumer privacy in strict confidence, to ensure that employees properly handle and keep the customers' personal information. During the Reporting Period, the Group did not have any violations of leakage of customer privacy information.

Environmental, Social and Governance Report

SUPPLY CHAIN MANAGEMENT

The Group is committed to the principle of quality first and attaches great importance to supply chain management. According to the Good Supply Practice and On-site inspection project for GSP certification of headquarters of pharmaceutical retail chain enterprises of Guangdong Province (廣東省藥品零售連鎖企業總部GSP認證現場檢查項目), we formulated the Management Regulations on Suppliers to evaluate suppliers in terms of qualification, environmental safety and information access, so as to ensure that the quality of procured materials satisfies the requirements of the Group.

To ensure the quality of our products, we select quality suppliers across the country. As at 31 December 2022, Zhongzhi Pharmaceutical had a total of 658 suppliers. The regional distribution of suppliers was as follows:

	Unit	2022 ²	2021 ¹
Total number of suppliers	Number	658	562
By geographical region			
Mainland China	South China	Number	456
	Non-South China	Number	202
Others	Number	0	1

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

Suppliers Assessment

To ensure that suppliers possess materials production and operation qualifications, we require suppliers to provide relevant certifications, such as "Permits on Pharmaceuticals Production" and "Business Licenses for Corporations", and the pharmaceuticals registration certificates, drugs packaging certificates, quality standards and inspection standards for relevant materials. We conduct quality assessment on materials and make objective evaluation on suppliers in consideration of various factors such as quality risks for pharmaceuticals, materials usage and the extent of materials' impacts on pharmaceutical quality, so as to ensure that the quality and safety of medicine and other medical products are up to standard. Only those qualified suppliers are included in the list of qualified suppliers.

Meanwhile, in order to ensure that raw materials procurement complies with the internal standards of the Company, the list of qualified suppliers specifies the permitted scope of materials supply of each supplier. Any pharmaceuticals or materials found to be sub-standard will subject to the stringent return procedures. To ensure that materials qualities satisfy the business needs, we update our supplier requirements from time to time based on the conditions of materials. In order to effectively implement the supplier assessment and management system and strengthen supplier management, we conduct regular assessments of existing suppliers and also perform second on-site audits of long-term suppliers on a regular basis to enhance guarantee for quality and delivery of suppliers.

During the Reporting Period, we conducted monthly performance evaluations of 33 major suppliers in terms of multiple aspects such as delivery quality, delivery service and coordination, and kept the supplier informed on a quarterly basis and requested improvement to the complaints. In the meantime, we reviewed 14 suppliers, and immediately requested each supplier to rectify the problems identified in the on-site audits. The suppliers have implemented all rectification measures.

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Sustainable Supply Chain

In order to achieve a sustainable supply chain, Zhongzhi Pharmaceutical emphasizes the environmental risks and operational integrity of suppliers and strengthens the assessment of these two aspects:

Environmental risk control

Perform environment evaluation on suppliers in the process of appraisal and sign environmental protection agreements. We put forward requirements in aspects of packaging materials reduction, energy-saving and emissions reduction, chemical management and product transportation, etc.

Operational integrity assessment

Implement disciplinary management on suppliers, who are required to sign integrity agreements covering operation with integrity and self-discipline. Bribery of any kind is strictly prohibited in procurement.

Case: Improvement of friction coefficient and slitting process of composite membrane

The Group led suppliers to improve the friction coefficient and slitting process of composite membrane, which reduced the winding tension and increased the winding taper, and also significantly reduced membrane waste and loss. At the same time, Guangdong Caojinghua also set internal standard for composite membrane usage and assessed the production workshops to reduce the amount of composite membrane used and discarded.

PROMOTING INNOVATION AND RESEARCH AND DEVELOPMENT

Research and development ("R&D") and innovation is one of the key elements for sustainable development of the Group. We has devoted ourselves to the research of cell-broken decoction pieces, continuously expanded the size of our R&D team and innovated our technology to meet the needs for different users.

Innovation and R&D Team

At present, the Group has 20 national, provincial and municipal scientific and technological innovation platforms, and a research team comprising professors, doctors, masters and senior engineers. In 2022, the Academic Committee completed the new election to form the third academic committee. It consists of 17 members, including Academician Liu Liang as director member, Academician Chen Kaixian, Academician Wang Guangji, Academician Wang Qi (national medical master), and national medical master Zhou Daihan as deputy director members and other famous experts in the industry.

The Group has set up the National Enterprise Technology Center, the national and local joint engineering research center of Chinese medicine decoction pieces, and other national, provincial and municipal scientific research platforms. It also undertook national torch plans, national major new drug creation and provincial and municipal scientific and technological innovation projects. In the meantime, the Group also established close industrial-university-research cooperation with the University of Mississippi, Hong Kong Baptist University, Macau University of Science and Technology, Shanghai Institute of Materia Medica, Chinese Academy of Chinese Medical Sciences and other reputable universities and research institutes at home and abroad.

During the Reporting Period, the team of the Group completed the revision research on 61 Quality Standards of Chinese Medicine Cell-broken Herb in Pieces of Guangdong Province, and the Guangdong Institute for Drug Control completed the review of the revised standards. This research project will effectively improve and optimize the quality standards of Chinese medicine cell-broken herb in pieces, better ensure the safety of products and maintain high quality.

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Key R&D Achievement

During the Reporting Period, the R&D team of Zhongzhi Pharmaceutical has published 105 academic papers relating to Chinese medicine decoction pieces, 9 of which have been indexed by SCI. The ISO standard proposal "Traditional Chinese Medicine – General requirements for the ultrafine powder of herbs" led and applied by us passed by voting of the Committee Draft (the "CD") in 2022, with the number and name of "ISO/CD6904 Traditional Chinese Medicine – General requirements for the ultrafine powder of herbs".

In addition, we strove to improve the quality of *Houttuynia cordata* and the soil microenvironment, and the research result "Foliar and soil applications of nanosilicon affected the growth, metals accumulation, and volatile oils of *Houttuynia cordata* grown in contaminated soils" was published in the international journal "Industrial Crops & Products".

Protection of R&D Achievement

The Group actively protects intellectual property rights, and strictly complies with the Patent Law of the People's Republic of China and other laws and regulations in relation to intellectual property rights. In order to avoid infringement of external intellectual property rights, the innovative Chinese medicine research institute of the Group comprehensively conducted patent search and investigation of risks before product R&D was initiated, and comprehensively collected and screened relevant patent documents.

We value our own R&D achievements and has carried out patent registration and declaration in strict accordance with the Requirements on Relevant Works on Confidentiality of Corporate Technologies (企業技術保密相關工作的規定). During the Reporting Period, the projects successfully applied by the Group are as follows:

11 patents (7 inventions and 4 designs)

6 authorizations (3 inventions and 3 designs)

During the Reporting Period, the Group applied for a total of 134 trademarks and had a total of 1,063 registered trademarks. The "Zhongzhi" category 35 (advertisement) trademark of Zhongzhi Pharmaceutical was included in the Key Trademarks Protection List in Guangdong Province (廣東省重點商標保護名錄) by the Key Trademarks Protection Committee of Guangdong Trademark Association (廣東商標協會重點商標保護委員會), and was included in the second batch of the list.

We actively safeguarded brand rights to fully protect the Group's intellectual property rights. We reported to the market supervision and management department and complained about counterfeit and inferior products of well-known trademarks owned by the Group such as "Caojinghua" in the market in accordance with relevant trademark management regulations and systems.

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EMPLOYMENT RELATIONSHIP

The Group regards employees as the most valuable assets, and a sound talent management can foster the development of enterprise. We strictly comply with national and local laws and regulations, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China. In order to achieve our talent strategic objectives, we have developed the Human Resources Management System and related systems to optimise the management of personalised and revitalised resources in a systematic and standardized manner.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the Group.

As at 31 December 2022, the Group had 2,883 employees, and the distribution of employees by gender, age group, employment type and geographical region is as follows:

		Unit	2022	2021
By gender	Male	person	906	1,000
	Female	person	1,977	2,152
By age group	Aged 29 or below	person	1,189	1,453
	Aged 30-49	person	1,552	1,569
	Aged 50 or above	person	142	130
By employment type	Full-time	person	2,599	3,152
	Part time/contract	person	284	0
By geographical region	Mainland China	person	2,879	3,148
	Hong Kong, Macau and Taiwan	person	4	4

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The Group stipulates the approval procedures for dimission in the Company's internal system and manages the turnover of employees. The employee turnover data for the Reporting Period are as follows:

		Unit	2022	2021
Total Employee Turnover Rate		percentage	46.0	51.2
By gender	Male	percentage	44.6	61.0
	Female	percentage	46.6	46.6
By age group	Aged 29 or below	percentage	71.1	72.0
	Aged 30-49	percentage	28.2	34.3
	Aged 50 or above	percentage	30.3	23.1
By geographical region	Mainland China	percentage	46.0	51.3

Equal Opportunity and Diversity Inclusion

The Group adheres to the principles of "justice, fairness and openness", and will not discriminate any employee based on their social identity, such as ethnicity, race, nationality, religion, gender, age, sexual orientation, political factions and marital status, when it comes to their employment, remuneration and promotion.

In order to protect the rights and interests of the Company and its employees, the employment contract is entered into upon negotiation between both parties. The Group has also formulated policies, such as the Management Rules on the Confirmation after Probation for New Employees of the Group and the Management Rules on Employee Rehiring, to standardise the management process of new staff appraisal and employee rehiring. We continuously upgrade our talent introduction incentives, optimise the interview process and improve recruitment efficiency to improve our talent pipeline. During the Reporting Period, the Group continued to launch campus recruitment by visiting universities to conduct briefing sessions and offline job interviews, which has provided a number of outstanding fresh graduates to the Company's talent pool to meet the demand for talents from various departments to the greatest extent.

Labour Standards

The Group strictly complies with the laws and regulations promulgated by national and local governments, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Provisions on the Prohibition of Using Child Labour.

The Group conducts stringent scrutiny of candidate identity during recruitment. In case of child labour, the child labourer would be sent to his/her original place of residence and handed over to their parents or other guardians by the relevant authorities.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to preventing child and forced labour that would have a significant impact on the Group.

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Remuneration and Benefits

In order to protect the interests and remuneration and benefits of employees, the Group has formulated policies, such as the Attendance Management System, the Remuneration Structure Management Methods, the Production Piecework Compensation Scheme and the Performance Management Regulations of Guangdong Caojinghua, to regulate attendance, vacation and remuneration.

The policies of the Group expressly stipulate that the staff remuneration comprises of basic salary, other allowances, commissions, bonuses and contributions to the mandatory provident fund or stated-managed retirement benefit scheme; other benefits include share options granted under the share option scheme and shares granted under the share award scheme. We also provide our staff with various types of holidays and benefits, such as paid holidays, social and commercial insurance, housing funds, corporate annuity, annual body check, and continuing education opportunities.

Establishment of Good Communication

We encourages employees to communicate open-heartedly, and expects to establish good relationships with employees. We have established the Management Procedures of Staff Whistle-blowing and Complaints to understand the needs of our staff through communication and feedback, including but not limited to regular staff and departmental meetings, bulletin board and internal publication, intranet communication, and employee satisfaction surveys, and to actively work on improvements based on feedback from staff.

During the Reporting Period, we understood the daily work process by visiting employees and encouraged them to share their ideas about different things and trends, so as to establish a working environment that respects different opinions and is full of care.

EMPLOYEE SAFETY AND HEALTH

Protecting the safety and health of employees is crucial for the long-term development of the Company. The Group strictly complies with national and local laws and regulations such as the Work Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, and has formulated the Occupational Health Management System, to create a safe working environment for its employees by continuously improving the safety conditions in the workplace.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that would have a significant impact on the Group.

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Production Safety Management

In order to reduce the number of work-related injuries and maintain zero work-related fatalities, the Group continues to improve its safety management system. We have formulated the Safety Standard Document and set annual production safety targets for the Group and its subsidiaries. We also adopted a number of measures to improve the safety conditions of the working environment and achieve the goal of safety production, including but not limited to:

Safety of working environment

- requiring that production areas should be designed reasonably to separate hazardous operating area from non-hazardous ones;
- installing alarm systems and formulating emergency plans; and
- setting on-site emergency appliance and having necessary venting area, so as to provide work environment and conditions which meet the production safety requirements.

Goal of safety production

- strengthening the reminding of risk points in key areas;
- identifying and rectifying potential safety hazards;
- conducting safety training and drills;
- implementing the operating positions certification; and
- implementing a safety reward and punishment system.

Case: Guangdong Caojinghua – screening and rectification of potential safety hazards

In order to provide a safe working environment, Guangdong Caojinghua carried out 23 safety inspections during the Reporting Period, including the scenarios or topics such as post-holiday resumption of work, special equipment, key areas, summer electric rooms, outdoor electric cabinets on the roof, etc. All hidden dangers detected were rectified on time.

During the Reporting Period, the Group's occupational health and safety data is as follows:

	Unit	2022 ²	2021 ¹	2020
Work-related fatalities	Person	0	0	0
	Percentage	0	0	0
Work injury	Number	7	9	8
	Lost days	172	143	89

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

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Case: Examination for production management positions

Examination for production management positions was one of the Group's safety production priorities for the Reporting Period to ensure that candidates for key production management positions pass both theoretical and practical examinations before they are allowed to take up their duties. Candidates have to pass "four barriers" – competition, study, examination and practical operation. The Safety Office has set up a "job – specific" assessment scheme for the major risk factors of production positions, covering safety precautions before, during and after production process to ensure that candidates have adequate knowledge of safe production.

Caring for Physical and Mental Health

The Group has formulated the Management System of Corporate Potential Occupational Hazards and performed regular review of causes of occupational hazards to reduce occupational hazards and prevent occupational diseases. In addition, We regularly arranged for relevant personnel to have professional medical check, and those in special positions shall conduct special medical check at the Disease Control Center or the approved and recognized hospitals, and the result of the medical check shall be included in the "Occupational Health Monitoring File". At the same time, in accordance with the Management Rules of Occupational Health, we have implemented a number of protective measures to protect the health of our staff, including:

- providing labour protection articles such as anti-static clothing, anti-dust respirators, sterilized gloves and others for every position in workshop;
- requiring the department which generates dust to strictly manage all dust-generating equipment and opening and closing of dust source points; and
- posting warning signs in obvious workplaces for the operational positions that are vulnerable to occupational diseases as a reminder for the threat imposing by such diseases.

Case: Guangdong Caojinghua – on-site spot tests on occupational hygiene and health

In order to protect the health and safety of the Company's employees, during the Reporting Period, Guangdong Caojinghua commissioned a third-party testing institute to conduct on-site spot tests on occupational hygiene and health in the working environment of the production workshops, including coarse powder, micro powder, granulation, packaging, outsourcing and laboratories, etc. The test results showed that the standards were met, effectively preventing the risk of occupational diseases.

In addition to the occupational health of staff, the Group is also concerned about the mental health of staff. In order to create a positive workplace environment, the Group has demonstrated its care and concern for its staff in its various personnel management policies, as well as hosted a wide range of activities, such as garden party, annual tour and birthday gifts to create a harmonious and friendly workplace atmosphere.

We have set up six hobby clubs to promote work-life balance among our staff. We also have a staff recreation center, which provides a bodybuilding environment for our staff and encourages them to exercise and strengthen their bodies after work. During the Reporting Period, we organised two large-scale fun and educational activities to enhance staff's sense of belonging to the company and to promote team communication, as well as relieve staff's work stress.

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TRAINING AND DEVELOPMENT

Zhongzhi Pharmaceutical believes that the career and professional competitiveness of its staff is one of the cornerstones of its long-term development. Therefore, the Group is committed to providing a comprehensive training system for its staff to enhance their professionalism.

Talent Training

The Group has formulated policies, such as the Management System on Training and the Training Structure and Plan. We also updated the training management measures on a timely manner in line with the development trend of the industry and market requirement. During the Reporting Period, we optimized the provisions of the Management System on Training, such as the division of employee's ability, placement training and training frequency. Meanwhile, the placement criteria, training frequency and contents are also updated in the Training Structure and Plan according to the region, personnel quality model and market development demand.

The Group provided training opportunities in a variety of form and content. In addition to regular professional training and induction training, we also kept pace with the times to add the training contents related to pandemic prevention, safety, consumer health education and disease education.

Case: Double Hundred Talents Academy

Double Hundred Talents Academy is the Group's project for cultivating outstanding marketing and management talents, laying a solid foundation for achieving the Group's goal of decoction pieces of 10 billion and a market value of RMB10 billion. The Group actively organised key staff to participate in courses on the Group's corporate culture, the teaching of Confucianism and organisational behaviours. In order to increase staff participation and enhance their management ability and leadership, the training courses are conducted in various ways, such as course learning and development training, and the staff's training assessment results are linked to their promotion opportunities.

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During the Reporting Period, the Group's staff training data are as follows:

		Unit	2022 ²	2021 ¹
Total percentage of staff participated in training		Percentage	75.2	85.3
Percentage of staff trained				
By gender	Male	Percentage	58.8	79.4
	Female	Percentage	82.8	87.8
By employee category	Senior management	Percentage	14.3	95.8
	Middle management	Percentage	56.8	82.0
	Non-management	Percentage	75.6	85.4
Average training hours per staff				
By gender	Male	Hour	25.9	41.6
	Female	Hour	37.5	55.0
By employee category	Senior management	Hour	0.7	13.7
	Middle management	Hour	19.2	20.0
	Non-management	Hour	34.1	52.8

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

Occupational Development Opportunities

The Group is highly concerned about the development of its staff. We have formed a talent pipeline program, conducted selection and evaluation for all the classes of position, so as to optimise human resource allocation and internal promotion, and nurture employees to become leaders of respective fields. We adhere to the principle of "Integration of uniform plan, personnel leveling and diversification of methods with supervision control", and encourage employees to obtain occupational development opportunities through outstanding performances and work performances. We will evaluate the performance of managerial and technical employees on a semi-annual basis, and offer promotions based on their performance.

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GREEN OPERATION

The Group always upholds the philosophy of green operation and strictly complies with applicable laws and regulations on environmental protection, including but not limited to the Environmental Protection Law of the People's Republic of China and the Administrative Measures on Environmental Protection for Pharmaceutical Industry. At the same time, we will regularly check for updates on compliance with the requirements and strive to reduce risks in environmental protection compliance arising from operations. To build an image of a green enterprise, the Group has established and implemented a comprehensive environmental management system to quantify and monitor our emissions and usage of resources under an effective organisational and information framework. We continue to improve our environmental performance by carrying out other dedicated projects.

Cherishing Natural Resources

With the mission of being a green enterprise, we strive to balance the corporate development and social sustainability. The Group identifies the impact of its activities, products and services on the ecological environment through a range of procedures while identifying, monitoring and reviewing each stakeholder's expectations for ecological environment protection. We have formulated and strictly implemented the "Environmental Protection Emergency Plan", which seeks to minimise the adverse impact caused by accidents in production on the ecological environment.

The Group has also insisted on the development of standardised plantation bases for Chinese medicine herbs over the years. It attaches great importance to biodiversity protection while further developing ecological planting techniques in order to reduce the environmental impact of base planting activities as well as improve the quality and security of the Chinese medicinal herbs.

During the Reporting Period, the Group launched organic planting projects in Astragalus Base, Gansu, and made raw herbal materials in Astragalus planted by nuisanceless planting techniques to meet the requirements of organic products certification while protecting the environment to the greatest extent. Astragalus, the result of the project, has even obtained the organic certification of the European Union and the United States. At the same time, the planting bases of Tangerine Peel, Heartleaf Houttuynia Herb and Lohanguo Siraitia Fruit have passed the on-site quality evaluation and approval by experts organized by the Guangdong Institute for Drug Control and the Quality Assurance Committee of Chinese Medicine Industry Chain of Guangdong Pharmaceutical Association.

In addition, we obtained some technical achievements through the previous cooperation project with the China Academy of Chinese Medical Sciences, and transformed the results into actual cultivation process of traditional Chinese medicinal materials to carry out simulated cultivation, and to improve the quality of Heartleaf Houttuynia Herb, soil microenvironment and land utilisation.

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Emission Management

The Group is committed to reducing the environmental impact caused by its production process. The Group has formulated and implemented the "Environmental Protection Management System of Zhongzhi Pharmaceutical Company". Each of the subsidiaries has developed its detailed policies, including but not limited to the Sewage Discharge Management System, Gas Emission Management System, Solid Waste Management Measures and SMP-HB-001-00 Environmental Protection Management Standards of Honeson Pharmaceutical in line with their own production processes and compliance requirements on environmental protection of the places where they operate. In order to minimise the environmental impact arising from production and operation activities, the subsidiaries of the Group have also taken various measures to reduce emissions.

We regularly assess whether the relevant environmental policies are applicable to the regulatory requirements in the places where we operate and amend them where necessary to meet the latest requirements. In order to further achieve energy saving, consumption reduction, pollution reduction and efficiency enhancement, Honeson Pharmaceutical, a subsidiary of the Group, passed the Cleaner Production Audit in 2019 and continued its green production efforts during the Reporting Period.

During the Reporting Period, the Group was not aware of any material non-compliance with the laws and regulations related to the air and greenhouse gas emission, discharges into water and land, and generation of hazardous and non-hazardous wastes that would have a significant impact on the Group.

Air emission management

The Group's air pollutants mainly arise from the operation of gas boilers and the use of vehicles. During the Reporting Period, the emission data of the Group is as follows:

Types of Emissions	Unit	2022 ²	2021 ¹
Nitrogen Oxides (NO _x)	Tonne	5.80	2.75
Sulphur Oxides (SO _x)	Tonne	0.63	0.51
Particulate Matters (PM)	Tonne	0.09	0.07

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. has been added in the reporting scope of the Group for 2022. Therefore, the Group increased the emission of nitrogen oxides, sulphur oxides and particulate matters as compared with 2021 during the Reporting Period. In order to reduce air emissions and ensure that air emissions meet standards, we conduct regular repair and inspection on our boilers and related equipment, as well as environmental protection facilities, and have engaged a qualified third-party testing firm to monitor our air emissions.

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Greenhouse gas emission management

The Group's direct greenhouse gas emission are generated from the use of automobiles and burning of fossil fuels in the operation of staff canteen, while indirect greenhouse gas emissions are mainly from the use of electricity and steam systems. During the Reporting Period, the data of greenhouse gas emissions of the Group is as follows:

Emission of Greenhouse Gas ³	Unit	2022 ²	2021 ¹
Direct emission (Scope 1)	tCO ₂ e	4,727.02	3,659.19
Deductions from Scope 1 (Trees Planting)	tCO ₂ e	142.88	245.04
Indirect energy emission (Scope 2)	tCO ₂ e	15,901.12	18,514.15
Total greenhouse gas emissions	tCO ₂ e	20,485.26	21,928.30
Intensity	tCO ₂ e/revenue in million RMB	11.22	12.56

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

Note 3: The calculation method of the greenhouse gas emissions in the Report mainly refers to the relevant contents listed in the "Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Enterprises in Other Industries by the National Development and Reform Commission (Trial)" and "Appendix II: Reporting Guidance on Environmental KPIs" of the Stock Exchange of Hong Kong.

In order to reduce air emissions and resource consumption, we adopted a number of energy conservation and emission reduction measures during the Reporting Period. Please refer to the section headed "Use of Resources" in the Report for relevant measures.

Solid Waste Management

The Group mainly divides the wastes generated in the process of research and development, production and office operations into hazardous and non-hazardous wastes. We strictly comply with the Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment, Directory of National Hazardous Wastes and other local regulations and industry standards, Zhongzhi Pharmaceutical has formulated various policies including the Solid Waste Management Measures, to enable systematic management of wastes.

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Hazardous wastes

The hazardous wastes generated by the Group mainly include laboratory waste liquids, reagents and waste medicines. During the Reporting Period, the related data of the hazardous wastes is as follows:

	Unit	2022 ²	2021 ¹
Total amount of hazardous waste	Tonne	9.62	8.89
Intensity	kg/revenue in million RMB	5.27	5.10

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd..

For the treatment of hazardous wastes, we have set up storage areas for hazardous wastes and added hazard warning signs in prominent places pursuant to the Pollution Control Standard for Hazardous Waste Storage of China and other rules. The appointed dedicated personnel shall be responsible for the storage, transport, handling and contingency management of hazardous wastes. At the same time, we conducted prudent review and filing of important documents such as disposal contracts and transfer notes of hazardous wastes.

Case: Environmental Emergency Response Plans

In order to sort out potential environmental risks, Zhongshan Honeson Pharmaceutical Co., Ltd., a subsidiary of the Group, has prepared Hazardous Wastes Contingency Plan for Zhongshan Honeson Pharmaceutical in accordance with the requirements of the Guidelines for the Development and Implementation of Environmental Emergency Response Plans for Enterprises and Institutions in Guangdong Province (Trial) and has established a sound emergency mechanism for environmental pollution incidents. At the same time, another subsidiary of the Group, Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., has also established a corresponding plan mechanism to enhance its ability to respond to emergencies and dangerous situations.

Non-hazardous wastes

During the Reporting Period, the related data of non-hazardous waste is as follows:

	Unit	2022 ²	2021 ¹
Total amount of non-hazardous waste	Tonne	415.93	1,166.95
Intensity	Tonne/revenue in million RMB	0.23	0.67

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd..

During the Reporting Period, the non-hazardous wastes generated by the Group reduced by approximately 64% as compared with that in 2021.

Environmental, Social and Governance Report

Non-hazardous wastes are classified as recyclable or non-recyclable. Recyclable wastes regularly collected by recycling agencies, including scrap iron cans and waste paper; non-recyclable wastes will be stored centrally and disposed of periodically.

In order to further reduce non-hazardous wastes, we launched a comprehensive equipment preventive maintenance programme to prevent and reduce equipment breakdown so as to reduce the amount of waste plastic film and packaging materials generated. In order to reduce the equipment breakdown rate, we carried out regular maintenance of equipment according to schedule, conducted equipment checks on a regular basis, established an equipment lubrication management mechanism and implemented on-site management of equipment lubrication.

Sewage Discharge Management

In strict compliance with the Water Pollution Prevention Law of the People's Republic of China and according to relevant requirements of the Sewage Discharge Management System, we conduct discharge examination each year and make detailed records on the daily operation and maintenance of the sewage treatment facility. The Group has established the Environmental Protection Emergency Plan as corresponding steps in case of equipment breakdown or emergency. During the Reporting Period, the sewage generated during the operation of the Group and related data are as follows:

	Unit	2022 ²	2021 ¹
Waste water	Tonne	279,437.50	223,414.00
Chemical Oxygen Demand (COD)	Tonne	27.46	20.29
Ammonia nitrogen	Tonne	0.46	0.12

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. has been added in the reporting scope of the Group for 2022. Therefore, the Group increased the emission of waste water, chemical oxygen demand (COD) and ammonia nitrogen as compared with 2021 during the Reporting Period.

The production of Chinese patent medicine and decoction pieces products and equipment maintenance are the main sources of sewage production. The sewage was discharged into the municipal drainage pipeline after being treated in the treatment facility located in the factory. During the Reporting Period, the Group's subsidiary, Guangdong Yunzhi, completed pollution discharge registration for fixed pollution sources. The Company strictly complied with the management requirements to ensure that sewage discharge meets the standards. In addition, Guangdong Caojinghua reformed the rain and sewage separate discharge system to avoid or reduce water pollution to the greatest extent.

Environmental, Social and Governance Report

Use of Resources

Zhongzhi Pharmaceutical deeply understands the importance of efficient use of resources and energy conservation and emission reduction for sustainable development. In order to reduce greenhouse gas emissions and improve performance, we adopt “improving overall efficiency, ensuring normal operation and reducing operating costs” as the equipment energy management policy and continue to review and optimise the systems and transform projects through day-to-day lean management and implementation of energy conservation. During the Reporting Period, the energy consumption data of the Group is as follows:

Energy Consumption	Unit	2022 ²	2021 ¹
Direct energy			
Gasoline	MWh	1,338.29	1,171.00
Diesel	MWh	336.97	413.00
Natural gas	MWh	16,821.09	13,921.00
Towngas	MWh	223.45	–
Indirect energy			
Purchased power	MWh	26,063.14	29,805.00
Purchased steam	MWh	909.17	834.00
Total energy consumption	MWh	45,692.11	46,201.00
Intensity	MWh/revenue in million RMB	25.02	26.45

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

According to the Workplace Safety Management System of Zhongzhi Pharmaceutical Group, the Group must conduct regular examinations of equipment operation, lighting management and pipeline opening and closure. In order to avoid energy waste and maximise the utilization rate of the Company’s production equipment, we have revised the Specification of Good Condition of Equipment to conduct normalised management of daily equipment operations. Workshops of each subsidiary actively responded to the energy conservation call of the Group and reviewed energy conservation in depth so as to maximize energy management in safety inspection and energy-consuming equipment maintenance in line with their circumstances.

Environmental, Social and Governance Report

During the Reporting Period, the Group continued the implementation of the “Efficiency Improvement Program for Equipment and Facilities Management”, established a “Management Efficiency Improvement” action group led by the Group’s executive directors and the leadership of the Safety Office, and set 2022 action targets from saving power and water for production and improving equipment utilisation and other aspects, and through the improvement of procedures and assessment system to achieve the current target more effectively:

Procedure	Assessment
<ul style="list-style-type: none"> Each level assumes corresponding responsibility, and the overall goal is broken down into specific targets for implementation in each department to make the goals of action become clear. 	<ul style="list-style-type: none"> An assessment, reward and penalty mechanism is established; The Company’s performance assessment team and the machine transport area conduct monthly assessments of the energy consumption of functional departments and units with specific targets and honor rewards and penalties.

In order to manage and standardise idle equipment in a comprehensive way, the Group continues to strengthen and strictly implements the energy-saving system and continuously improve the approval procedure for equipment engineering projects. At the same time, we implemented initiatives, including “Internet + Equipment” data-based monitoring and operation, to practice energy saving from three aspects, including the management mechanism security, efficiency improvement, and equipment improvement. During the Reporting Period, the Group exercised control over the engineering and technical audits and successfully saved approximately RMB224,000 for the Group.

In order to further save energy consumption and improve energy efficiency, we improved the energy use from the following two aspects. In order to reduce energy waste, the Group actively promotes the appointment system for the use of public systems on production lines. The appointment system for air compressors, steam, air conditioning and pure water is adopted to enable energy used according to demand and enabled production time to be matched, as well as energy to be supplied centrally and shut down in a timely manner after use.

Meanwhile, centralised production was achieved through the production scheduling system. The production department formulated weekly, monthly and annual production plans through production orders and sales forecasts, such as arranging for centralised production of small items, which directly reduced the need for single process or small number of processes production arrangements for multiple periods, in order to efficiently coordinate with departments and workshops to realise centralized use of water, electricity and steam, thus achieving the goal of efficient energy utilisation. The remaining functional departments ensured the use of materials in production through planned material procurement control, timely material acceptance and accurate material inspection, as well as equipment running time through spare parts planning and a timely maintenance response system.

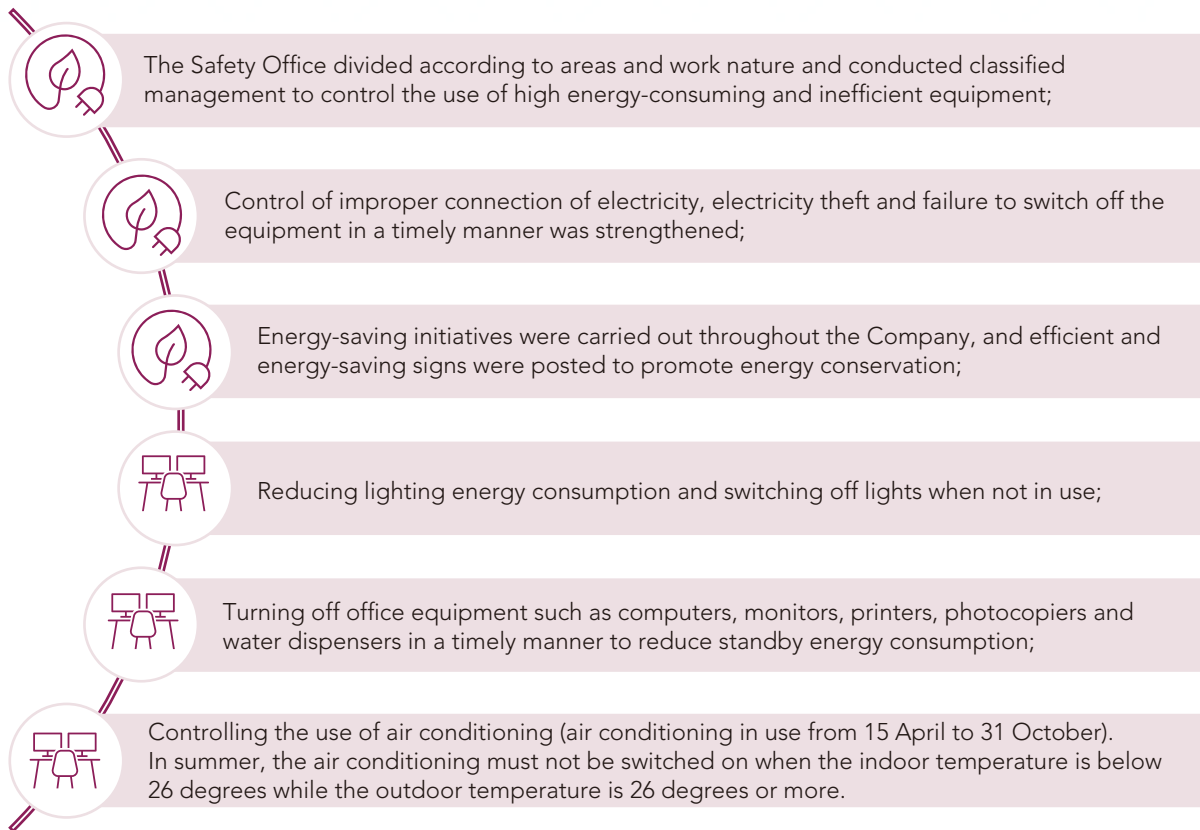
Environmental, Social and Governance Report

During the Reporting Period, the Group responded to the Energy Saving Charter organized by the Hong Kong Environment Bureau to promote energy conservation and emission reduction and encouraged the internal units to strengthen the implementation of environmental protection measures.



Electricity consumption reduction

Electricity consumption is the largest resource consumption of the Group, representing approximately 57% of the total energy consumption. In order to control electricity consumption effectively and reduce energy waste, the Group implemented the following green office measures in daily operations and stricter management of electricity consumption, including but not limited to the following:



Environmental, Social and Governance Report

Water conservation

The Group has been sparing no effort to promote water saving actions to improve the utilisation rate of water resources. We promoted the rational and recycled use of water according to the Environmental Protection Management System of Zhongzhi Pharmaceutical Company. During the Reporting Period, the Group has no issue in sourcing water that is fit for purpose. The data of water consumption is as follows:

	Unit	2022 ²	2021 ¹
Total water consumption	m ³	362,082.59	338,003.00
Intensity	m ³ /revenue in million RMB	198.30	193.53

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Note 2: The data of 2022 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd., Zhongshan Zhongzhi Chain Pharmacies Company Limited and Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd.

In order to reduce water consumption, the Safety Office of the Group analysed the Company's water consumption monthly, singled out departments with abnormalities or large fluctuations in water consumption for analysis and provided the solution, and dealt with water resource wastage in a timely manner. At the same time, we consolidated and enhanced the awareness of our employees of water conservation through several measures. The Safety Office also posted water-saving signs at prominent positions in the Company to promote the concept of water saving. Each subsidiary and production unit will remind employees to take water-saving actions through equipment cleaning and reusing of water resources.

Environmental, Social and Governance Report

Packaging materials reduction

In order to ensure the quality of our diversified products, we used a variety of packaging materials, including composite membrane, paper materials, and plastics. During the Reporting Period, the consumption of the Group's packaging materials is as follows:

	Unit	2022 ²	2021 ¹
Total consumption of packaging materials	Tonne	7,700.14	5,057.62
Intensity	Tonne/revenue in million RMB	4.22	2.90

Note 1: The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

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The consumption of the Group's packaging materials increased by 52% as compared to that of 2021 due to addition of Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. into the reporting scope of the Group for 2022 and the increase in sales.

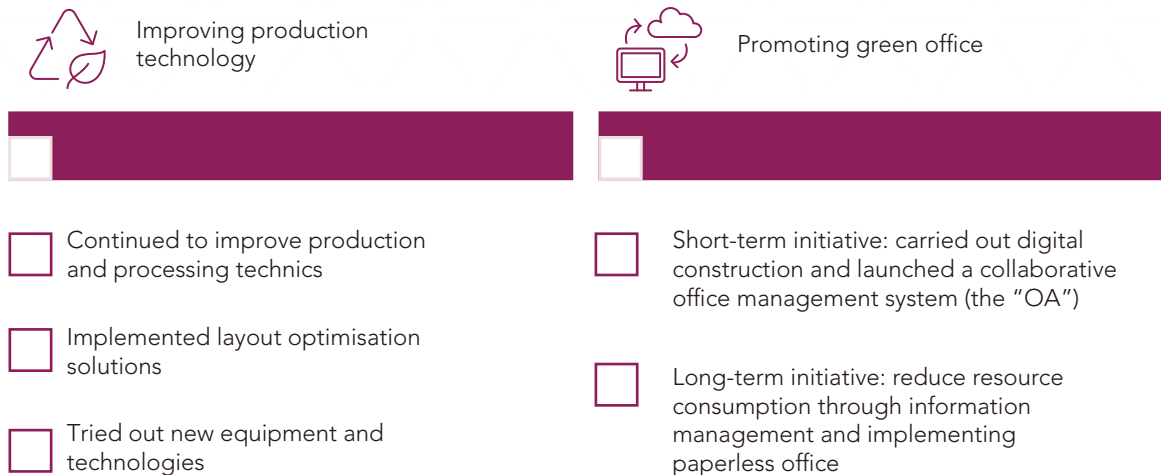
In order to reduce the impact of product life cycle on the environment, we continue to upgrade packaging technology and reduce the usage of printing inks and packaging materials under the premise of ensuring that product preservation is not affected.

Environmental, Social and Governance Report

Coping with Climate Change

As a major global environmental challenge, climate change has received more and more attention from society in recent years. With the nation's long-term climate targets of carbon peaking by 2030 and carbon neutrality by 2060, the concept of carbon reduction is also regarded as the main direction in the "14th Five-Year Plan" for protecting the ecological environment for ecological and environmental protection. The Group believes that energy saving, consumption reduction and carbon reduction will inevitably become the new direction of corporate development.

At the same time, we proactively responded to the national policy and were committed to energy saving and emission reduction in business operations. During the Reporting Period, we set the targets for energy saving and emission reduction and decentralised to various business units, with green concept implemented in all operations. We implement the following measures in the production process and daily business to reduce greenhouse gas emissions and resource consumption further.



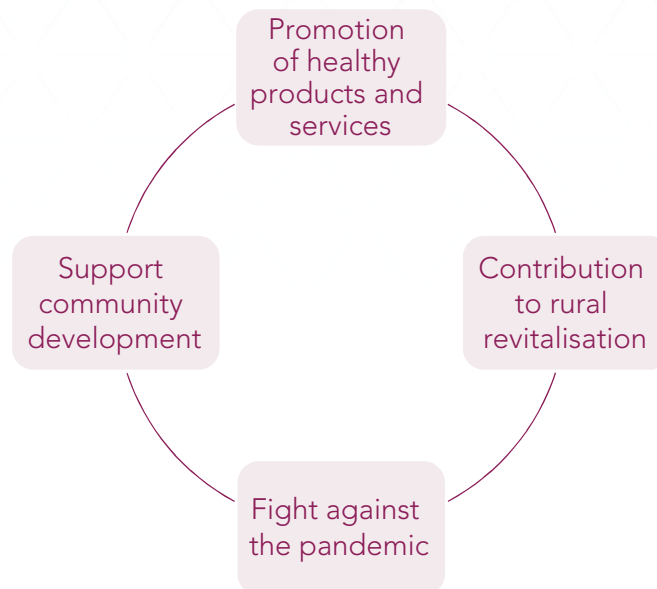
As a responsible enterprise, the Group has incorporated climate and environmental risk management into its business strategies and decisions and continued to strengthen its climate and environmental risk management. We are very concerned about the impact of climate change on business activities. Since traditional Chinese medicine resources are special agricultural resources, their cultivation, growth and harvest may be affected by climate change. Light, temperature, humidity and ventilation may all impact on the medicinal properties and quality of Chinese herbal medicines. Climate fluctuations may also cause changes in the genuine producing area of medicinal herbs. In the face of the challenges of climate change, we have stepped up our efforts in climate monitoring and regularly collected climate-related indicators such as light, rainfall, temperature and humidity from various Chinese medicine cultivation bases. The Group's Chinese medicine resources department has carried out a long-term special research project on the quality of Chinese herbs to assess the active constituent of herbs under different climatic conditions and continuously monitor and investigate the impact of climate factors on the quality of Chinese medicinal herbs.

Environmental, Social and Governance Report

CONTRIBUTION TO SOCIETY

As a pharmaceutical company with a high sense of social responsibility, Zhongzhi Pharmaceutical keeps in mind to give back to society while continuously improving its business operations. The Group takes “creating a healthy life through intelligent manufacturing” as its goal and considers the improvement of the health of all people as the strategic goal of a healthy China. We actively promote the high-quality development of the Chinese medicine business and industry, inherit the essence of Chinese medicine civilization, fully leverage the unique advantages and functions of Chinese medicine in disease prevention and treatment, and promote healthy products and services to the public to attempt to provide medical welfare to society better.

In recent years, Zhongzhi Pharmaceutical has actively participated in various public welfare and charities, and continued to focus on four main areas:



During the Reporting Period, the Group donated a total of RMB138,000, and the beneficiaries and institutions included but not limited to: Red Cross Society of China Zhongshan Branch, Zhong Shan Charity Association, Rural Revitalization Bureau of Yuncheng District of Yunfushi (雲浮市雲城區鄉村振興局) and Red Cross Society of Yunfu City. The funds donated above were used for educational projects, poverty alleviation and materials to support the anti-epidemic situation in the western region.

Promotion of Healthy Products and Services

During the Reporting Period, the Group conducted Caojinghua brand promotion activities nationwide to actively promote health products and services to the public, enhance public health awareness, and establish an emerging health concept for the whole society. During the Caojinghua promotion activities, we invited several healthcare consultants to examine health conditions through hand, face and tongue checks and advice on healthcare. In the meanwhile, we set up some activities of offering free drinking and tasting related to healthcare to promote new scientific healthcare concepts and scientific healthcare knowledge of “Love health, Use herbs”.

Environmental, Social and Governance Report

Contribution to Rural Revitalisation

The Group has helped local households to get out of poverty and become rich by providing professional technical service and guidance, and high quality mushroom and *Gastrodia Elata f. Glauca* seeds and the Group has thereby continued to contribute to constructing beautiful villages. During the Reporting Period, Zhongzhi Pharmaceutical developed Chinese herbal medicine planting and processing business in Min County, Gansu Province through Gansu Zhongzhi Shunhe Chinese Medicinal Materials Co., Ltd. We provided employment opportunities, assisted local farmers to increase their income by helping more than 500 local farmers in employment.

Supporting Community Development

2022 marks the fifth anniversary of Caojinghua Charity Fund (the "Fund") of the Group. Since the establishment of the Fund, we have strictly complied with laws and regulations of the Charity Law including the People's Republic of China and the Foundation Management Regulations of People's Republic of China. It also formulated and implemented the Management Regulations of Caojinghua Charity Fund and rigorously reviewed and implemented the application approval process and related procedures to ensure each charity fund can help those in need.

During the Reporting Period, a total amount of RMB30,000 was donated by the Fund, involving 5 employees of chain pharmacies of China Nepstar.

Fighting Against the Pandemic

Zhongzhi Pharmaceutical did not flinch during the pandemic, fulfilled its social responsibility and put its best efforts into the anti-pandemic work. Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies") won the honorary title of anti-pandemic pioneer of the Guangdong pharmaceutical industry in the High-quality Development Conference of Guangdong Pharmaceutical Industry, and the sixth meeting of the fifth session of Guangdong Pharmaceutical Industry Association held in March 2023, in recognition of our contribution to anti-pandemic.

Security of supplies

During the outbreak of the pandemic, the Group responded to the call of the government and actively raised supplies to ensure the supply of supplies needed by the general public, enterprises and institutions. While fighting against the pandemic, Zhongzhi Chain Pharmacies canceled the vacations of all staff, actively deployed the workforce to reinforce the distribution support department, and extended the daily working hours to 16 hours to fully guarantee the supply of supplies for pharmacies. At the same time, Zhongzhi Chain Pharmacies gave full play to the advantages of chain pharmacies with many distribution outlets and timely chain delivery to monitor data every day and ensure that the supplies were supplied to the pharmacies, effectively ensuring the supply of medicines and medical protection and disinfection products for the public.

Stay at the post

The employees of Zhongzhi Chain Pharmacies stayed at the front line to fight against the pandemic. We help keep 450 stores open, providing 24-hour business and door-to-door drug delivery services, increasing the number of pharmacists consulting on the online platform to meet the healthcare consultation needs of the citizens, and providing mental health counseling to allay the public's fears.

Environmental, Social and Governance Report

Orderly resumption of work

During the Reporting Period, Zhongzhi Pharmaceutical strictly complied with emergency plans for resumption of work and production and pandemic prevention and control, and the resumption implementation plan, as well as six pandemic prevention and control management systems, in order to maintain order and management after the resumption of production and fully satisfy the market demand for Chinese patent medicine, Chinese decoction pieces and related Chinese medicine products.

The Group implemented internal management, established personal health records for employees and conducted the screening. Meanwhile, we ensured sufficient supplies, reduced crowd gathering, promoted knowledge of pandemic prevention, implemented key management for employees who lived in or had ever been to key areas of the pandemic, or otherwise have contact history with personnel in the key areas of the pandemic, and reported the management and control situation to relevant government authorities regularly as required. In December 2022, China adjusted the pandemic prevention and control policy according to the pandemic situation, and the Group timely updated its internal management measures, prepared supplies, avoided crowd gathering, publicized pandemic prevention knowledge, and urged employees diagnosed with COVID-19 to rest at home.

Environmental, Social and Governance Report

INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Content		Section
Mandatory Disclosure Requirements		
Governance Structure	A statement from the Board containing the following elements: <ol style="list-style-type: none"> i. a disclosure of the Board's oversight of ESG issues; ii. the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and iii. how the Board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses. 	Sustainability Governance
Reporting Principles	A description of, or an explanation on, the application of the Reporting Principles (Materiality, Quantitative and Consistency) in the preparation of the ESG report.	About This Report – Reporting Principles
Reporting Scope	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report.	About This Report – Reporting Period and Scope
"Comply or Explain" Provision		
A. Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: <ol style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. 	Green Operation – Emission Management
A1.1	The types of emissions and respective emissions data.	
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and intensity.	
A1.3	Total hazardous waste produced (in tonnes) and intensity.	Green Operation – Solid Waste Management
A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	
A1.5	Description of emission target(s) set and steps taken to achieve them.	Green Operation – Emission Management
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Green Operation – Solid Waste Management

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A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	
A2.5	Total packaging material used for finished products (in tonnes) and amount per unit produced.	
Aspect A3: Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Green Operation – Cherishing Natural Resources
A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them.	
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Green Operation – Coping with Climate Change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	Employment Relationship
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B1.2	Employee turnover rate by gender, age group and geographical region.	

Environmental, Social and Governance Report

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B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Employee Safety and Health – Production Safety Management
B2.2	Lost days due to work injury.	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Employee Safety and Health – Production Safety Management; Caring for Physical and Mental Health
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development
B3.1	The percentage of employees trained by gender and employee category	Training and Development – Talent Training
B3.2	The average training hours completed per employee by gender and employee category.	
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment Relationship – Labour Standards
B4.1	Description of measures to review employment practices to avoid child and forced labour.	
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Environmental, Social and Governance Report

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B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management – Suppliers Assessment
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management – Sustainable Supply Chain
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility; Promoting Innovation and Research and Development
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility – Drugs Recall System
B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility – Emphasizing Customer Opinions
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Promoting Innovation and Research and Development – Protection of R&D Achievement
B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Product Quality Assurance; Drugs Recall System
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General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Integrity and Compliance
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Reporting Period and the outcomes of the cases.	
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Integrity and Compliance – Integrity Code of Conduct; Reporting Corruption
B7.3	Description of anti-corruption training provided to Directors and staff.	Integrity and Compliance – Enhancing Anti-corruption Awareness
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Contribution to Society
B8.1	Focus areas of contribution.	
B8.2	Resources contributed to the focus area.	

Report of Directors

The Directors are pleased to present to the Shareholders the annual report and the audited consolidated financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Financial Summary, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group places great emphasis on working relationships with suppliers to meet our customers' needs in an effective and efficient manner. Our departments work closely with our suppliers to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Report of Directors

Our major suppliers are generally providing materials for pharmaceutical production and had business relationship with the Group for over six years on average, which spreading over various regions, such as Northern China, Central China and Southern China.

The payment terms granted by suppliers were generally from telegraphic transfers before shipment to 120 days. The payables were usually settled within the credit period.

The Group is principally engaged in the pharmaceutical manufacturing in the PRC and the quality of the procured materials from the suppliers is important. In order to alleviate quality risks for pharmaceuticals produced, the Group has formulated the "Management Regulations on Suppliers" based on the "Pharmaceutical Operation Quality Management Standard" and the "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", which regulates and makes specific requirements in respect of the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers, and ensured the legality and safety of the operation of the Group.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers are wholesale customers and the trading terms with them are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers, payment in advance is normally required. The years of business relationship with the Group ranged from an average of four to six years.

In order to alleviate the credit risk, the Group trades only with recognized and creditworthy third parties and all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any major product dispute with our customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2022 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 97 to 187.

The Board recommends the payment of a final dividend of HK6 cents per share and a special dividend of HK3 cents per share for the year ended 31 December 2022 (2021: nil) to be payable to the shareholders of the Company whose names appeared on the register of members of the Company as at Thursday, 1 June 2023, subject to the approval of the shareholders at the forthcoming annual general meeting of the Company (the "AGM") to be held on Thursday, 18 May 2023. The final dividend and special dividend will be payable on Friday, 16 June 2023.

Report of Directors

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 12 May 2023 to Thursday, 18 May 2023, both days inclusive, during which period no transfers of shares shall be effected. The record date will be Thursday, 18 May 2023. In order to qualify for attending and voting at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 11 May 2023.

For the purpose of determining the entitlement to the proposed final dividend and special dividend for the year ended 31 December 2022, the register of members of the Company will be closed from Thursday, 25 May 2023 to Thursday, 1 June 2023, (both days inclusive). The record date will be Thursday, 1 June 2023. In order to qualify for the proposed final dividend and special dividend for the year ended 31 December 2022, all transfer forms accompanied by relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, not later than 4:00 p.m. on Wednesday, 24 May 2023.

PROPERTY, PLANT AND EQUIPMENT

Details of movements 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

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save as disclosed herein, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Report of Directors

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB140.3 million. The amount of RMB140.3 million includes the Company's share premium and retained profits at 31 December 2022, and the Company will be able to pay off its debts as they fall due in the ordinary course of business.

CHARITABLE DONATIONS

The Group donated RMB0.04 million during the Reporting Period (2021: RMB0.13 million).

MANAGEMENT CONTRACTS

Save as disclosed in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 11.2% and 31.8% (2021: 10.5% and 34.7%) of the total purchases of the year, respectively.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company ("Director(s)") during the year and up to the date of this report were:

Executive Directors

Mr. Lai Zhi Tian (*Chairman*)
Mr. Lai Ying Feng
Mr. Lai Ying Sheng (appointed on 24 March 2022)
Mr. Cao Xiao Jun
Mr. Cheng Jin Le (resigned on 24 March 2022)

Non-executive Directors

Ms. Jiang Li Xia
Mr. Peng Zhiyun

Independent non-executive Directors

Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

In accordance with article 108(a) of the Articles, Mr. Lai Ying Feng, Mr. Wong Kam Wah and Mr. Zhou Dai Han will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Report of Directors

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 12 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter and each of the independent non-executive Directors has entered into a service agreement with the Company for a term of three years and renewed each of three years commencing on 13 July 2021. All the service agreements may be terminated by either party by giving to the other party not less than three months' prior notice in writing.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

(i) Long position in the ordinary shares of the Company

Name of Director	Beneficial interest Number of ordinary shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai")	23,397,800	471,105,000 (Note 1)	42,240,000 (Note 2)	536,742,800	62.15%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 2)	494,502,800 (Note 1)	536,742,800	62.15%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.69%
Mr. Cao Xiao Jun	3,238,600	—	—	3,238,600	0.38%
Mr. Peng Zhiyun	1,231,000	—	—	1,231,000	0.14%

Notes:

- Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.
- Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

Report of Directors

(ii) Long position in Crystal Talent, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family Interest (Note)	100%

Note: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

(iii) Long position in Cheer Lik, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mrs. Lai	Beneficial owner	100%
Mr. Lai	Family Interest (Note)	100%

Note: Cheer Lik is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

Report of Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	54.55%
Cheer Lik (Note 2)	42,240,000	42,240,000	4.89%
Novich Positioning Investment Limited Partnership (Note 3)	56,958,000	56,958,000	6.60%
Novich Positioning Investment (Cayman) Limited (Note 4)	82,377,000	82,377,000	9.54%

Notes:

- These 471,105,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.
- These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.
- These 56,958,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands and is 1.09% owned by Novich Positioning Investment (Cayman) Limited.
- These 82,377,000 shares are held by Novich Positioning Investment (Cayman) Limited, a company incorporated in the Cayman Islands.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2022 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Report of Directors

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed in the section “Directors’ and Chief Executive’s Interests and Short Positions in Shares, Underlying Shares and Debentures” above and in the section “Share Option Scheme” below, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

DIRECTORS’ INTEREST IN A COMPETING BUSINESS

Save as disclosed in the section headed “Connected Transactions” of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

Each of Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik (together the “Controlling Shareholders”), had entered into a non-competition deed dated 8 June 2015 (the “Non-competition Deed”) in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/her/its associates not to (other than through the Group or in respect of each covenantor (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company’s approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/her/its compliance with the Non-competition Deed for the Reporting Period; (ii) no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors’ meetings; and (iii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company’s listing on the Stock Exchange, the independent non-executive Directors of the Company are of the view that the Controlling Shareholders have complied with the Non-competition Deed and no matters are required to bring to the attention of the public.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 8 June 2015 (the “Share Option Scheme”), which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants (as defined in the Prospectus) have made or may make to the Group.

Report of Directors

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the share of the Company in issue at the Listing Date (i.e. 80,000,000 shares) (the "Option Scheme Mandate Limit") unless approved by the shareholders of the Company.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

Any offer to grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

- (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;
- (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a Share on the offer date.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof, and provided that the Board may determine the minimum period for which an option has to be held or other restrictions before its exercise.

Save as determined by the Board and provided in the offer of grant of the options, there is no performance target that must be achieved before the options can be exercised. Unless otherwise specified, there is no amount payable on application or acceptance of the options and no specific period within which payments or calls must be made or loans must be repaid.

The vesting period for options shall not be less than 12 months.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. The remaining life of the Share Option Scheme is 3 years. There is no share option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2022 and since the Listing Date.

As at the date of this report, the total number of securities available for issue under the Share Option Scheme is 80,000,000, representing approximately 9.26% of the issued shares of the Company.

There were 80,000,000 options available for grant under the Option Scheme Mandate Limit both at the beginning and the end of the year ended 31 December 2022.

Report of Directors

SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business of the Group.

The Board may, in their absolute discretion, determine that any employees (full time or part-time), executives, Directors (including but not limited to any executive, non-executive and independent non-executive Directors), dealers or persons providing services to the Group who have made or can make contributions to the growth and development of the Group will become qualified persons.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

Any grant of awards (together with options) to a participant in the 12-month period up to and including the date of such grant must not be in aggregate over 1% of the issued shares of the Company.

Any grant of awards to a Director (other than an independent non-executive Director) or chief executive of the Company, or any of their associates would result in the shares issued and to be issued in respect of all awards granted (excluding any awards lapsed in accordance with the terms of the Share Award Plan) to such person in the 12-month period up to and including the date of such grant, representing in aggregate over 0.1% of the relevant class of shares in issue, such further grant of awards must be approved by shareholders of the Company in general meeting.

Save as the grant of awarded shares before 31 December 2022, the vesting period for awards shall not be less than 12 months.

Unless otherwise specified, there is no amount payable on application or acceptance of the award and no specific period within which payments or calls must be made or loans must be repaid.

Subject to earlier termination by the Board, the Share Award Plan shall be valid and effective for a period of ten years from the date of adoption. The remaining life of the Share Award Plan is 4 years.

In order to recognise and reward the contribution of and solidify the relationship with the service providers and distributors, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019, i.e. 21,000,000 award shares (the "Award Plan Limit"), representing 2.43% of the current issued share capital of the Company as at the date of this report.

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$1,823,000 (equivalent to approximately RMB1,618,000).

Report of Directors

The Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.45) on the day of the grant, amounting to HK\$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to the satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of the performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to the failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.439) on the day of the grant, amounting to HK\$1,727,000 (equivalent to approximately RMB1,477,000).

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.52) on the day of the grant, amounting to HK\$1,292,000 (equivalent to approximately RMB1,117,000).

On 20 October 2020, the board of directors approved to purchase shares as reserve for future granting. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate of amount HK\$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future grant. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,383,000).

The Group recognised a share award expense of nil for both 2021 and 2022.

As at 31 December 2022, 16,601,500 shares of the Company were held by the Trustee and have yet to be awarded.

There were 18,823,000 awards available for grant under the Award Plan Limit both at the beginning and at the end of the year ended 31 December 2022.

The number of Shares that may be issued in respect of options and awards granted under all schemes of the Company is 2,177,000, representing 0.25% of the weighted average number of Shares of the relevant class in issue of the Company for the year.

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

We have entered into a number of continuing agreements and arrangements ("Contractual Arrangements") with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group.

Contractual Arrangements

On 31 August 2014, our Group, Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders") entered into the Contractual Arrangements, which consist of: (i) an operation services agreement; (ii) a call option agreement; (iii) an equity pledge agreement; (iv) a power of attorney; and (v) an exclusive intellectual property purchase agreement. For details of these contracts, please refer to the "Contractual Arrangements – Details of the Contractual Arrangements" section in the Prospectus.

Report of Directors

The Contractual Arrangements that were in place as at 31 December 2022 are as follows:

1. Operation services agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the operation services agreement. Pursuant to the operation services agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, inter alia, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. The service fee payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical for the year ended 31 December 2022 is approximately RMB12.3 million.

The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces (which included sales of RMB168.2 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB10.2 million) and reserve fund. All the above transactions have been eliminated upon consolidation of the financial results of Zhongzhi Herb Pieces into the Group's consolidated financial statements.

2. Call Option Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the call option agreement, pursuant to which the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

3. Equity Pledge Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the equity pledge agreement, pursuant to which the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the call option agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

4. Power of Attorney

On 31 August 2014, the Registered Shareholders executed the power of attorney, pursuant to which, among others, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s). The said shareholders' rights include but not limited to the rights to exercise voting rights in shareholders' meeting, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, and to appoint directors and supervisors.

5. Exclusive Intellectual Property Purchase Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Exclusive Intellectual Property Purchase Agreement, pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations.

Report of Directors

Transfer of equity interest from Guangdong Jun Ke Investment Limited (“Guangdong Jun Ke”) to Mr. Lai Zhi Tian (“Mr. Lai”)

On 20 April 2017, after arms-length negotiation between two Registered Shareholders, Guangdong Jun Ke and Mr. Lai, and as agreed by Zhongzhi Pharmaceutical, the 2.00% equity interest of Zhongzhi Herb Pieces held by Guangdong Jun Ke was transferred to Mr. Lai (the “Historical Transfer”). Guangdong Jun Ke ceased to be a Registered Shareholder of Zhongzhi Herb Pieces thereafter. The consideration was settled by Mr. Lai’s own financial resources.

The Supplemental Agreement

As some of the registered shareholders of Zhongshan Yu Xin Investment Limited (“Zhongshan Yu Xin”, a shareholder of Zhongzhi Herb Pieces), being present/former employees of the Group, have left the Group or retired, the Group considers it is in its best interest to simplify the shareholding structure of Zhongzhi Herb Pieces to optimise the governance of Zhongzhi Herb Pieces.

As such, on 3 November 2022, Zhongzhi Pharmaceutical entered into a supplemental agreement (the “Supplemental Agreement”) to the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) (the “Existing Contractual Arrangements”) with Zhongzhi Herb Pieces, Mr. Lai and Guangdong Jun Ke, in order to (i) reflect the latest shareholding structure of Zhongzhi Herb Pieces upon completion of the proposed restructure; and (ii) confirm the terms and conditions of the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver (as defined afterwards under the section “Waiver from the Stock Exchange and Annual Review”) will continue to be complied by Mr. Lai.

Mr. Lai and Zhongshan Yu Xin shall enter into a share transfer agreement for the the transfer of 10.00% equity interest of Zhongzhi Herb Pieces held by Zhongshan Yu Xin (the “Transfer”). The consideration of the Transfer was determined at the lowest price and to the extent permitted by the applicable PRC laws and regulations, which was settled using the Mr. Lai’s own financial resources. Upon the completion of the Restructure, Zhongzhi Herb Pieces is owned by Mr. Lai and Mr. Luo Tian Quan (one of the Registered Shareholders) as to 99.56% and 0.44% respectively.

Details of the Supplemental Agreement were published in the Company’s announcements dated 3 and 4 November 2022.

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between our Group, Zhongzhi Herb Pieces and the Registered Shareholders during the year ended 31 December 2022.

For the year ended 31 December 2022, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Report of Directors

Risk relating to the Contractual Arrangements

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 37 to 41 of the Prospectus.

- The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- Uncertainties of the interpretation under the relevant PRC laws, rules, regulations or explanatory notes may result in our Contractual Arrangements becoming invalid and illegal.
- Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.
- Our Group relies on the Contractual Arrangements for the production of decoction pieces in PRC, which may not be as effective in providing operational control as direct ownership.
- The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Actions taken to mitigate the risks

In light of the above risks associated with the Contractual Arrangements, the Group has adopted relevant procedures and internal control measures to ensure the effective operation of the Group and the implementation of the Contractual Arrangements, including (i) discuss and make all necessary modification to the Contractual Arrangements in order to maintain the economic interests; (ii) regular report by relevant divisions of the Group to the senior management of the Company in relation to the compliance of the Contractual Arrangements; (iii) regular report by the senior management of the Group to the Board any non-compliance issues; (iv) retain legal adviser and/or other professional to assist the Group to deal with specific issues arising from the Contractual Arrangements, if required; and (v) annual review by the independent non-executive Directors the compliance of the Contractual Arrangements.

Conflicts of Interests

We have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the operation services agreement, the Registered Shareholders have undertaken that they will cause Zhongzhi Herb Pieces to strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and will not raise objection to the same. If there is any potential conflict of interests between the Registered Shareholders and Zhongzhi Pharmaceutical, especially when the Registered Shareholders are also the directors or senior management of Zhongzhi Pharmaceutical, the Registered Shareholders shall protect, and shall not harm the interests of Zhongzhi Pharmaceutical. Under the call option agreement, the Registered Shareholders granted Zhongzhi Pharmaceutical an irrevocable and exclusive option to purchase all or any part of the equity interests in Zhongzhi Herb Pieces at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Furthermore, under the power of attorney executed by the Registered Shareholders, Zhongzhi Pharmaceutical was irrevocably appointed as the attorney of the Registered Shareholders to exercise the shareholders' rights in Zhongzhi Herb Pieces on behalf of the Registered Shareholders. As a result, we have minimised the Registered Shareholders' influence on the business operations of Zhongzhi Herb Pieces.

Report of Directors

Reasons for the Contractual Arrangements

The principal business of Zhongzhi Herb Pieces is the production of decoction pieces, of which the processing techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the relevant PRC laws and regulations. We cannot own any equity interest in Zhongzhi Herb Pieces. As a result, the Contractual Arrangements were necessary for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to our Group. Other than the information that were disclosed in the Prospectus, there were no changes to the relevant PRC laws and regulations for the year ended 31 December 2022.

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Group and our Shareholders as a whole.

Waiver from the Stock Exchange and Annual Review

Zhongzhi Herb Pieces is owned as to 99.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules. The Group operates its decoction pieces business in the PRC through a series of Contractual Arrangements entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules.

The Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, (collectively, the "IPO Waiver") subject to the certain conditions as disclosed on pages 203 to 205 of the Prospectus.

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended 31 December 2022 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by Zhongzhi Herb Pieces has been substantially retained by Zhongzhi Pharmaceutical, (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group during the year ended 31 December 2022, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2022 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Report of Directors

Confirmations from our Company's Independent Auditor

The auditor of our Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into during the year ended 31 December 2022:

1. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;
2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
3. nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
4. nothing has come to their attention that causes the auditor to believe that dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB168.3 million during the year ended 31 December 2022. As at 31 December 2022, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB213.7 million and RMB99.2 million respectively.

FUTURE PROSPECT AND DEVELOPMENT

With reference to the Future and Outlook section of the Chairman's Statement, the Group will continue to focus on developing the PRC market in 2022 by building our Caojinghua brand, further expanding its distribution network, increasing the number of chain pharmacies in the Guangdong province and increasing production capacities. The Board will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

PUBLIC FLOAT

Based on publicly available information, and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its issued shares as required under the Listing Rules during the Reporting Period up to the date of this report.

Report of Directors

AUDIT COMMITTEE

The Audit Committee comprised of three independent non-executive Directors, namely Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Company.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2022.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2022. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 18 May 2023 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

By order of the Board

Lai Zhi Tian

Chairman

Hong Kong, 22 March 2023

Independent Auditor's Report



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To the shareholders of Zhongzhi Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 97 to 187, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("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 ("HKSA") 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 judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Recoverability of trade receivables</p>	
<p>We focused on the recoverability of trade receivables because a high level of management judgement was required in assessing whether there would be credit losses for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 10.5% of the total assets of Group as at 31 December 2022.</p>	<p>We obtained an understanding of, evaluated and tested the key internal controls over the Group's assessment on the recoverability of trade receivables. We evaluated the techniques and methodology in the ECL model against the requirements of IFRS 9. We evaluated the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including checking the correctness of the ageing of receivables and the underlying data of the historical default rate, evaluating whether the expected credit loss were adjusted based on forward-looking information, and checking historical and subsequent settlement records of the customers. We assessed the adequacy of the Group's relevant disclosures in the consolidated financial statements.</p>
<p>The Group has applied the expected credit loss ("ECL") model to measure the impairment provision against trade receivables at the reporting date and estimated the loss allowance for trade receivables based on the lifetime expected credit losses. The Group initially developed a provision matrix based on the Group's historical default rates, considering the ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information such as existence of disputes and forecasted economic conditions.</p>	
<p>Related disclosures are included in notes 3, 21 and 38 to the consolidated financial statements.</p>	
<p>Provision for inventories</p>	
<p>We focused on the provision for inventories because the inventory balance was material to the consolidated financial statements, representing 17.2% of the total assets of the Group as at 31 December 2022 and significant management judgement is required in assessing the net realisable values of inventories. The specific factors considered by management in the estimation of the provision include types of inventories, the ageing and conditions of the inventories, expiration dates of medicines, and the forecasted inventory usage and sales.</p>	<p>We obtained an understanding of, evaluated and tested the key internal controls over the provision for inventories. We tested the provision amount for inventories by checking the ageing of inventories, expiration dates of medicines and the subsequent usage and sales of inventories, for different types of inventories on a sampling basis. We tested the key information used by management in calculating the net realisable values, including selling prices, cost to be incurred for completion, selling expense and the relevant taxes, by comparing to the supporting documents, and compared the net realisable values to the carrying amounts of inventories to check the adequacy and calculation of provisions on a sampling basis. We also attended and observed management's inventory counts at the material inventory locations and in certain self-owned chain pharmacies of the Group, to check if any damaged, slow-moving or obsolete inventories identified. We checked the adequacy of the Group's disclosures of the provision for inventories.</p>
<p>Related disclosures are included in notes 3 and 20 to the consolidated financial statements.</p>	

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made solely to you, as a body, 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 HKSAAs 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.

Independent Auditor's Report

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

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism 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.

Independent Auditor's Report

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

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

We also provide the Audit Committee 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 the Audit Committee, 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 this independent auditor's report is TJEN, Michael.

Ernst & Young

Certified Public Accountants

Hong Kong

22 March 2023

Consolidated Statement of Profit or Loss

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	1,825,935	1,746,500
Cost of sales		(753,640)	(685,061)
Gross profit		1,072,295	1,061,439
Other income and gains	5	33,700	29,771
Selling and distribution expenses		(809,821)	(829,237)
Administrative expenses		(104,746)	(102,899)
Other expenses	6	(54,222)	(90,181)
Finance costs	7	(6,555)	(7,080)
PROFIT BEFORE TAX	8	130,651	61,813
Income tax expense	11	(23,736)	(9,447)
PROFIT FOR THE YEAR		106,915	52,366
Attributable to:			
Owners of the parent		106,387	52,128
Non-controlling interests		528	238
		106,915	52,366
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted			
— For profit for the year		RMB0.13	RMB0.06

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR	106,915	52,366
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(16,266)	781
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	14,115	–
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	(2,151)	781
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	104,764	53,147
Attributable to:		
Owners of the parent	104,236	52,909
Non-controlling interests	528	238
	104,764	53,147

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	421,150	410,286
Investment properties	14	44,884	40,778
Right-of-use assets	15(a)	152,453	137,025
Prepayments for property, plant and equipment		721	3,481
Goodwill	16	1,628	1,628
Other intangible assets	17	15,398	18,290
Investment in a joint venture	18	416	381
Equity investments at fair value through profit or loss	19	10,676	9,367
Deferred tax assets	28	30,189	31,969
Prepayments	22	—	5,950
Pledged deposits	23	100,000	—
Other non-current assets		6,822	7,513
Total non-current assets		784,337	666,668
CURRENT ASSETS			
Inventories	20	322,901	268,057
Trade and notes receivables	21	311,561	293,559
Prepayments, deposits and other receivables	22	60,761	53,645
Equity investments at fair value through profit or loss	19	14,687	8,795
Cash and bank balances	23	381,010	233,381
Total current assets		1,090,920	857,437
CURRENT LIABILITIES			
Trade and bills payables	24	189,779	120,828
Other payables and accruals	25	409,093	229,400
Interest-bearing bank borrowings	26	36,031	57,243
Lease liabilities	15(b)	40,208	37,874
Amounts due to related parties	35	8,786	8,786
Deferred income	27	16,527	18,925
Amount due to a joint venture		69	64
Tax payable		30,758	27,711
Total current liabilities		731,251	500,831
NET CURRENT ASSETS		359,669	356,606
TOTAL ASSETS LESS CURRENT LIABILITIES		1,144,006	1,023,274

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	27	15,842	15,429
Lease liabilities	15(b)	94,621	80,624
Deferred tax liabilities	28	27,594	26,056
Total non-current liabilities		138,057	122,109
Net assets		1,005,949	901,165
Equity			
Equity attributable to owners of the parent			
Issued capital	29	6,847	6,847
Reserves	32	996,129	891,893
		1,002,976	898,740
Non-controlling interests		2,973	2,425
Total equity		1,005,949	901,165

Lai Zhitian
Director

Lai Yingsheng
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the parent											
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note 29	Note 31		Note 32(a)	Note 32(b)	Note 32(c)	Note 31					
At 1 January 2021	6,650	(21,217)	173,030	31,200	57,698	5,680	(2,079)	20,921	548,293	820,176	1,587	821,763
Profit for the year	—	—	—	—	—	—	—	—	52,128	52,128	238	52,366
Other comprehensive income for the year												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	781	—	781	—	781
Total comprehensive income for the year	—	—	—	—	—	—	—	781	52,128	52,909	238	53,147
Issue of shares	197	—	29,841	—	—	—	—	—	—	30,038	—	30,038
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	600	600
Shares repurchased	—	(4,383)	—	—	—	—	—	—	—	(4,383)	—	(4,383)
Transfer from retained profits	—	—	—	—	33,078	—	—	—	(33,078)	—	—	—
At 31 December 2021	6,847	(25,600)*	202,871*	31,200*	90,776*	5,680*	(2,079)*	21,702*	567,343*	898,740	2,425	901,165

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the parent											Total equity RMB'000
	Issued capital RMB'000 Note 29	Shares held for the share award plan RMB'000 Note 31	Share premium RMB'000	Merger reserve RMB'000 Note 32(a)	Statutory surplus reserve RMB'000 Note 32(b)	Share-based payment reserve RMB'000 Note 32(c)	Share award reserve RMB'000 Note 31	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Non-controlling interests		
										Total RMB'000	Total RMB'000	
At 1 January 2022	6,847	(25,600)	202,871	31,200	90,776	5,680	(2,079)	21,702	567,343	898,740	2,425	901,165
Profit for the year	—	—	—	—	—	—	—	—	106,387	106,387	528	106,915
Other comprehensive loss for the year												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(2,151)	—	(2,151)	—	(2,151)
Total comprehensive income for the year	—	—	—	—	—	—	—	(2,151)	106,387	104,236	528	104,764
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	250	250
Transfer from retained profits	—	—	—	—	12,245	—	—	—	(12,245)	—	—	—
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(230)	(230)
At 31 December 2022	6,847	(25,600)*	202,871*	31,200*	103,021*	5,680*	(2,079)*	19,551*	661,485*	1,002,976	2,973	1,005,949

* These reserve accounts comprise the consolidated reserves of RMB996,129,000 (2021: RMB891,893,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		130,651	61,813
Adjustments for:			
Finance costs	7	6,555	7,080
Bank interest income	5	(3,795)	(4,142)
Investment income from financial assets at fair value through profit or loss	5	(93)	(35)
Dividend income from equity investments at fair value through profit or loss	5	(109)	(40)
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss	5, 6	(1,264)	3,437
Financial assets at fair value through profit or loss	5, 6	(1,153)	37,000
Gain on disposal of equity investments at fair value through profit or loss, net	5	(14)	—
Gain on disposal of items of property, plant and equipment, net	5, 6	(694)	(106)
Depreciation of property, plant and equipment and investment properties	8, 14	49,532	39,445
Depreciation of right-of-use assets	8, 15	43,219	42,325
Amortisation of other intangible assets	8, 17	3,633	3,282
Government grants released	27	(15,517)	(13,925)
(Reversal of impairment)/impairment losses on trade receivables	6, 8	(162)	442
Write-down of inventories to net realisable value	6, 8	4,946	91
		215,735	176,667
Increase in inventories		(59,790)	(21,027)
(Increase)/decrease in trade and notes receivables		(13,591)	10,030
Decrease in prepayments, deposits and other receivables		3,119	15,618
Increase/(decrease) in non-current assets		691	(446)
Increase in trade and bills payables		68,951	10,389
Increase in other payables and accruals		178,217	3,133
Increase in pledged deposits		(100,000)	—
Increase in deferred income	27	10,532	10,566
Cash generated from operations		303,864	204,930
Interest paid		(1,919)	(2,673)
Income tax paid		(17,371)	(23,878)
Net cash flows from operating activities		284,574	178,379

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(88,407)	(185,849)
Decrease in prepayments for purchases of property, plant and equipment		2,760	22,443
Proceeds from disposal of items of property, plant and equipment		21,826	2,527
Purchase of other intangible assets		(741)	(2,014)
Purchase of an equity investment at fair value through profit or loss		(5,996)	(9,716)
Purchases of financial assets at fair value through profit or loss		—	(42,000)
Receipt of government grants for property, plant and equipment	27	3,000	—
Proceeds upon maturity of financial assets at fair value through profit or loss		1,153	5,000
Proceeds from disposal of an equity investment at fair value through profit or loss		73	6,412
Prepayment for equity investments at fair value through profit or loss		(4,285)	—
Bank interest received	5	3,795	4,142
Interest received from financial assets at fair value through profit or loss	5	93	35
Dividend received from equity investments	5	109	40
Decrease in non-pledged time deposits with original maturity of more than three months when acquired		80,000	63,000
Net cash flows from/(used in) investing activities		13,380	(135,980)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	—	30,038
Lease payments	33(a)	(46,952)	(45,414)
New bank borrowings		10,503	123,871
Repayments of bank borrowings		(31,715)	(145,543)
Purchase of shares held under the share award plan		—	(4,383)
Dividends paid to non-controlling shareholders		(230)	—
Capital contribution from a non-controlling shareholders		250	600
Net cash flows used in financing activities		(68,144)	(40,831)

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		229,810	1,568
Cash and cash equivalents at beginning of year		153,381	151,032
Effect of foreign exchange rate changes, net		(2,181)	781
CASH AND CASH EQUIVALENTS AT END OF YEAR		381,010	153,381
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	381,010	153,381
Non-pledged time deposits	23	—	80,000
Cash and bank balances as stated in the statement of financial position		381,010	233,381
Non-pledged time deposits with original maturity of more than three months when acquired		—	(80,000)
Cash and cash equivalents as stated in the statement of cash flows		381,010	153,381

Notes to the Consolidated Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors, as at the date of this report, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2022 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US\$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK\$1	—	100%	Investment holding
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") ^(a)	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK\$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs

Notes to the Consolidated Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2022 are as follows: (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces") ^(b)	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100%	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua")	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Shenzhen Caojinghua Electronic Business Co., Ltd. ("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical drugs
Guangdong Zhongzhida Pharmaceutical Co., Ltd. ("Guangdong Zhongzhida")	PRC 25 October 2019, Mainland China	RMB10,000,000	—	100%	Wholesale of pharmaceutical products
Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Guangdong Yunzhi")	PRC 12 November 2019, Mainland China	RMB50,000,000	—	100%	Manufacture and sale of Chinese decoction pieces
Guangdong Yunzhi Chain Pharmacies Company Limited ("Yunzhi Chain Pharmacies")	PRC 29 April 2020, Mainland China	RMB10,000,000	—	100%	Sale of pharmaceutical drugs
Gansu Zhongzhi Shunhe Chinese Medicinal Materials Co., Ltd. ("Gansu Shunhe")	PRC 26 March 2020, Mainland China	RMB10,000,000	—	70%	Manufacture and sale of Chinese herb
Zhongshan Zhongzhi Property Management Co., Ltd. ("Zhongzhi Property Management")	PRC 2 September 2020, Mainland China	RMB3,000,000	—	100%	Property management

Notes to the Consolidated Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries as at 31 December 2022 are as follows: (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Honeson Pharmaceutical Co., Ltd. ("Guangdong Honeson Pharmaceutical")	PRC 2 September 2020, Mainland China	RMB5,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Shandong Guozhi Chinese Medicine Herb in Pieces Co., Ltd. ("Shandong Guozhi")	PRC 16 November 2020, Mainland China	RMB100,000,000	—	80%	Manufacture and sale of Chinese decoction pieces
Guangdong Yunzhi Detection Service Co., Ltd. ("Yunzhi Detection")	PRC 25 June 2021, Mainland China	RMB5,000,000	—	100%	Detection and testing services
Zhongshan Zhongzhi Mingya Chinese Medicine Clinic Co., Ltd. ("Mingya Clinic")	PRC 1 March 2022, Mainland China	RMB100,000	—	100%	Traditional Chinese medicine service
Zhongshan Zhongzhi Baiyuan Chinese Medicine Clinic Co., Ltd. ("Baiyuan Clinic")	PRC 27 June 2022, Mainland China	RMB100,000	—	100%	Traditional Chinese medicine service
Zhongshan Zhongzhi Hubin Chinese Medicine Clinic Co., Ltd. ("Hubin Clinic")	PRC 6 September 2022, Mainland China	RMB100,000	—	100%	Traditional Chinese medicine service

(a) Zhongzhi Pharmaceutical was registered as a wholly-foreign-owned enterprise under PRC law.

(b) Zhongzhi Herb Pieces was ultimately controlled by the Company as a result of a series of contractual arrangements between Zhongzhi Pharmaceutical with Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders").

Notes to the Consolidated Financial Statements

31 December 2022

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention, except for equity investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”), and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Consolidated Financial Statements

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and impact of the revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendment to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Consolidated Financial Statements

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) *Annual Improvements to IFRSs 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is applicable to the Group are as follows:

- *IFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
IFRS 17	<i>Insurance Contracts</i> ¹
Amendments to IFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> ⁶
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i> ^{2,4}
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i> ²
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024

⁵ As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

Notes to the Consolidated Financial Statements

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS (Continued)

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS (Continued)

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. 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. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

The Group measures certain of its financial instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvements	1-5 years
Buildings	5-50 years
Machinery	2-20 years
Motor vehicles	4-5 years
Office equipment	2-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents a building under construction, leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. The Group applies cost model and recognises the investment properties with specific useful lives and depreciates them accordingly.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised on the straight-line basis over the following estimated useful life:

Software	10 years
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Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The Group assesses at contract inception whether a contract is, or contains, 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Pharmacies and office premises	3 to 5 years
Leasehold land	40 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease Liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to related parties and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shares held under the share award scheme

The Group's own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery and acceptance of the goods.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Notes to the Consolidated Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option plan and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currencies of the Company and the subsidiaries established outside the PRC are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the subsidiaries established outside the PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside the PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

Zhongzhi Herb Pieces is engaged in the manufacture and sale of Chinese decoction pieces, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 1, as part of the historical reorganisation, the equity interests in Zhongzhi Herb Pieces were held by the Registered Shareholders and the Group exercises control over Zhongzhi Herb Pieces and enjoys all economic benefits of Zhongzhi Herb Pieces through the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) by Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders as part of the historical reorganisation (the "Contractual Arrangements").

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Contractual arrangements (Continued)

The Group considers that it controls Zhongzhi Herb Pieces, notwithstanding the fact that it does not hold a direct equity interest in Zhongzhi Herb Pieces, as it has power over the financial and operating policies of Zhongzhi Herb Pieces and receives all economic benefits from the business activities of Zhongzhi Herb Pieces through the Contractual Arrangements. Accordingly, Zhongzhi Herb Pieces has been accounted for as a subsidiary during the reporting period.

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the Group, and it is not probable that such subsidiary will distribute dividends in the foreseeable future.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2022 was RMB1,628,000 (2021: RMB1,628,000). Further details are given in note 16 to the financial statements.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of property, plant and equipment, investment properties, right-of-use assets, other intangible assets and an investment in a joint venture are set out in notes 14, 15, 17 and 18 to the financial statements respectively.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 28 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on the ageing analysis of groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2022 was RMB524,000 (2021: RMB603,000). Further details are included in note 19 to the financial statements.

Provision for inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for inventory items. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which the estimate has been changed. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether a provision needs to be made in respect of any damaged, obsolete or slowing-moving inventories identified. The Group carries out an inventory review at the end of each reporting period and makes a provision against damaged, obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The directors of the Company are satisfied that a sufficient provision for damaged, obsolete and slow-moving inventories has been made in the consolidated financial statements. The carrying amount of inventories at 31 December 2022 was RMB322,901,000 (2021: RMB268,057,000). Further details are given in note 20 to the financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Notes to the Consolidated Financial Statements

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4. OPERATING SEGMENT INFORMATION

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

In prior years, the Group managed its business based on distribution channels and had three reportable operating segments including pharmaceutical manufacturing, operation of chain pharmacies and operation of online pharmacies. In 2022, the Group has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change. The financial information of operation of chain pharmacies and operation of online pharmacies is reported to the chief operating decision maker aggregately. Accordingly, two operating segments are presented as follows:

- (a) Pharmaceutical manufacturing
- (b) Operation of chain pharmacies

Separate individual financial information for different types of channels is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Geographical information

Since over 90% of the Group's revenue and operating profit were generated in Mainland China and over 90% of the Group's non-current assets were located in Mainland China, no geographical segment information in accordance with IFRS 8 Operating Segments is presented.

Notes to the Consolidated Financial Statements

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4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

During each of the years ended 31 December 2022 and 2021, no revenue from transactions with a single customer accounted for 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2022:

Year ended 31 December 2022

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Total RMB'000
Segment revenue:			
Revenue from external customers (note 5)	1,129,905	696,030	1,825,935
Intersegment sales	717,950	—	717,950
	1,847,855	696,030	2,543,885
<i>Reconciliation:</i>			
Elimination of intersegment sales			(717,950)
Revenue			1,825,935
Segment results	777,455	294,840	1,072,295
<i>Reconciliation:</i>			
Other income and gains			33,700
Selling and distribution expenses			(809,821)
Administrative expenses			(104,746)
Other expenses			(54,222)
Finance costs			(6,555)
Profit before tax			130,651

Notes to the Consolidated Financial Statements

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4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers (Continued)

Year ended 31 December 2021

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000 (Restated)	Total RMB'000
Segment revenue:			
Revenue from external customers (note 5)	1,053,280	693,220	1,746,500
Intersegment sales	823,961	—	823,961
	1,877,241	693,220	2,570,461
<i>Reconciliation:</i>			
Elimination of intersegment sales			(823,961)
Revenue			1,746,500
Segment results			
	761,715	299,724	1,061,439
<i>Reconciliation:</i>			
Other income and gains			29,771
Selling and distribution expenses			(829,237)
Administrative expenses			(102,899)
Other expenses			(90,181)
Finance costs			(7,080)
Profit before tax			61,813

Notes to the Consolidated Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	1,825,935	1,746,500

An analysis of revenue, other income and gains is as follows:

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and is recognised at a point in time.

Disaggregation of revenue from contracts with customers is disclosed in note 4 to the financial statements.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of pharmaceutical products	10,885	12,030

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of pharmaceutical products

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 15 to 90 days from delivery, except for new customers and one-off purchase order customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022 RMB'000	2021 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	118,439	10,885

Notes to the Consolidated Financial Statements

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations (Continued)

Sale of pharmaceutical products (Continued)

	Note	2022 RMB'000	2021 RMB'000
Other income			
Bank interest income		3,795	4,142
Dividend income from equity investments at fair value through profit or loss		109	40
Rental income		1,867	2,102
Investment income from financial assets at fair value through profit or loss		93	35
Sales of raw materials		2,264	2,834
Others		3,891	1,745
		12,019	10,898
Gains, net			
Government grants:			
— Related to assets*		3,355	2,830
— Related to income*		12,162	11,095
Gain on disposal of items of property, plant and equipment	8	694	124
Gain on disposal of equity investments at fair value through profit or loss	8	14	828
Fair value gains, net:			
Equity investments at fair value through profit or loss	8	1,264	—
Financial assets at fair value through profit or loss	8	1,153	—
Others		3,039	3,996
		21,681	18,873
		33,700	29,771

* Various government grants have been received for the purpose of subsidising the expenses arising from research and development activities and the improvement of manufacturing facilities on certain special projects. There are no unfulfilled conditions or contingencies relating to these grants.

Notes to the Consolidated Financial Statements

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6. OTHER EXPENSES

	Note	2022 RMB'000	2021 RMB'000
Loss on disposal of items of property, plant and equipment		—	18
Research and development costs		46,350	43,834
Write-down of inventories to net realisable value		4,946	91
(Reversal of impairment)/impairment losses on trade receivables	21	(162)	442
Equity investments at fair value through profit or loss		—	3,437
Financial assets at fair value through profit or loss*		—	37,000
Others		3,088	5,359
		54,222	90,181

7. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	4,636	4,406
Interest on bank borrowings	1,919	2,674
	6,555	7,080

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8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		753,640	685,061
Depreciation of property, plant and equipment and investment properties	14	49,532	39,445
Depreciation of right-of-use assets	15(a)	43,219	42,325
Research and development costs	6	46,350	43,834
Advertising, marketing and promotion expenses		180,209	227,256
Amortisation of other intangible assets*	17	3,633	3,282
Write-down of inventories to net realisable value		4,946	91
Lease payments not included in the measurement of lease liabilities	15(c)	737	3,518
Auditor's remuneration		2,600	2,646
(Reversal of impairment)/impairment losses on trade receivables	21	(162)	442
Gain on disposal of items of property, plant and equipment	5	(694)	(124)
Gain on disposal of equity investments at fair value through profit or loss	5	(14)	(828)
Fair value (gains)/losses, net:			
Equity investments at fair value through profit or loss	5, 6	(1,264)	3,437
Financial assets at fair value through profit or loss	5, 6	(1,153)	37,000
Employee benefit expenses (including directors' remuneration (note 9)):			
Wages and salaries		299,558	306,867
Pension scheme contributions (defined contribution scheme)**		18,013	19,595
Staff welfare expenses		14,800	16,631
		332,371	343,093

* The amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

** At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2021: Nil).

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the reporting period, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	2,299	1,885
Other emoluments:		
Salaries, allowances and benefits in kind	3,692	3,390
Pension scheme contributions	99	102
	6,090	5,377

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022 RMB'000	2021 RMB'000
Ng Kwun Wan	154	149
Wong Kam Wah	154	149
Zhou Daihan	154	149
	462	447

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and the chief executive

2022

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	443	1,160	28	1,631
Lai Yingfeng	257	802	22	1,081
Lai Yingsheng	547	283	7	837
Cao Xiaojun	257	899	29	1,185
Cheng Jinle	64	548	13	625
	1,568	3,692	99	5,359
Non-executive directors:				
Jiang Lixia	269	—	—	269
Peng Zhiyun	—	—	—	—
	269	—	—	269
	1,837	3,692	99	5,628

Notes to the Consolidated Financial Statements

31 December 2022

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and the chief executive (Continued)

2021

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Lai Zhitian	430	989	27	1,446
Lai Yingfeng	249	791	21	1,061
Cheng Jinle	249	802	27	1,078
Cao Xiaojun	249	808	27	1,084
	1,177	3,390	102	4,669
Non-executive directors:				
Jiang Lixia	261	—	—	261
Peng Zhiyun	—	—	—	—
	261	—	—	261
	1,438	3,390	102	4,930

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

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2021: four directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2021: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	750	667
Pension scheme contributions	19	16
	769	683

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2022	2021
Nil to HK\$1,000,000	1	1

During the reporting period, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

The Hong Kong profits tax rate is 16.5% (2021: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the Group's subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

Zhongzhi Pharmaceutical and Honeson Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

Notes to the Consolidated Financial Statements

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11. INCOME TAX EXPENSE (Continued)

The income tax expense of the Group for the reporting period is analysed as follows:

	2022 RMB'000	2021 RMB'000
Current — Mainland China		
Charge for the year	20,418	24,904
Underprovision in prior years	—	105
Deferred income tax expense/(credit) (note 28)	3,318	(15,562)
Total income tax expense	23,736	9,447

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2022		2021	
	RMB'000	%	RMB'000	%
Profit before tax	130,651		61,813	
Tax at the PRC statutory tax rate of 25%	32,663	25.0	15,453	25.0
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	(9,095)	(7.0)	(7,312)	(11.8)
Additional deduction for research and development expenses	(6,101)	(4.7)	(4,700)	(7.6)
Adjustment in respect of current tax of previous years	—	—	105	0.2
Income not subject to tax	(708)	(0.5)	(25)	—
Tax losses not recognised	4,312	3.3	3,802	6.1
Deductible temporary differences not recognised	877	0.7	53	0.1
Expenses not deductible for tax	1,788	1.4	2,071	3.3
Tax charge at the Group's effective tax rate	23,736	18.2	9,447	15.3

The effective tax rate of the Group was 18.2% in 2022 (2021: 15.3%).

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11. INCOME TAX EXPENSE (Continued)

In accordance with the PRC Tax Law effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2022, the Group recognised a deferred tax liability of RMB17,790,000 (31 December 2021: RMB17,790,000) in respect of the withholding tax on future dividends.

12. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Proposed final — HK6 cents (2021: Nil) per ordinary share	45,339	—
Proposed special — HK3 cents (2021: Nil) per ordinary share	22,670	—
	68,009	—

The proposed final and special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 846,998,500 (2021: 836,954,291) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(Continued)

The calculations of basic and diluted earnings per share are based on:

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	106,387	52,128
	2022	2021
Shares		
Weighted average number of ordinary shares in issue	863,600,000	852,026,301
Weighted average number of shares held for the share award plan	(16,601,500)	(15,072,010)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	846,998,500	836,954,291

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022							
Cost	164,236	194,409	128,531	10,240	42,654	116,368	656,438
Accumulated depreciation	(113,473)	(53,315)	(45,643)	(5,238)	(28,483)	—	(246,152)
Net carrying amount	50,763	141,094	82,888	5,002	14,171	116,368	410,286
At 1 January 2022, net of accumulated depreciation	50,763	141,094	82,888	5,002	14,171	116,368	410,286
Additions	10,264	360	8,018	286	4,768	61,938	85,634
Disposals	—	—	(20,138)	—	(392)	(602)	(21,132)
Transfer to investment properties*	—	(5,381)	—	—	—	—	(5,381)
Depreciation provided during the year (note 8)	(18,216)	(7,552)	(14,546)	(1,810)	(6,133)	—	(48,257)
Transfers	14,931	81,711	40,591	13	10,599	(147,845)	—
At 31 December 2022, net of accumulated depreciation	57,742	210,232	96,813	3,491	23,013	29,859	421,150
At 31 December 2022							
Cost	187,732	268,411	154,180	10,539	56,513	29,859	707,234
Accumulated depreciation	(129,990)	(58,179)	(57,367)	(7,048)	(33,500)	—	(286,084)
Net carrying amount	57,742	210,232	96,813	3,491	23,013	29,859	421,150

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	143,864	195,503	97,981	8,576	35,104	35,445	516,473
Accumulated depreciation	(97,591)	(51,617)	(35,953)	(3,993)	(24,156)	—	(213,310)
Net carrying amount	46,273	143,886	62,028	4,583	10,948	35,445	303,163
At 1 January 2021, net of accumulated depreciation							
Additions	14,103	—	17,983	2,039	5,681	150,284	190,090
Disposals	(1,277)	—	(18)	(26)	(298)	(1,125)	(2,744)
Transfer to investment properties*	—	(40,778)	—	—	—	—	(40,778)
Depreciation provided during the year (note 8)	(16,458)	(7,048)	(9,801)	(1,594)	(4,544)	—	(39,445)
Transfers	8,122	45,034	12,696	—	2,384	(68,236)	—
At 31 December 2021, net of accumulated depreciation	50,763	141,094	82,888	5,002	14,171	116,368	410,286
At 31 December 2022							
Cost	164,236	194,409	128,531	10,240	42,654	116,368	656,438
Accumulated depreciation	(113,473)	(53,315)	(45,643)	(5,238)	(28,483)	—	(246,152)
Net carrying amount	50,763	141,094	82,888	5,002	14,171	116,368	410,286

As at 31 December 2022, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB124,329,000 (2021: RMB44,885,000), among which certificates for buildings with a net carrying amount of RMB72,777,000 were subsequently obtained in January 2023. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

* Certain self-owned buildings of the Group were reclassified to investment properties with an original cost of RMB8,069,000 (2021: RMB46,128,000) and accumulated depreciation of RMB2,688,000 (2021: RMB5,350,000).

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

	Investment properties RMB'000
As at 1 January 2021	—
Transfer from property, plant and equipment	40,778
Depreciation provided during the year (note 8)	—
As at 31 December 2021 and 1 January 2022	40,778
Transfer from property, plant and equipment	5,381
Depreciation provided during the year (note 8)	(1,275)
As at 31 December 2022	44,884

The Group's investment properties consist of two commercial and one industrial properties in Mainland China. The directors of the Company have determined that the investment properties consist of two classes of asset, i.e., commercial and industrial, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2022 based on valuations performed by an internal valuer, at RMB51,460,000 (2021: RMB41,400,000). The valuation is performed for interim and annual financial reporting.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2022 using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Commercial properties	—	—	45,890	45,890
Industrial property	—	—	5,570	5,570
	—	—	51,460	51,460

	Fair value measurement as at 31 December 2021 using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Commercial properties	—	—	41,400	41,400

The fair value of the investment properties was determined based on discounted cash flow method considering the estimated rental value, rent growth and discount rate, or direct comparison method with reference to unit price of comparable properties of similar size, character and location.

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, pharmacies and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of pharmacies and office premises generally have lease terms between 3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Pharmacies and office premises RMB'000	Land use rights RMB'000	Total RMB'000
As at 1 January 2021	99,253	29,579	128,832
Additions	50,518	—	50,518
Depreciation charge (note 8)	(41,508)	(817)	(42,325)
As at 31 December 2021 and 1 January 2022	108,263	28,762	137,025
Additions	58,647	—	58,647
Depreciation charge (note 8)	(42,402)	(817)	(43,219)
As at 31 December 2022	124,508	27,945	152,453

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15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	118,498	108,988
New leases	58,647	50,518
Accretion of interest recognised during the year	4,636	4,406
Payments	(46,952)	(45,414)
Carrying amount at 31 December	134,829	118,498
Analysed into:		
Current portion	40,208	37,874
Non-current portion		
— In the second year	35,187	29,020
— In the third to fifth years, inclusive	56,871	49,085
— Beyond five years	2,563	2,519

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	4,636	4,406
Depreciation charge of right-of-use assets	43,219	42,325
Expense relating to short-term leases (included in selling and distribution expenses)	737	3,518
Total amount recognised in profit or loss	48,592	50,249

(d) The total cash outflows for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 33(b) and 34(b), respectively, to the financial statements.

Notes to the Consolidated Financial Statements

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15. LEASES (Continued)

The Group as a lessor

The Group leases its investment properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB1,867,000 (2021: RMB2,102,000), details of which are included in note 5 to the financial statements.

At 31 December 2022, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2022 RMB'000	2021 RMB'000
Within one year	2,814	2,407
After one year but within two years	2,690	2,284
After two years but within three years	2,649	2,220
After three years but within four years	2,579	1,110
After four years but within five years	2,579	—
After five years	3,160	—
	16,471	8,021

16. GOODWILL

	2022 RMB'000	2021 RMB'000
At 1 January and 31 December	1,628	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in the prior year. Goodwill acquired through the business combination is allocated to the Honeson Pharmaceutical cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2022 and 2021.

The recoverable amount of the Honeson Pharmaceutical cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 13% (2021: 13%). The growth rate used to extrapolate the cash flows of the Honeson Pharmaceutical unit beyond the five-year period is 3% (2021: 3%). Senior management of the Honeson Pharmaceutical unit believes that this growth rate is justified.

Assumptions were used in the value in use calculation of the Honeson Pharmaceutical cash-generating units for 31 December 2022 and 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

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16. GOODWILL (Continued)

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of pharmaceutical products and discount rates are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2022			
Cost at 1 January 2022, net of accumulated amortisation	16,251	2,039	18,290
Additions	741	—	741
Amortisation provided during the year (note 8)	(2,800)	(833)	(3,633)
At 31 December 2022, net of accumulated amortisation	14,192	1,206	15,398
At 31 December 2022:			
Cost	26,718	3,528	30,246
Accumulated amortisation	(12,526)	(2,322)	(14,848)
Net carrying amount	14,192	1,206	15,398
31 December 2021			
At 1 January 2021:			
Cost	24,765	2,729	27,494
Accumulated amortisation	(7,137)	(797)	(7,934)
Net carrying amount	17,628	1,932	19,560
Cost at 1 January 2021, net of accumulated amortisation	17,628	1,932	19,560
Additions	1,213	799	2,012
Amortisation provided during the year (note 8)	(2,590)	(692)	(3,282)
At 31 December 2021, net of accumulated amortisation	16,251	2,039	18,290
At 31 December 2021:			
Cost	25,978	3,528	29,506
Accumulated amortisation	(9,727)	(1,489)	(11,216)
Net carrying amount	16,251	2,039	18,290

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18. INVESTMENT IN A JOINT VENTURE

	2022 RMB'000	2021 RMB'000
Share of net assets	416	381

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investments, at fair value	24,839	17,559
Unlisted equity investments, at fair value	524	603
	25,363	18,162

The above equity investments at 31 December 2022 were classified as equity investments at fair value through profit or loss, as equity investments amounting to RMB14,687,000 (2021: RMB8,795,000) were held for trading purpose, and equity investments amounting to RMB10,676,000 (2021: RMB9,367,000) were held for strategic investment purpose while the Group has not elected to designate the investments as financial asset at fair value through other comprehensive income.

20. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	56,590	45,366
Work in progress	12,692	15,150
Finished goods	253,619	207,541
	322,901	268,057

Inventories with a value of RMB13,801,000 (2021: RMB801,000) are carried at net realisable value, which is lower than cost.

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21. TRADE AND NOTES RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	200,452	249,351
Less: Impairment of trade receivables	(3,387)	(3,549)
Trade receivables, net	197,065	245,802
Notes receivables	114,496	47,757
	311,561	293,559

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers and one-off purchase order customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to enforce strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and notes receivables relate to a large number of diversified customers with good track records, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing. The fair value of trade and notes receivables approximates to their carrying amount.

Notes receivables had no historical default and were categorised in stage 1 at 31 December 2022 and 2021. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the year ended 31 December 2022 and 2021, the Group estimated that the expected credit loss rate for notes receivables was minimal.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 month	75,087	144,642
1 to 3 months	64,058	53,590
3 to 6 months	33,619	29,847
6 to 12 months	18,373	15,332
Over 12 months	5,928	2,391
	197,065	245,802

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31 December 2022

21. TRADE AND NOTES RECEIVABLES (Continued)

The movement in the loss allowance for impairment of trade receivables is as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	3,549	3,107
(Reversal of impairment)/impairment losses, net	(162)	442
At end of year	3,387	3,549

The Group manages its notes receivable using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income after the adoption of IFRS 9.

The notes receivables are settled within 270 days. No notes receivables were discounted as at 31 December 2022 and 2021. As at 31 December 2022, the Group continued to recognise endorsed notes receivables and the associated liabilities amounting to RMB31,277,000 (2021: RMB27,028,000). The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such endorsed notes (note 39).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing analysis for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.57%	17.64%	100.00%	1.69%
Gross carrying amount (RMB'000)	192,241	7,197	1,014	200,452
Expected credit losses (RMB'000)	1,104	1,269	1,014	3,387

As at 31 December 2021

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.75%	20.91%	100.00%	1.42%
Gross carrying amount (RMB'000)	245,243	3,023	1,085	249,351
Expected credit losses (RMB'000)	1,832	632	1,085	3,549

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Current		
Prepayments	30,392	24,095
Value added tax recoverable	6,705	13,881
Deposits and other receivables	19,379	15,669
	56,476	53,645
Non-current		
Prepayments	—	5,950

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

23. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	381,010	153,381
Time deposits	100,000	80,000
Less:		
Pledged time deposits*	(100,000)	—
Cash and bank balances	381,010	233,381
Denominated in:		
— RMB	375,991	229,603
— Hong Kong dollars ("HK\$")	5,019	3,778
	381,010	233,381

* At 31 December 2022, bank deposits of RMB100,000,000 (2021: Nil) was pledged for bank acceptance bills.

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK\$. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for periods of more than three months and earn interest at the respective time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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24. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	149,226	120,828
Bills payables	40,553	—
	189,779	120,828

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	130,376	112,019
3 to 6 months	11,396	1,456
6 to 12 months	4,666	4,556
over 12 months	2,788	2,797
	149,226	120,828

The trade payables and bills payables are non-interest-bearing and are normally settled on terms of not exceeding 120 days and 180 days, respectively.

25. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Contract liabilities	(a)	118,439	10,885
Other payables	(b)	99,970	61,465
Accruals		765	742
Accrued salaries and welfare		55,170	38,977
Endorsed notes	39	31,277	27,028
Deposits received		57,918	56,292
Payables for purchases of property, equipment and other intangible assets		11,615	14,388
Other tax payables		33,939	19,623
		409,093	229,400

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25. OTHER PAYABLES AND ACCRUALS (Continued)

(a) Details of contract liabilities are as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000	1 January 2021 RMB'000
<i>Short-term advances received from customers</i>			
Sales of goods	118,439	10,885	12,030
Total contract liabilities	118,439	10,885	12,030

Contract liabilities include short-term advances received to deliver pharmaceutical products. The increase and decrease in contract liabilities in 2022 and 2021 respectively were mainly due to the increase and decrease in short-term advances received from customers in relation to sales of goods in 2022 and 2021.

(b) Other payables are non-interest-bearing and have an average term of six months.

26. INTEREST-BEARING BANK BORROWINGS

	2022			2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings — unsecured	1.25-6.22	2023	36,031	1.25-3.90	2022	57,243
			36,031			57,243

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank borrowings repayable:		
Within one year or on demand	36,031	57,243
	36,031	57,243

The Group's unsecured borrowings facilities amounted to RMB120,000,000 (2021: RMB120,000,000) and HK\$40,000,000 (2021: HK\$40,000,000), of which RMB1,000,000 (2021: RMB32,715,000) and HK\$39,217,000 (2021: HK\$30,000,000) had been utilised as at the end of the reporting period.

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27. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
At 1 January	34,354	37,713
Received amounts	13,532	10,566
Released amounts	(15,517)	(13,925)
At 31 December	32,369	34,354
Current	16,527	18,925
Non-current	15,842	15,429
	32,369	34,354

Deferred income represents grants received from the government for the purpose of subsidising the expenses arising from research and development activities and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the reporting period are as follows:

	2022									
	Deferred tax assets								Fair value adjustments of financial assets at fair value through profit or loss	Total
	Accruals	Impairment of inventories	Impairment of trade and other receivables	Government grants	Advertising and promotion expenses	Lease	Unrealised profit from intercompany transactions	Fair value adjustments of financial assets at fair value through profit or loss		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2022	1,918	204	532	5,333	10,675	2,505	5,252	5,550	31,969	
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	95	199	(24)	(357)	1,571	(60)	(3,031)	(173)	(1,780)	
As at 31 December 2022	2,013	403	508	4,976	12,246	2,445	2,221	5,377	30,189	

	2021									
	Deferred tax assets								Fair value adjustments of financial assets at fair value through profit or loss	Total
	Accruals	Impairment of inventories	Impairment of trade and other receivables	Government grants	Advertising and promotion expenses	Lease	Unrealised profit from intercompany transactions	Fair value adjustments of financial assets at fair value through profit or loss		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2021	1,048	1,119	466	5,892	755	2,413	4,515	—	16,208	
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	870	(915)	66	(559)	9,920	92	737	5,550	15,761	
As at 31 December 2021	1,918	204	532	5,333	10,675	2,505	5,252	5,550	31,969	

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

	2022				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2022	(6,497)	(1,078)	(691)	(17,790)	(26,056)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	(1,262)	40	(316)	—	(1,538)
As at 31 December 2022	(7,759)	(1,038)	(1,007)	(17,790)	(27,594)

	2021				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2021	(4,233)	(1,116)	(2,718)	(17,790)	(25,857)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	(2,264)	38	2,027	—	(199)
As at 31 December 2021	(6,497)	(1,078)	(691)	(17,790)	(26,056)

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

At 31 December 2022, the Group had tax losses arising in Mainland China of RMB34,950,000 (2021: RMB17,704,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the following item:

	2022 RMB'000	2021 RMB'000
Tax losses	34,950	17,704
Deductible temporary differences	3,726	220
	38,676	17,924

Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above item can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2022, deferred tax liabilities for withholding taxes have not been provided on unremitted earnings of RMB719,502,000 (31 December 2021: RMB630,585,000) of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

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29. ISSUED CAPITAL

	2022	2021
Issued and fully paid: 863,600,000 (2021: 863,600,000) ordinary shares of HK\$0.01 each (HK\$'000)	8,636	8,636
Equivalent to RMB'000	6,847	6,847

A summary of movements in the Company's issued capital is as follows:

	Number of issued and fully paid ordinary shares	Share capital RMB'000
At 1 January 2021	840,000,000	6,650
Issue of new shares*	23,600,000	197
At 31 December 2021 and 1 January 2022	863,600,000	6,847
At 31 December 2022	863,600,000	6,847

* On 29 June 2021, 23,600,000 subscription shares of HK\$1.53 each were issued at total consideration of HK\$36,055,000 as a result of subscription of new shares by an independent investor.

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30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme was conditionally adopted on 8 June 2015 which became effective on 13 July 2015.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date as specified in the offer letter issued by the Company, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Further details of the Company's share option scheme are set out in the Group's Report of the Directors on pages 82 to 83.

No share options were granted during the year ended 31 December 2022 and 2021, and no share options were outstanding under the Scheme as at 31 December 2022 and 2021.

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31. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

In order to recognise and reward the contribution of and solidify the relationship with the service providers and distributors, the board of directors has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

The Company granted 149,000 shares to certain employees on 20 June 2016 and the vesting date of the shares was 20 June 2016. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$2.37) on the day of the grant, amounting to HK\$353,000 (equivalent to approximately RMB303,000).

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.70) on the day of the grant, amounting to HK\$1,823,000 (equivalent to approximately RMB1,618,000).

The Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.45) on the day of the grant, amounting to HK\$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to the satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of the performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to the failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.439) on the day of the grant, amounting to HK\$1,727,000 (equivalent to approximately RMB1,477,000).

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK\$1.52) on the day of the grant, amounting to HK\$1,292,000 (equivalent to approximately RMB1,117,000).

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31. SHARE AWARD PLAN (Continued)

On 20 October 2020, the board of directors approved to purchase shares as reserve for future grant. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate amount of HK\$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future grant. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK\$5,288,000 (equivalent to approximately RMB4,383,000).

The Group recognised a share award expense of nil and nil for 2021 and 2022, respectively.

As at 31 December 2022, 16,601,500 shares of the Company were held by the Trustee and have yet to be awarded.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on page 102.

(a) Merger reserve

The merger reserve of the Group represents the capital contribution from its then shareholders of Zhongzhi Pharmaceutical amounting to RMB31,200,000.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Share-based payment reserve

The share-based payment reserve represents the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin Investment Limited with a corresponding increase in the share-based payment reserve within equity.

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB58,647,000 (2021: RMB50,518,000) and RMB58,647,000 (2021: RMB50,518,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

2022

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022	57,243	118,498	175,741
Changes from financing cash flows	(21,212)	(46,952)	(68,164)
New leases	—	58,647	58,647
Interest expense	—	4,636	4,636
At 31 December 2022	36,031	134,829	170,860

2021

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2021	78,915	108,988	187,903
Changes from financing cash flows	(21,672)	(45,414)	(67,086)
New leases	—	50,518	50,518
Interest expense	—	4,406	4,406
At 31 December 2021	57,243	118,498	175,741

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	737	3,518
Within financing activities	46,952	45,414

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34. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Leasehold improvements	1,738	6,696
Intangible assets	788	250
Plant and machinery	14,402	21,653
	16,928	28,599

At 31 December 2022 and 31 December 2021, the Group had significant capital commitments, which are authorised but not contracted for, of RMB871,000 and RMB5,499,000, respectively.

- (b) The Group has various lease contracts that have not yet commenced as at 31 December 2022. The future lease payments for these non-cancellable lease contracts are RMB694,000 due within one year, RMB2,987,000 due in the second to fifth years, inclusive, and RMB585,000 due after five years.

35. RELATED PARTY TRANSACTIONS

- (a) **Outstanding balances with related parties**

Amounts due to related parties as at 31 December 2022 and 2021 represent consideration received from the Registered Shareholders as part of the historical reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders when permitted by the PRC law to repurchase the equity interests of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed terms of repayment.

- (b) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	9,491	9,350
Pension scheme contributions	211	213
	9,702	9,563

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

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36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

2022

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost RMB'000	Total RMB'000
	Mandatorily designated as such RMB'000	Held for trading RMB'000	Debt investments RMB'000		
Trade receivables	—	—	—	197,065	197,065
Notes receivables	—	—	114,496	—	114,496
Equity investments at fair value through profit or loss	524	24,839	—	—	25,363
Financial assets included in prepayments, deposits and other receivables	—	—	—	23,664	23,664
Financial assets included in other non-current assets	—	—	—	6,822	6,822
Cash and bank balances	—	—	—	481,010	481,010
	524	24,839	114,496	708,561	848,420

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	69
Trade and bills payables	189,779
Interest-bearing bank borrowings	36,031
Lease liabilities	134,829
Financial liabilities included in other payables and accruals	201,545
Amounts due to related parties	8,786
	571,039

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36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2021

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Financial assets at amortised cost RMB'000	Total RMB'000
	Mandatorily designated as such RMB'000	Held for trading RMB'000	Debt investments RMB'000		
Trade receivables	—	—	—	245,802	245,802
Notes receivables	—	—	47,757	—	47,757
Equity investments at fair value through profit or loss	603	17,559	—	—	18,162
Financial assets included in prepayments, deposits and other receivables	—	—	—	15,669	15,669
Financial assets included in other non-current assets	—	—	—	7,253	7,253
Cash and bank balances	—	—	—	233,381	233,381
	603	17,559	47,757	502,105	568,024

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	64
Trade and bills payables	120,828
Interest-bearing bank borrowings	57,243
Lease liabilities	118,498
Financial liabilities included in other payables and accruals	159,913
Amounts due to related parties	8,786
	465,332

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, financial assets included in other non-current assets, trade and bills payables, interest-bearing bank borrowings, amounts due to related parties, financial liabilities included in other payables and accruals and an amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments or immaterial impact on discounting for financial assets included in other non-current assets.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments carried at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair values of debt investments at fair value through other comprehensive income, which are notes receivables, have been estimated using a discounted cash flow valuation model based on the interest rate yield curve.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a sensitivity analysis as at 31 December 2022 and 2021.

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Equity investments at fair value through profit or loss	Valuation multiples	EV/EBIT multiple of peers	10.2x-22.8x (2021: 11.0x-22.1x)	The higher the multiple, the higher the fair value
		Discount for lack of marketability	10% to 20% (2021: 10% to 20%)	The higher the ratio, the lower the fair value

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments at fair value through profit or loss	24,839	—	524	25,363
Notes receivables	—	114,496	—	114,496
	24,839	114,496	524	139,859

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments at fair value through profit or loss	17,559	—	603	18,162
Notes receivables	—	47,757	—	47,757
	17,559	47,757	603	65,919

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets at fair value through profit or loss, interest-bearing bank borrowings, and cash and bank balances. The Group has various other financial assets and liabilities such as trade and notes receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and time deposits at banks and interest-bearing bank borrowings. The Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK\$. In addition, the Company will pay dividends in HK\$ in the future. Any significant exchange rate fluctuations of HK\$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rates, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK\$ exchange rate movement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK\$ exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in HK\$ rate %	Increase/ (decrease) in profit before (or after) tax RMB'000	Increase/ (decrease) in equity* RMB'000
2022			
If RMB weakens against HK\$	5	251	7,895
If RMB strengthens against HK\$	(5)	(251)	(7,895)
2021			
If RMB weakens against HK\$	5	189	7,563
If RMB strengthens against HK\$	(5)	(189)	(7,563)

* Excluding retained profits

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	200,452	200,452
Notes receivables	114,496	—	—	—	114,496
Financial assets included in prepayments, deposits and other receivables					
— Normal**	23,664	—	—	—	23,664
Financial assets included in other non-current assets					
— Normal**	6,822	—	—	—	6,822
Cash and bank balances					
— Not yet past due	481,010	—	—	—	481,010
	625,992	—	—	200,452	826,444

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2021

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	—	—	—	249,351	249,351
Notes receivables	47,757	—	—	—	47,757
Financial assets included in prepayments, deposits and other receivables					
— Normal**	15,669	—	—	—	15,669
Financial assets included in other non-current assets					
— Normal**	7,253	—	—	—	7,253
Cash and bank balances					
— Not yet past due	233,381	—	—	—	233,381
	304,060	—	—	249,351	553,411

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix of trade receivables is disclosed in note 21 to the financial statements.

** The credit quality of notes receivables, the financial assets included in prepayments, deposits and other receivables and the financial assets included in other non-current assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21 to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade and bills payables, bank overdrafts, lease liabilities and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2022					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Amount due to a joint venture	69	—	—	—	—	69
Trade and bills payables	53,627	121,027	15,125	—	—	189,779
Lease liabilities	—	11,852	32,556	94,917	2,643	141,968
Financial liabilities included in other payables and accruals	152,940	29,502	18,682	421	—	201,545
Interest-bearing bank borrowings	—	28,825	7,869	—	—	36,694
Amounts due to related parties	8,786	—	—	—	—	8,786
	215,422	191,206	74,232	95,338	2,643	578,841

	2021					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Amount due to a joint venture	64	—	—	—	—	64
Trade and bills payables	20,306	100,426	96	—	—	120,828
Lease liabilities	—	11,444	29,798	82,171	2,650	126,063
Financial liabilities included in other payables and accruals	119,480	22,028	18,325	80	—	159,913
Interest-bearing bank borrowings	—	19,825	38,346	—	—	58,171
Amounts due to related parties	8,786	—	—	—	—	8,786
	148,636	153,723	86,565	92,251	2,650	473,825

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by capital. Capital represents equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratio as at the end of the reporting period was as follows:

	2022	2021
	RMB'000	RMB'000
Interest-bearing bank borrowings	36,031	57,243
Equity attributable to owners of the parent	1,004,660	898,740
Gearing ratio	4%	6%

Notes to the Consolidated Financial Statements

31 December 2022

39. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2022 and 2021, the Group endorsed certain notes receivable accepted by certain banks in Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights to the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amount of the Endorsed Notes as at 31 December 2022 was RMB101,665,000 (2021: RMB144,454,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB70,388,000 as at 31 December 2022 (2021: RMB117,426,000) had been fully derecognised. The Group carefully assesses the default risk of the PRC banks. The Group only derecognises the notes receivable that have been accepted by banks with high credit reputation as the directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Notes"). The Derecognised Notes had a maturity of 1 to 9 months at the end of the reporting period. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.

During the years ended 31 December 2022 and 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2022 and 2021 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2022 and 2021.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and the associated trade payables settled of RMB31,277,000 as at 31 December 2022 (2021: RMB27,028,000), as the directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

Notes to the Consolidated Financial Statements

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	210,224	193,779
Right-of-use assets	100	307
Total non-current assets	210,324	194,086
CURRENT ASSETS		
Prepayments, deposits and other receivables	239	219
Cash and bank balances	4,548	2,765
Total current assets	4,787	2,984
CURRENT LIABILITIES		
Due to subsidiaries	17,235	15,775
Other payables and accruals	224	198
Interest-bearing bank borrowings	35,031	24,528
Lease liabilities	105	310
Total current liabilities	52,595	40,811
NET CURRENT LIABILITIES	(47,808)	(37,827)
TOTAL ASSETS LESS CURRENT LIABILITIES	162,516	156,259
Net assets	162,516	156,259
Equity		
Issued capital	6,847	6,847
Reserves (note)	155,669	149,412
Total equity	162,516	156,259

Notes to the Consolidated Financial Statements

31 December 2022

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Shares held for the share award plan RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	173,030	(21,217)	(2,079)	33,273	(51,007)	132,000
Loss for the year	—	—	—	—	(3,684)	(3,684)
Exchange differences on translation of foreign operations	—	—	—	(4,362)	—	(4,362)
Total comprehensive loss for the year	—	—	—	(4,362)	(3,684)	(8,046)
Issue of shares	29,841	—	—	—	—	29,841
Shares repurchased	—	(4,383)	—	—	—	(4,383)
At 31 December 2021	202,871	(25,600)	(2,079)	28,911	(54,691)	149,412
Loss for the year	—	—	—	—	(7,858)	(7,858)
Exchange differences on translation of foreign operations	—	—	—	14,115	—	14,115
Total comprehensive income for the year	—	—	—	14,115	(7,858)	6,257
At 31 December 2022	202,871	(25,600)	(2,079)	43,026	(62,549)	155,669

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2023.

Five-Year Financial Summary

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This Summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
REVENUE	1,825,935	1,746,500	1,603,876	1,342,182	1,142,150
GROSS PROFIT	1,072,295	1,061,439	991,203	834,689	708,272
PROFIT BEFORE TAX	130,651	61,813	167,222	155,941	101,823
Income tax expense	(23,736)	(9,447)	(28,603)	(41,247)	(16,754)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	106,387	52,128	138,532	114,694	85,069
Earnings per share					
– Basic	RMB0.13	RMB0.06	RMB0.17	RMB0.14	RMB0.10
– Diluted	RMB0.13	RMB0.06	RMB0.17	RMB0.14	RMB0.10

ASSETS AND LIABILITIES

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
TOTAL ASSETS	1,875,257	1,524,105	1,420,521	1,280,539	1,011,486
TOTAL LIABILITIES	869,308	622,940	598,758	517,156	304,894