上海昊海生物科技股份有限公司
Shanghai Haohai Biological Technology Co.,Ltd.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 6826

Annual Report 2022

CONTENTS

CORPORATE INFORMATION

FIFTH SESSION OF THE BOARD OF DIRECTORS

Executive Directors:
Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Ms. Chen Yiyi
Mr. Tang Minjie *(Chief Financial Officer)*

Non-executive Directors:
Ms. You Jie
Mr. Huang Ming

Independent Non-executive Directors:
Mr. Guo Yongqing
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Yang Yushe
Mr. Zhao Lei

FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Liu Yuanzhong *(Chairman)*
Ms. Yang Qing
Mr. Tang Yuejun
Mr. Wei Changzheng
Ms. Song Xiao

AUTHORIZED REPRESENTATIVES

Mr. Huang Ming
Mr. Chiu Ming King

JOINT COMPANY SECRETARIES

Ms. Tian Min
Mr. Chiu Ming King *(a fellow member of the Hong Kong Chartered Governance Institute)*

AUDIT COMMITTEE

Mr. Guo Yongqing *(Chairman)*
Ms. You Jie
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Zhao Lei

REMUNERATION AND REVIEW COMMITTEE

Mr. Su Zhi *(Chairman)*
Mr. Wu Jianying
Mr. Huang Ming
Mr. Guo Yongqing
Mr. Zhao Lei

NOMINATION COMMITTEE

Mr. Zhao Lei *(Chairman)*
Dr. Hou Yongtai
Ms. You Jie
Mr. Guo Yongqing
Mr. Su Zhi

STRATEGY COMMITTEE

Ms. You Jie *(Chairlady)*
Dr. Hou Yongtai
Mr. Wu Jianying
Mr. Huang Ming
Mr. Yang Yushe

LEGAL ADVISERS

Tiang & Partners
Room 2010
20/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Loeb & Loeb LLP
2206-19
Jardine House
1 Connaught Place Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

CORPORATE INFORMATION

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

23/F, WenGuang Plaza
No. 1386 Hongqiao Road
Changning District
Shanghai, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

H SHARE REGISTRAR

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

A SHARE REGISTRATION INSTITUTION

China Securities Depository and Clearing Corporation Limited Shanghai Branch
166 Lujiazui East Road
New Pudong District
Shanghai, China

INFORMATION ON H SHARES

Place of listing:	The Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	6826
Number of H shares issued:	36,330,000 H shares *(as at 31 December 2022)*
Nominal value:	RMB1.00 per H share
Stock short name:	HAOHAI BIOTEC

INFORMATION ON A SHARES

Place of listing:	Sci-tech Innovation Board of the Shanghai Stock Exchange
Stock code:	688366
Number of A shares issued:	137,800,000 A shares
Nominal value:	RMB1.00 per A share
Stock short name:	HAOHAI BIOTEC

REGISTERED OFFICE

No. 5 Dongjing Road
Songjiang Industrial Zone
Shanghai, China

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Ltd. (Xinhua Road Sub-branch, Shanghai)
No. 506 Xinhua Road
Changning District
Shanghai, China

Bank of Shanghai, Co., Ltd (Changning Branch, Shanghai)
No. 320 Xianxia Road
Changning District
Shanghai, China

INVESTOR ENQUIRIES

Investors' Service Line: (86) 021-52293555
Fax: (86) 021-52293558
Website: www.3healthcare.com

FINANCIAL HIGHLIGHTS

	31 December 2022 RMB'000	31 December 2021 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Results of operation					
Revenue	2,103,438	1,750,116	1,324,427	1,595,498	1,545,824
Gross profit	1,446,923	1,259,746	990,423	1,231,499	1,211,538
Profit before tax	235,726	382,649	257,026	434,349	525,185
Net profit attributable to owners of the parent	180,470	352,234	230,072	370,779	414,540
Profitability					
Gross profit margin	68.8%	72.0%	74.8%	77.2%	78.4%
Net profit margin	9.0%	19.8%	17.1%	23.2%	26.8%
Earnings per share (RMB)					
Basic earnings per share (Note 1)	1.04	2.00	1.30	2.27	2.59
Assets					
Total assets	6,892,399	6,950,356	6,298,705	6,151,871	4,436,352
Total liabilities	990,016	890,070	564,460	498,518	600,905
Total equity attributable to ordinary equity holders of the parent	5,514,609	5,713,461	5,490,751	5,454,780	3,611,511
Gearing ratio	14.4%	12.8%	9.0%	8.1%	13.5%

Note 1: Diluted earnings per share is the same as basic earnings per share as the Group had no potential dilutive ordinary shares in issue during the Reporting Period.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Thank you for your unremitting support and concern for Haohai. On behalf of the Board, I am pleased to present to all Shareholders the 2022 annual report of Haohai Biological.

In 2022, in light of the complexity and volatility of the external business environment and faced with severe challenges such as restricted business operations and a decline in the number of outpatient services and surgeries at terminal medical service institutions, all the staff of the Group took the bull by the horns and strived forward to overcome unfavorable factors and actively conducted production and marketing, which covered the loss to some extent. During the Reporting Period, the Group recorded revenue of approximately RMB2,103.44 million. The profit attributable to shareholders of the Company and the net profit attributable to shareholders of the Company after deducting non-recurring profit or loss were approximately RMB180.47 million and RMB158.75 million, respectively.

In 2022, we insisted on independent innovation and continued investment in the R&D to further improve the layout of our products lines, and promoted internal restructuring to inject vitality into the steady, orderly and sustainable development of the Company. In the field of cataract treatment, the innovative casting molded hydrophobic aspheric IOL product has completed its clinical trials in China and is in the process of registration and application. The hydrophobic molded toric aspheric IOL product has begun its clinical trial in China in July 2021 and it is in progress as scheduled. The hydrophilic aspheric multifocal IOL have obtained the approval of the ethical review of clinical trials in November 2022 and the trial is proceeding in an orderly manner. In the field of myopia prevention and control and refractive correction, NIMO used its self-developed optical design system based on Contamac's world-leading gas permeable material to develop the "Optoshare" (童享) series of new Orthokeratology Lens products, which was approved for registration and marketing in China in December 2022. "Optoshare" has enriched our Orthokeratology Lens products, and shaped a differentiated product layout of our OK lens together with "Maierkang myOK" and "Hinline". In the field of medical aesthetics, the Group's fourth-generation organic cross-linked HA dermal filler has completed clinical trials and has entered the registration and application stage in China. The Group's second-generation HA dermal filler "Janlane" completed the registration change, and in addition to the original indication of "injection in the middle to deep layers of the facial dermis to correct moderate and severe nasolabial fold wrinkles", a new indication of "subcutaneous (or submucosal) injection for lip vermilion and vermilion border to fill the lips to increase lip tissue volume" was added to further expand its clinical application scenarios.

CHAIRMAN'S STATEMENT

In 2022, the Company and its subsidiaries claimed a string of honors and were widely recognised in terms of academic achievements and social responsibility. The Company won the titles of the "2022 Shanghai Top 100 Manufacturing Enterprises", the"2022 Shanghai Top 100 Private Manufacturing Enterprises", the "2022 Shanghai Top 100 Emerging Industries" and the "2022 Shanghai Top 100 Growth Enterprises". The Company has been included in the list of Shanghai Top 100 Enterprises for the fourth consecutive year. Shanghai Qisheng, a subsidiary of the Company, was rated as the Shanghai SRDI Enterprise for 2022 and honored with the "Shanghai Labor Award" for 2022. The innovative product "Hyalumatrix" was included in the recommended Shanghai catalogue for innovative products and rated as one of the hi-tech achievement transformation projects in Shanghai. The project of "Development of Biomimetic Artificial Vitreous Body and the Research of Vitreous Body Vitreous Regeneration" was conferred the "Sliver Prize of the 34th Shanghai Outstanding Invention Qualification Competition".

The past 2022 is an unusual and eventful year, when we have experienced many challenges and achieved many achievements. Looking ahead to 2023, we are full of hope and confidence. For one thing, we will continue to focus on scientific research innovation and achievement transformation, and strengthen professional services. We maintain the leading position in technology through cooperation with domestic and foreign well-known R&D institutions, independent R&D and technology introduction, and promote high-quality development through innovation. For another, we will continue to further promote internal resource allocation, further strengthen the integration with the acquired enterprises in R&D, production, sales and service, and continuously optimize and improve management capabilities and improve operational efficiency, so as to maximize the synergy, improve operational efficiency, develop innovative technologies, expand market space and further enhance core competitiveness.

In conclusion, once more, I would like to express my sincere gratitude to every Shareholder and investor who has always been following us!

Hou Yongtai
Executive Director and Chairman of the Board

24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Overview

In 2022, in light of the complexity and volatility of the external business environment and faced with severe challenges such as restricted business operations and a decline in the number of outpatient services and surgeries at terminal medical service institutions, the Group took various measures to overcome unfavorable factors and actively conducted production and marketing, which covered the loss to some extent. Meanwhile, during the Reporting Period, the Group's ophthalmology product line was actively deployed in the fields of myopia prevention and control and refractive correction. In particular, with the inclusion of Nanpeng Optics into the scope of consolidation of the Company since January 2022, the revenue from Orthokeratology Lens and its ancillary products during the Reporting Period increased significantly as compared to the corresponding period in 2021. In addition, Juva Medical and its subsidiaries ("JUVA MEDICAL Group") and Bioxis (together with JUVA MEDICAL Group, "Juva Group") had been included in the scope of consolidation of the Company since September 2021, with the inclusion of the full-year revenue of Juva Group into the Reporting Period, while only the last 4-month revenue of Juva Group into 2021. As a result of the above, the revenue of the Group has increased for the Reporting Period as compared to the corresponding period in 2021.

During the Reporting Period, the Group recorded a revenue of RMB2,103.44 million, representing an increase of RMB353.32 million, or 20.19%, as compared to the corresponding period in 2021. During the Reporting Period, the breakdown of the Group's revenue from the main business of each product line by therapeutic areas is as follows (by the amount and as a percentage of the total revenue of the Group):

Product line	2022		2021		Change
	RMB'000	%	RMB'000	%	(%)
Ophthalmology products	765,969	36.42	670,969	38.34	14.16
Medical aesthetics and wound care products	744,342	35.39	460,985	26.34	61.47
Orthopedics products	386,477	18.37	400,001	22.86	-3.38
Anti-adhesion and hemostasis products	176,272	8.38	191,928	10.97	-8.16
Other products	30,378	1.44	26,233	1.49	15.80
Total	2,103,438	100.00	1,750,116	100.00	20.19

During the Reporting Period, the overall gross profit margin of the Group was 68.79%, representing a decrease as compared to 71.98% for the corresponding period in 2021, mainly due to 1) the gross profit margin of the radio frequency device and laser equipment industry in which Juva Medical, a subsidiary of the Company, operates, was lower than that of the high-value consumables industry in which the Group has been originally engaged, and the overall gross profit margin of the Group during the Reporting Period decreased by approximately 2.49% after the inclusion of Juva Medical in the consolidated statements of the Company since September 2021; and 2) the gross profit margin of the Orthokeratology Lens agency sales business operated by Nanpeng Optics, a subsidiary of the Company, was lower than that of the high-value consumables industry in which the Group was originally engaged, and the overall gross profit margin of the Group during the Reporting Period decreased by approximately 1.42% after the inclusion of Nanpeng Optics in the consolidated statements of the Company since January 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the Group insisted on independent innovation and continued to increase investment in the research and development (the "**R&D**"), focusing on expanding the innovative products lines of ophthalmology and medical aesthetics and making satisfactory progress in the R&D of several new products. During the Reporting Period, the R&D expenses amounted to approximately RMB182.19 million, representing an increase of RMB14.59 million, or approximately 8.71%, as compared to the corresponding period in 2021. The R&D expenses remained high at 8.66% of the revenue (2021: 9.58%).

During the Reporting Period, the Group's net profit attributable to shareholders of the Company and net profit attributable to shareholders of the Company after deducting non-recurring profit or loss was approximately RMB180.47 million and RMB158.75 million respectively, representing a decrease of 48.76% and 51.60% as compared to the corresponding period in 2021, mainly because:

(1) the loss of approximately RMB37.35 million from production suspension was incurred, as a result of the near suspension of the production and operation activities of the Company and its three major production subsidiaries located in Shanghai during the period from March to May 2022;

(2) during the Reporting Period, the distribution agreement between Aaren Scientific, Inc. ("**Aaren**", a subsidiary of the Company in the United States) and Zhuhai Sunny Medical Device Co., Ltd ("**Zhuhai Sunny**", the former domestic exclusive distributor of Aaren) was terminated, which caused the domestic sales channels of the Aaren-branded and Aishuming-branded IOL products manufactured by Aaren to be subject to re-integration. Before the completion of the integration, Aaren initiated a plan for phased production suspension and expenditure reduction, resulting in an operating loss of approximately RMB18.82 million during the Reporting Period. Meanwhile, the management believed that there were indications of impairment on the Aaren business, and an impairment test was conducted. According to the results of the impairment test, the total asset impairment loss on the goodwill, intangible assets and other long-term assets of the Aaren business amounted to approximately RMB46.07 million; and

(3) the Company and Juva Medical, incurred a total of approximately RMB30.23 million in share-based payment expenses due to the implementation of equity incentive schemes, while there was no such expense in the corresponding period in 2021; and

(4) in 2021, the Group received dividends of approximately RMB56.22 million from Shenwu No. 1 Investment Product in total, while during the Reporting Period, the Group did not receive and recognise similar dividends.

As at the end of the Reporting Period, the total assets of the Group were RMB6,892.39 million, and the net assets attributable to shareholders of the Company were RMB5,514.61 million, which has basically remained unchanged as compared to the end of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Ophthalmology products

Focusing on the leading technologies in the global ophthalmology field, the Group is committed to expediting the localization of China's ophthalmology industry through independent R&D and investment integration, with the goal of becoming an internationally renowned manufacturer of comprehensive ophthalmology products. During the Reporting Period, the Group's ophthalmology business has covered the fields including cataract treatment, myopia prevention and control, refractive correction, and ocular surface medication, and has owned a number of products under development in the field of fundus disease treatment.

The Group is the largest OVD product manufacturer in the PRC. According to the research reports of Guangzhou Biaodian Medical Information Co., Ltd. ("**Biaodian Medical**"), the market share of the Group's OVD products was 50.83% in 2021 (2020: 45.24%), ranking first in China for the past 15 consecutive years. Meanwhile, the Group is a major supplier in the domestic IOL market, and Contamac Holdings, a subsidiary of the Company, is one of the world's largest independent manufacturers of ophthalmology and optometry materials such as materials for IOL and Orthokeratology Lens to customers in more than 70 countries worldwide.

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was RMB765.97 million, representing an increase of approximately RMB95.00 million, or 14.16%, as compared to the corresponding period in 2021. The breakdown of revenue from ophthalmology products by specific products is as follows:

Item	2022		2021		Change
	RMB'000	%	RMB'000	%	(%)
Cataract product line	366,000	47.78	437,820	65.25	-16.40
IOL products	277,149	36.18	330,968	49.33	-16.26
OVD products	88,851	11.60	106,852	15.92	-16.85
Myopia prevention and control, and refractive correction product line	377,006	49.22	216,239	32.23	74.35
Ophthalmology and optometry materials	179,460	23.43	161,336	24.05	11.23
Ophthalmology and optometry end products	197,546	25.79	54,903	8.18	259.81
Other ophthalmology products	22,963	3.00	16,910	2.52	35.80
Total	765,969	100.00	670,969	100.00	14.16

MANAGEMENT DISCUSSION AND ANALYSIS

IOL and OVD products are mainly used for cataract surgery. During the Reporting Period, the revenue of the Group from the cataract product line amounted to RMB366.00 million, representing a decrease of approximately RMB71.82 million or 16.40% as compared to the corresponding period in 2021. Specifically, the revenue from IOL products was RMB277.15 million, representing a decrease of 16.26% as compared to the corresponding period in 2021, mainly because the sales revenue from Aaren-branded IOL products during the Reporting Period was RMB4.87 million only, representing a decrease of RMB36.86 million as compared to the corresponding period in 2021,as a result of the termination of the distribution agreement between Aaren and Zhuhai Sunny, the former domestic exclusive distributor, which caused the domestic sales channels of the Aaren-branded and Aishuming-branded IOL products manufactured by Aaren to face re-integration. In addition, customs postponed the release of Lenstec IOL products distributed by NIMO, a subsidiary of the Company, in the first half of 2022, leading to a drop in market supply, while its sales performance recovered in the third quarter, the quantity of cataract surgeries in China fell again in the fourth quarter, which led to an overall decrease in the revenue of NIMO during the Reporting Period as compared to the corresponding period in 2021. During the Reporting Period, the revenue from OVD products was RMB88.85 million, representing a decrease of 16.85% as compared to the corresponding period in 2021, mainly due to a periodic decrease in the quantity of cataract surgeries in China.

During the Reporting Period, the revenue of the Group from the myopia prevention and control, and refractive correction product line was RMB377.01 million, representing an increase of approximately RMB160.77 million or 74.35% as compared to the corresponding period in 2021. Specifically, the revenue from the ophthalmology and optometry materials business (operated by Contamac Holdings) in the upstream part of the supply chain was RMB179.46 million during the Reporting Period, representing an increase of approximately RMB18.12 million or 11.23% as compared to the corresponding period in 2021, mainly due to the resumption of global production and operation activities and the continuous expansion of products including gas permeable materials in international markets including the United States. Ophthalmology and optometry end products cover Orthokeratology Lens and the equipment used in the process of fitting and wearing them, and eye drops, soft contact lens, phakic refractive lens and other products. During the Reporting Period, the revenue of the Group from ophthalmology and optometry end products was RMB197.55 million, representing an increase of approximately RMB142.64 million as compared to the corresponding period in 2021, mainly due to the inclusion of Nanpeng Optics, which operated the Orthokeratology Lens agency sales business, in the consolidated statements of the Company since January 2022, resulting in a significant increase in the revenue from optometric products including Orthokeratology Lens during the Reporting Period.

Other ophthalmology products mainly include injectors, scalpels, suture needles and other products used in various ophthalmic operations. During the Reporting Period, the Group’s other ophthalmology products recorded revenue of RMB22.96 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Cataract is the biggest cause of blindness in China. The only effective treatment for cataract is IOL implantation through surgery. In terms of industrial chain construction, the Group currently has initially completed the layout of the entire industrial chain of IOL products. We have opened up the upstream raw material production link of the IOL industrial chain through our subsidiary Contamac Holdings; mastered the R&D and production process of IOL products through our subsidiaries Aaren, Henan Universe, and Henan Simedice Biotechnologies Co. Ltd.; strengthened the downstream sales channels of IOL products through the professional ophthalmology high-value consumables marketing platform of NIMO. In terms of the layout of product lines, leveraging on its domestic and foreign brands, the Group has covered a full range of products from ordinary spherical monofocal IOL to multifocal IOL. In addition, while leveraging on the support of the National Key R&D Programs under the "13th Five-Year Plan", the Group creates synergy among the ophthalmology R&D innovation platforms of the Group in the PRC, the United States and the United Kingdom. The Group has promoted the R&D activities for high-end toric and multifocal IOL products. The Group has also extended the materials from hydrophilic IOL materials to hydrophobic IOL materials, and has adopted the one-time injection molding process that is different from the traditional turning and milling process, thus achieving a comprehensive layout of high-end IOL materials, complex optical features, and innovative processing technology. Among them, 1) the innovative casting molded hydrophobic aspheric IOL product has completed clinical trials in China and is in the process of registration and application; 2) the hydrophobic molded toric aspheric IOL product has started clinical trials since July 2021 in an orderly manner in China; and 3) the hydrophilic aspheric multifocal IOL was approved for clinical trial ethics review in November 2022, and has been advancing its clinical trial in an orderly manner.

During the Reporting Period, the second round of volume-based procurement of high-value consumables of IOL in provinces, cities and alliances was started. Specifically, the most representative Beijing-Tianjin-Hebei "3 + 11" alliance and the alliance of nine provinces in western China completed the procurement for the second round of volume-based procurement in December 2021 and March 2022 respectively. During the Reporting Period, each alliance member province successively commenced the next round of procurement. The Group continuously won bids for various product models covering ordinary and functional spherical IOLs, aspheric IOLs, preloaded aspheric IOLs, and segmented bifocal IOLs. A stable price system was maintained for products for which the Group won bids, as compared with the first round of volume-based procurement. In the long term, volume-based procurement will bring more opportunities for companies with production cost control capability and product line layout capability. By leveraging its advantages in multi-brand full product lines, channels and costs, the Group will consolidate and further increase the market share of its IOL products in the bidding areas.

China is one of the countries with the largest number of blind and visually impaired patients in the world, with cataracts accounting for 32.5% and refractive errors accounting for 44.2% of visual impairment factors, while the prevalence of ophthalmic diseases in the highly myopic population is much higher than that in the normal-vision population. In 2019, the number of myopia patients worldwide was approximately 1.4 billion, among which, the number of myopia patients in China exceeded 600 million, and as a result the capacity of China's myopia prevention and control and refractive correction market is considerable while the penetration rate is low.

MANAGEMENT DISCUSSION AND ANALYSIS

In the field of myopia prevention, control and management, the Group used its self-developed optical design system based on Contamac's world-leading gas permeable material to develop the "Optoshare" (童享) series of new Orthokeratology Lens products, which was approved for registration and marketing in China in December 2022. Meanwhile, the Company, respectively through Hengtai Vision and Nanpeng Optics, which are subsidiaries of the Company, has the right to exclusively distribute "Maierkang myOK", a high-end Orthokeratology Lens product, "Hiline", an Orthokeratology Lens product, "Bestivue", a peripheral defocus lens, and rigid gas permeable ("**RGP**") contact lens of Hengtai Optics Co., Ltd. ("**Hengtai Optics**") in mainland China. With more than 40 years of professional experience in the field of corneal contact lenses, Hengtai Optics has deep technical precipitation and a complete layout of intellectual property rights in mainland China and the global market. The "myOK" Orthokeratology Lense product owns the highest oxygen permeability with 141 DK in China and has 7 Chinese patents. "Hiline" Orthokeratology Lense product has been sold in the Chinese market for more than 10 years, with a high reputation in the industry and brand reputation. The Group entered into an in-depth cooperation with Hengtai Optics and obtained the exclusive distribution rights of all products registered by Hengtai Optics in mainland China, providing a wider choice of optometric products for different consumer segments and expanding the market share and influence of the Group's Orthokeratology Lense products.

In addition, the Group's self-developed eye drops product "Eyesucom" is made of exclusively patented ingredients including medical chitosan and sodium hyaluronate, and is packaged in an aseptic packaging method without preservatives. The product has the functions of natural antibacterial, moisturizing and lubricating, promoting the repair of corneal epithelial damage and reducing staining, etc. It can comprehensively protect the eye surface health of the wearers of Orthokeratology Lens. During the Reporting Period, the sales volume of the Group's eye drops product "Eyesucom" showed a good momentum of growth.

In the field of refractive correction, the Group's subsidiary Hangzhou Aijinglun is mainly engaged in the R&D, production and sales of crystalline refractive lenses, and has independent intellectual property rights of its own developed "Yijing" Posterior Chamber-Posterior Chamber-Phakic Refractive Lens ("**PRL**") product, which has a refractive correction range of -10.00D ~ -30.00D and has been approved by the NMPA. Refractive lens surgery with crystalline lens can correct myopia without cutting normal corneal tissues and has the advantages of preserving the adjustment function of the human lens and surgical reversibility, so it is a safe and effective method to correct myopia. Currently, there are only two such products approved for sale in the Chinese market, and "Yijing" PRL product is the only domestic product and the only choice for patients with severe myopia above 1,800 degrees, and therefore the product is highly scarce. In addition, the Group began the process of upgrading its PRL products after the acquisition of the Hangzhou Aijinglun, with the second generation of the aqueous humor permeable product entering the clinical trial stage in China, which will enable aqueous humor circulation and provide a wider range of vision correction.

Through the above products layout, the Group has been able to provide a variety of myopia solutions from prevention and control to correction for all age groups.

MANAGEMENT DISCUSSION AND ANALYSIS

Medical Aesthetics and Wound Care Products

In the field of medical aesthetics and wound care, the Group has formed a business matrix covering four categories, namely hyaluronic acid ("**HA**") dermal filler, genetic-engineering preparations for epidermal repair, radio frequency devices and laser equipment. The Group has innovative cream botulinum toxin products in the pipeline. Through the multi-level business arrangements, the Group connected three major application scenarios, namely medical aesthetics, life aesthetics and home aesthetics, and was able to meet the comprehensive demand of end customers for medical aesthetics in relation to epidermis, dermis and subcutaneous tissue.

The Group's human epidermal growth factor ("**hEGF**") for external use "Healin", developed and produced by genetic engineering technology, is the only epidermal growth factor product in China that has exactly the same quantity, sequence and spatial structure of amino acids as human natural epidermal growth factor and the first registered hEGF product for external use in the world. According to the research reports of Biaodian Medical, the market share of "Healin" products in 2021 continued to rise to 25.95% from 23.84% in 2020, continuing narrowing the gap with the top-selling brand in the market.

The Group has independently developed and mastered the cross-linking processes such as monophase cross-linking, low-temperature secondary cross-linking, linear non-particle cross-linking, and organic cross-linking. The Group's first-generation HA dermal filler "Matrifill" is the first mono-phase sodium hyaluronate gel for injection approved by the NMPA in the PRC. It is mainly positioned as a popular entry-level HA. The Group's second-generation HA dermal filler "Janlane" is mainly positioned at the mid-to-high end, and mainly features the dynamic filling function. The third-generation HA dermal filler "Hyalumatrix" has the linear non-particle feature and is positioned for high-end consumers by providing the "precise embellishment" function. The Group's HA Dermal Filler product portfolio has been widely recognized in the market and has become a leading brand of domestic HA dermal filler products for injection.

In addition, in February 2023, the Group's second-generation HA dermal filler "Janlane" completed the registration change, and in addition to the original indication of "injection in the middle to deep layers of the facial dermis to correct moderate and severe nasolabial fold wrinkles", a new indication of "subcutaneous (or submucosal) injection for lip vermilion and vermilion border to fill the lips to increase lip tissue volume" was added to further expand its clinical application scenarios.

At present, the Group's fourth-generation organic cross-linked HA dermal filler has completed clinical trials and has entered the registration and application stage in China. This product uses natural products as cross-linking agents, and the degradation products are essential amino acids that cannot be synthesized by the human body. Compared with traditional chemical cross-linking agents, it has better long-term safety. Meanwhile, this product is the first product in China to block the action site of hyaluronidase, which has a longer-lasting characteristic.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the revenue of the Group from medical aesthetics and wound care products was RMB744.34 million, representing an increase of approximately RMB283.36 million, or 61.47%, as compared to the corresponding period in 2021. The breakdown of the revenue by specific products is as follows:

Item	2022		2021		Change
	RMB'000	%	RMB'000	%	(%)
HA Dermal Filler	306,164	41.13	239,351	51.93	27.91
hEGF	149,816	20.13	127,249	27.60	17.73
Radio frequency devices and laser equipment	288,362	38.74	94,385	20.47	205.52
Total	744,342	100.00	460,985	100.00	61.47

In recent years, the "beauty value economy" has risen. The continuous increase in the public's attention to appearance in China has led to the continuous expansion of the demand for medical aesthetics. The continuous advancement of medical aesthetics technology has brought about an increasingly abundant portfolio, while the steady growth of per capita disposable income in China has laid a solid foundation for medical aesthetics consumption, among which, micro-plastic surgery meets the demands of beauty seekers for beauty with its characteristics such as minimal invasiveness, quick results and good value for money, and is thus more amenable to beauty seekers, with higher consumption frequency. At present, China has become the world's second-largest medical aesthetics market, with a market size of RMB143.6 billion and a low market penetration rate of 3.6% in 2019. The data shows that the market size of China's medical aesthetics has continued to grow in the past five years, and the compounded annual growth rate remained above 15%, which was higher than that of the global market. The market size in 2022 was nearly RMB230 billion. However, compared with other major countries with the developed medical aesthetics industry, China's medical aesthetics market still has huge potential and will continue to grow in the next few years.

Leveraging on its competitive R&D efforts in biomedical materials, manufacturing and marketing platforms and comprehensive strengths in the technology and quality control of products, the Group's products, based on their characteristics and efficacy, have established the differentiated positioning and supplementary development, thus leading the trend of combined application of HA dermal filler in the non-invasive medical aesthetic market in the PRC. Meanwhile, the marketing team of the Group strived to enhance the consumer experience through multidimensional services for medical institutions, practitioners and consumers, and build brand attributes and dominate the lifestyle of consumer groups so as to improve the adhesiveness among the brands, medical institutions and consumers. During the Reporting Period, the Group's HA dermal filler products recorded sales revenue of RMB306.16 million, representing an increase of approximately RMB66.81 million, or 27.91%, as compared to the corresponding period in 2021. With the support of the Group, Bioxis, the Group's HA dermal filler manufacturer in France, gradually unleashed its production capacity during the Reporting Period and enhanced its ability to meet the demand of overseas markets, thus achieving a significant increase in revenue. During the Reporting Period, the third-generation HA dermal filler "Hyalumatrix" produced by the Group won the market's recognition for its high-end HA dermal filler due to its non-particle and high cohesion features, making it less susceptible to deformation and displacement after injection, and giving it a longer-lasting effect, with an increase in the sales revenue by nearly 30% as compared to the corresponding period in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the revenue of the Group from hEGF products was RMB149.82 million, representing an increase of approximately RMB22.57 million, or 17.73%, as compared to the corresponding period in 2021. The increase in the revenue of hEGF products was due to the fact that the Group expanded its ancillary saline production capacity at the end of 2021, which eased the constraints of insufficient production capacity; on the other hand, the Group strengthened the academic promotion of this product, practitioners' awareness of product efficacy has been continuously strengthened, and the application of the product has been extended from traditional departments such as burns and dermatology to pediatrics, oncology, stomatology, general surgery, obstetrics and gynecology, endocrinology, gastroenterology and other departments.

During the Reporting Period, the revenue of the Group from the radio frequency and laser equipment product line was RMB288.36 million, which was mainly generated by Juva Medical Group. EndyMed Ltd., an Israeli-listed subsidiary of Juva Medical Group, focuses on Radiofrequency beauty equipment. Laserconn, a subsidiary of Juva Medical, focuses on laser beauty equipment and has its products mainly exported to overseas markets. The Company has included Juva Medical Group into its consolidated statements since September 2021. The revenue of the radio frequency and laser equipment product line in the consolidated statements of the Group in 2021 was only RMB94.39 million for the last four months.

Orthopedics Products

During the Reporting Period, the revenue of the Group from orthopedics products amounted to RMB386.48 million, representing a slight decrease of 3.38% as compared to the corresponding period in 2021. The breakdown of the revenue from the orthopedics products by specific products is as follows:

Item	2022		2021		Change
	RMB'000	%	RMB'000	%	(%)
Sodium hyaluronate injection	258,435	66.87	263,502	65.88	(1.92)
Medical chitosan used for intra-articular viscosupplement	128,042	33.13	136,499	34.12	(6.20)
Total	386,477	100.00	400,001	100.00	(3.38)

In the field of orthopedics, the Group is the largest domestic manufacturer of orthopedic intra-articular viscoelastic supplements. Orthopedic intra-articular viscoelastic supplements are mainly used in degenerative osteoarthritis. Degenerative osteoarthritis is also a common disease in the senior population. According to statistics, the incidence of osteoarthritis in men over the age of 65 is 58%, and that in women is 65% to 67%; the incidence of people over the age of 75 is as high as 80%. At present, there are more than 100 million osteoarthritis patients in China. The Group is the only manufacturer having sodium hyaluronate injection products with full series of specifications of 2mL, 2.5mL and 3mL in the PRC market. Meanwhile, the water-soluble chitosan technology used in the Group's medical chitosan product (for intra-articular viscosupplement) is the exclusive patented technology of the Group, making the product the only intra-articular viscoelastic supplement registered as a Class III medical device in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's medical chitosan product (for intra-articular viscosupplement) and sodium hyaluronate injection product have formed unique therapeutic effects and synergic advantages. With a good pricing system, the product portfolio continued to expand its market share. According to the research reports of Biaodian Medical, in 2021, the Group has been ranked the largest manufacturer of orthopedic intra-articular viscoelastic supplements in the PRC for eight consecutive years, with a market share continuously increasing from 43.30% in 2020 to 45.49% in 2021.

Anti-adhesion and Hemostasis Products

According to the research report of Biaodian Medical, the Group was the largest supplier of anti-adhesion materials in China, with the share of the anti-adhesion materials market reaching 28.85% in 2021. During the Reporting Period, the Group's anti-adhesion and hemostasis products recorded revenue of RMB176.27 million, representing a decrease of approximately RMB15.66 million, or 8.16%, as compared to the corresponding period in the previous year. The breakdown of the revenue from the anti-adhesion and hemostasis products by specific products is as follows:

Item	2022		2021		Change
	RMB'000	%	RMB'000	%	(%)
Medical chitosan used for anti-adhesion	73,203	41.53	94,222	49.09	-22.31
Medical sodium hyaluronate gel	82,613	46.87	76,272	39.74	8.31
Collagen sponge	20,456	11.60	21,434	11.17	-4.56
Total	176,272	100.00	191,928	100.00	-8.16

DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT

Development Strategy

The Group always aims to continuously improve the health quality of Chinese people and promote the rehabilitation of patients, and takes differentiated development as its corporate strategy. The Group will continue to focus on four fast-growing therapeutic areas, including ophthalmology, medical aesthetics and wound care, orthopedics and surgery. The Group will pay attention to scientific research innovation and achievement transformation, and strengthen professional services; continue to maintain the Company's leading position in technology through cooperation with domestic and foreign well-known R&D institutions, independent R&D and technology introduction; continuously optimize and improve management capabilities and improve operational efficiency; continuously expand and improve product lines and integrate the industrial chain through the combination of endogenous growth and mergers and acquisitions; strengthen the Company's brand building and enhance brand value, making the Group a leading domestic and internationally renowned biomedical company in the field of biomedical materials.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Plan

In 2023, the Group will continue to deeply promote the deployment of internal resources of the Group, and further strengthen the integration of merged and acquired enterprises in all aspects of R&D, production, sales and services, enabling merged and acquired enterprises to quickly integrate into the Group's management system. This aims to maximize synergy, improve operational efficiency, develop innovative technologies, and expand market space, while continuing to enhance core competitiveness.

In the field of ophthalmology, the Group will, by utilizing its superior R&D resources in China, the US, the UK and France and by continuing the R&D investment in innovative products, keep promoting the upgrade of product portfolios. In 2023, the Group will focus on promoting the clinical trials of hydrophobic toric aspheric IOL and multifocal IOL in the IOL product line, second generation of the aqueous humor permeable refractive lens with crystalline lens in the refractive correction product line, and other important projects, and researching and developing multifocal toric IOL and other products. In terms of marketing, the Group will pay continuous attention to changes in the policy environment such as volume-based procurement of IOL and medical insurance payment. By making use of the Group's multi-brand product line advantages, channel advantages and cost advantages, the Group has formulated scientific benchmarking strategies to ensure that its IOL series products can achieve good bidding results. Meanwhile, the Group has adjusted sales strategies in time to respond to the new marketing pattern in the post volume-based procurement era. In the field of myopia prevention and control, in 2023, the Group will continue to explore the integrated marketing and brand operation of products such as "Maierkang myOK", "Hiline" and "Optoshare" (童享) and accelerate the market penetration of the Group's Orthokeratology Lens product line, so as to increase the overall market share.

In the field of medical aesthetics and wound care, in 2023, the Group will take advantage of the efficacy and price positioning of the "Matrifill" and "Janlane" and "Hyalumatrix" series of HA dermal filler products to focus on building the brand image of "Hyalumatrix" high-end HA dermal filler products, strengthen the market promotion of "Janlane" HA dermal filler products for the new indications, assist downstream medical and aesthetic institutions to develop unique injection solutions for the indications, further expand the market penetration, expand the overall market share of the Group's HA dermal filler series products and strengthen the leading position of the Group's domestic HA dermal filler brand for injection through the extensive sales network. Meanwhile, the Group will leverage its rich experience and competitive R&D platform of absorbable biological materials to explore leading innovative cross-linking technology. In 2023, the Group will accelerate the registration and application of the fourth generation of organic cross-linked HA dermal filler products, and start the pre-launch market warm-up work. The Group will also integrate its advantageous resources with Juva Medical to give full play to the high synergy between the Group and Juva Medical in terms of technology R&D, product layout and marketing. Through collaborative R&D, advanced process and exchanges on quality control technology, the Group will strengthen its technological strength and product competitiveness in the field of biological materials and dermatology, and launch new products jointly developed by both parties to the market. In addition, in 2023, the Group will continue to promote the integration of the domestic and overseas direct sales and e-commerce teams of both parties covering three major application scenarios, namely medical aesthetics, life aesthetics and home aesthetics, to share their respective original customer resources and improve operational efficiency and sales achievement rate.

In 2023, the Group will continue to use its own funds effectively, explore the fast-growing therapeutic areas such as ophthalmology, medical aesthetics, orthopedics and surgery, actively seek advanced technologies and excellent products and take the opportunity to introduce technologies or invest in cooperation, so as to increase the product reserve and ensure the long-term sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, Cost and Gross Profit Margin

During the Reporting Period, the Group recorded total revenue of approximately RMB2,103.44 million (2021: approximately RMB1,750.12 million), representing an increase of approximately RMB353.32 million, or approximately 20.19%, as compared to that in 2021. The Group sought the deployment in myopia prevention and control and refractive correction, especially, with the inclusion of Nanpeng Optics in the scope of consolidation of the Company in January 2022, the income from Orthokeratology Lens and its ancillary products has increased by approximately RMB123.97 million during the Reporting Period as compared to that during the previous year. In addition, Juva Medical was included in the consolidation scope of the Company in September 2021, and the annual revenue of Juva Group in the Reporting Period was consolidated, while only its revenue of the last four months of the previous year was consolidated, contributing approximately RMB236.18 million to the revenue growth of the Group.

During the Reporting Period, the overall gross profit margin of the Group was 68.79%, representing a decrease as compared to approximately 71.98% in 2021, primarily due to the lowered gross profit margin of the radio-frequency and laser equipment industry where Juva Medical Group operates and the orthopedic lens agent sales business operated by Nanpeng Optics than that of the original products of the Group, hence lowering the overall gross profit margin for the Reporting Period.

Other Income and Gains

During the Reporting Period, other income and gains of the Group were approximately RMB147.85 million, which decreased by approximately RMB50.58 million or 25.49% compared to approximately RMB198.43 million in 2021, mainly because the Group had received approximately RMB56.22 million in dividend income from Shenwu No.1 investment product in 2021, but no such dividend income was received during the Reporting Period.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were approximately RMB679.53 million, representing an increase of approximately RMB67.19 million, or approximately 10.97%, from approximately RMB612.34 million in 2021. During the Reporting Period, the salary and bonus of the Group's sales staff increased by approximately RMB44.84 million compared to 2021, mainly due to the inclusion of Nanpeng Optics and Juva Group in the scope of consolidation. At the same time, the amortization expense resulting from the acquisition of the exclusive distribution right recognised by Nanpeng Optics increased by approximately RMB8.34 million. In addition, share-based payment expenses of approximately RMB5.77 million were included in sales and distribution expenses during the Reporting Period as a result of the Company's implementation of the equity incentive plan, while there was no such expense in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were approximately RMB405.30 million, representing an increase of approximately RMB119.21 million, or approximately 41.67%, from approximately RMB286.09 million in 2021, mainly because: 1) during the Reporting Period, the salary and bonus of the Group's administrative staff increased by approximately RMB50.79 million compared with 2021; 2) the amortization expense of intangible assets such as non-patented technologies and customer relations, which are recognised in the acquisition of Juva Group and Nanpeng Optics, increased by approximately RMB16.18 million; 3) due to the implementation of the equity incentive plan by the Company and Juva Medical, the Group recognised the share-based payment expenses of approximately RMB23.17 million in the administrative expenses during the Reporting Period; and 4) during the Reporting Period, legal and other intermediary service expenses incurred by the Group in connection with litigation, investment due diligence and other business increased by approximately RMB9.87 million as compared to 2021.

R&D Expenses

During the Reporting Period, the R&D expenses of the Group were approximately RMB182.19 million, representing an increase of approximately RMB14.59 million, or approximately 8.71%, from approximately RMB167.60 million in 2021, mainly because the Group continued to increase investment in the R&D of the innovative product lines of ophthalmology and medical aesthetics. During the Reporting Period, the proportion of the R&D expenses of the Group in its total expenses was high at 8.66% (2021: 9.58%).

Other Expenses

During the Reporting Period, the Group's other expenses amounted to approximately RMB72.41 million, representing an increase of approximately RMB62.50 million or 630.68% from RMB9.91 million in 2021. The main reasons include: 1) during the Reporting Period, due to the termination of the distribution agreement between the US subsidiary Aaren and the original domestic exclusive distributor, the domestic sales channels of Aaren's Aaren-branded and Aishuming-branded IOL products was faced with re-integration. The Company's management thought that Aaren's business showed signs of impairment and conducted an impairment test. According to the results of the impairment test, the total impairment loss on the goodwill, intangible assets and other long-term assets of the Aaren business amounted to approximately RMB46.07 million; 2) during the Reporting Period, the Group set aside a total loss of approximately RMB8.17 million for the inventories with a long storage life and those nearing their expiration date; and 3) The loss due to the change in fair value recognised this year was approximately RMB7.78 million, which was because that the fair value of Recros Medica convertible bond subscribed by the Group for USD1 million in 2021 was zero at the end of the Reporting Period, and the recognised loss from the change in fair value was approximately RMB6.38 million. And the convertible bonds of Bioxis, a French company subscribed by the Group, recognized a loss of approximately RMB1.40 million on fair value changes due to the depreciation of the Euro.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were approximately RMB45.40 million (2021: approximately RMB35.37 million), with an effective tax rate of 19.26%, up some 10.02 percentage points since 2021, mainly because during the Reporting Period, the subsidiaries with a 25% statutory tax rate recorded more profits, and some subsidiaries with losses did not recognise the deferred tax assets.

Results of the Year

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB180.47 million (2021: RMB352.23 million), representing a decrease of approximately RMB171.76 million, or approximately 48.76%, as compared to that in 2021, which was mainly attributable to the following factors: 1) from March to May 2022, the production and operation of the Company and its three major manufacturing subsidiaries in Shanghai were suspended, resulting in a loss of approximately RMB37.35 million due to the shutdown; 2) the newly recognized share-based payment expenses resulting from the implementation of the equity incentive plan by the Company and its subsidiaries totaled approximately RMB30.23 million; 3) as mentioned above, during the Reporting Period, the impairment loss of various assets recognised by the Group was approximately RMB54.24 million, and the loss of the change in fair value was approximately RMB7.78 million and 4) during the Reporting Period, the Group did not receive dividends from Shenwu No. 1 Investment Product (in 2021, the Group received dividends in the amount of approximately RMB56.22 million from Shenwu No. 1 Investment Product).

During the Reporting Period, the basic earnings per share were RMB1.04 (2021: RMB2.00).

Liquidity and Capital Resources

As at 31 December 2022, the total current assets of the Group were approximately RMB3,532.12 million, representing a decrease of approximately RMB180.47 million, or approximately 4.86%, as compared to that as at 31 December 2021, which was mainly due to the decrease of cash and bank balance at the end of the year caused by the Group's continuous investment in various engineering projects, equity investment expenditure and cash flow expenditure such as H-share repurchase.

As at 31 December 2022, the total current liabilities of the Group were approximately RMB511.28 million, representing an increase of approximately RMB24.01 million, or approximately 4.93%, as compared to that as at 31 December 2021, which was mainly because some profitable subsidiaries enjoyed deferral on the payment of taxes and Nanpeng Optics has been included in the scope of consolidation, and the balance of income tax payable at the end of the year increased.

As at 31 December 2022, the Group's current assets to liabilities ratio was approximately 6.91 (31 December 2021: 7.62), representing a slight decrease as compared to that as at the end of 2021, but it was still at a relatively high and stable level.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Policy

The Group had 1,990 employees as at 31 December 2022. The breakdown of the total number of employees by function was as follows:

Production	701
R&D	344
Sales and Marketing	599
Finance	86
Administration	260
Total	1,990

During the Reporting Period, the remuneration policy for its employees had no material change, the employees' remuneration is based on their working experience, daily performance, the operation situation of the Company and external market competition. During the Reporting Period, the total remuneration of the Group's employees amounted to approximately RMB533.22 million, representing an increase of approximately RMB118.84 million from approximately RMB414.38 million in 2021, which was mainly because: 1) an increase of approximately RMB96.36 million of the Group's total employee remunerations during the Reporting Period with the inclusion of Nanpeng Optics into the scope of consolidation of the Company and the consolidation of the full-year results of Juva Group; and 2) a natural increase in employee compensation due to the expansion of the business, the increase in the number of employees and the normal salary adjustment.

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the core management personnel, core technical or operational personnel and fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members and bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized, the Board approved the proposed adoption of the 2021 Restricted A Share Incentive Scheme on 29 December 2021.The Incentive Scheme was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022. During the Reporting Period, the Board has resolved to grant a total of 1,800,000 Restricted Shares in the First Grant and Reserved Grant, pursuant to the Incentive Scheme on 11 March 2022 and 16 November 2022, respectively.

During the Reporting Period, the Group has regularly provided various thematic training programs for its employees. The training subjects include the applicable laws and regulations for operations, pharmacovigilance system, quality control, anti-corruption, production safety and corporate culture, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury Policies

The Group adopts centralized financing and treasury policies designed to strengthen the control on bank deposits and to ensure the secured and efficient use of the Group's capital. Surplus cash of the Group is generally placed in short-term deposits denominated in RMB, US dollars and HKD. It is the Group's policy to enter into principal guaranteed and conservative deposits transactions only and the Group is restricted from investing in high-risk financial products.

Asset Pledge

As at 31 December 2022, the quality guarantee letter and the performance guarantee letter issued were secured by the Group's bank deposits of approximately RMB0.61 million and RMB1.84 million respectively. As at 31 December 2021, the quality guarantee letter issued was secured by the Group's bank deposits of approximately RMB0.62 million.

In addition, NIMO, a subsidiary of the Company, obtained banking facility of not more than RMB65.00 million by pledging all of its trade receivables as at 31 December 2022 and 31 December 2021.

Gearing Ratio

As at 31 December 2022, the total liabilities of the Group amounted to approximately RMB990.02 million and the gearing ratio (the percentage of total liabilities to total assets) was 14.36%, representing an increase of 1.55 percentage points from 12.81% as at 31 December 2021, which was primarily due to the increased total liabilities while relatively stable total assets. In addition to the above-mentioned increase in total current liabilities as at the end of the Reporting Period as compared to 31 December 2021, the increase in the Group's total non-current liabilities of approximately RMB75.94 million as at the end of the Reporting Period as compared to 31 December 2021. This was mainly because the Company borrowed long-term bank loans of approximately RMB41.75 million for business needs during the Reporting Period, and in connection with the merger and acquisition of Juva Group, the Company granted a share redemption option to Juva Group minority shareholders, resulting in an increase in the fair value of non-current liabilities related to the share redemption option of approximately RMB34.44 million. These factors combined have increased the gearing ratio of the Group.

Cash and Cash Equivalents

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB559.20 million, representing a decrease of approximately RMB724.69 million from that of approximately RMB1,283.89 million as at 31 December 2021. The decrease was mainly attributable to net cash flows used in investing activities and financing activities of approximately RMB681.82 million and RMB288.35 million, respectively, which were partially offset by net cash flows generated from operating activities of approximately RMB231.30 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank Borrowings

As at 31 December 2022, the Company, NIMO and Bioxis (the subsidiaries of the Company), had interest-bearing bank borrowings of approximately RMB41.75 million, RMB5.31 million and EUR0.72 million (equivalent to approximately RMB5.35 million) respectively.

As at 31 December 2021, NIMO and Bioxis had interest-bearing bank borrowings of approximately RMB25.18 million and EUR0.68 million (equivalent to approximately RMB4.91 million) respectively.

Foreign Exchange Risk

The sales, costs and expenses of the Group were principally and mostly denominated in RMB. Despite the fact that the Group might be exposed to foreign exchange risk, the Board expects that exchange rate fluctuation of the foreign currencies held by the Group will not have any material adverse impact on the Group in the future. During the Reporting Period and as at 31 December 2022, the Group did not enter into any hedging transactions.

Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities.

Significant Subsequent Event

Please refer to note 47 to the financial statements in this annual report for the details of significant subsequent event of the Group.

Future Plans for Material Investments and Capital Assets

Saved as disclosed in this annual report, the Group has no any other material investment plans or capital asset plans during the year ended 31 December 2022.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this annual report, the Group did not have any material acquisitions and disposals related to subsidiaries, associates and joint ventures during the year ended 31 December 2022.

Significant Investment

Save as disclosed in this annual report, the Group has no other significant investment during the year ended 31 December 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Purchase, Sales or Redemption of Listed Securities

At the 2020 annual general meeting, the 2021 first A Shareholders' class meeting and the 2021 first H Shareholders' class meeting of the Company held on 11 June 2021, a proposal was approved to grant the Board a general mandate to repurchase the Company's H Shares. Pursuant to such authorization, the Company repurchased a total of 1,692,100 H Shares on the Hong Kong Stock Exchange during the period from 30 December 2021 to 17 January 2022, using a total amount of approximately HK$89,803,495. On 7 July 2022, such H Shares repurchased by the Company were cancelled, the total number of Shares of the Company was 174,130,000 Shares after the cancellation.

At the 2021 annual general meeting, the 2022 second A Shareholders' class meeting and the 2022 second H Shareholders' class meeting of the Company held on 29 June 2022, a proposal was approved to grant the Board a general mandate to repurchase the Company's H Shares. Pursuant to such authorization, the Company repurchased a total of 2,859,000 H Shares on the Hong Kong Stock Exchange during the period from 5 September 2022 to 8 November 2022, using a total amount of approximately HK$83,897,235. On 14 February 2023, such H Shares repurchased by the Company were cancelled, the total number of Shares of the Company was 171,271,000 Shares after the cancellation.

Save as disclosed in this annual report, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

REPORT OF THE DIRECTORS

The Board presents their report and the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL BUSINESS

We focus on the research and development, manufacturing and sales of biomedical materials. We strategically target the fast-growing therapeutic areas in the biomedical material market in China, including ophthalmology, medical aesthetics and wound care, orthopedics, anti-adhesion and hemostasis.

BUSINESS REVIEW

A fair review of the Group's business during the Reporting Period is provided in the Chairman's Statement on page 5 and the Management Discussion and Analysis on pages 7 to 24 in this annual report. Description of the risks and uncertainties that the Group may face can be found in the Internal Control, Audit and Risk Management of the Corporate Governance Report on pages 63 to 65 in this annual report. The objectives and policies on financial risk management of the Group are also set out in the note 46 to the financial statements. The events since the end of the Reporting Period and as at the date of this report can be found in Management Discussion and Analysis on page 23 and the note 47 to the financial statements in this annual report. Financial Highlights of the Group are set out on page 4 in this annual report, in which the Group's performance during the Reporting Period is analyzed with financial key performance indicators. In addition, an account of the Group's environmental policies, the Company's relationships with its stakeholders and compliance with relevant laws and regulations that exerts material impact on the Group are included in the Environmental, Social and Governance Report on page 71 in this annual report. The probable future business development of the Company is discussed in Management Discussion and Analysis on page 17 in this annual report. All such cross-referenced parts of this annual report form part of this "Report of the Directors".

RESULTS

The Group's results for the Reporting Period and the financial position of the Group as at 31 December 2022 are set out in the audited consolidated financial statements on pages 128 to 241 in this annual report.

A discussion and analysis of the Company's performance during the year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 7 to 24 in this annual report.

REPORT OF THE DIRECTORS

DIVIDENDS

On 24 March 2023, the Directors proposed to declare the final dividend of RMB0.40 (inclusive of tax) per ordinary share, amounting to RMB68,508,400 for the year ended 31 December 2022. If the total share capital of the Company changes before the record date, the Company will maintain the proportion of dividend distribution per share unchanged, and adjust the total amount of distribution accordingly based on the total share capital as at the record date.

I. Holders of A Shares

In accordance with the Notice of Ministry of Finance, State Administration of Taxation and CSRC on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《財政部、國家税務總局、中國證監會關於上市公司股息紅利差別化個人所得税政策有關問題的通知》(財税[2015]101號)), for shares of listed companies obtained by individuals from public offerings or the market, where the holding period exceeds one year, the dividends shall be temporarily exempted from individual income tax; where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income and where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. For dividends distributed by the Listed Company, where the period of individual shareholding is within one year (inclusive), the Listed Company shall not withhold the individual income tax temporarily. The tax amount payable, subject to individual transfer of shares, shall be calculated by China Securities Depository and Clearing Corporation Limited in accordance with its terms of shareholding. Custodian of shares including securities companies will withhold the tax amount from individual accounts and transfer the tax amount to China Securities Depository and Clearing Corporation Limited. China Securities Depository and Clearing Corporation Limited shall transfer the tax amount to the Listed Company within 5 working days of the next month, and the Listed Company shall declare the tax to the competent tax authorities upon receiving the tax amount within the statutory reporting period in that month.

Resident enterprise shareholders of A Shares shall report and pay for the enterprise income tax of dividends by themselves.

For the shareholders who are Qualified Foreign Institutional Investor (**QFII**), the Listed Company shall withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice of State Administration of Taxation Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《國家税務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得税有關問題的通知》(國税函2009[47]號)). QFII shareholders who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates (arrangements) according to the relevant rules and regulations after they receive the dividends, and tax rebates will be executed under tax agreements upon verification carried out by competent tax authorities.

Pursuant to the requirements of the Notice of the Ministry of Finance, the State Administration of Taxation and the CSRC on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), listed companies shall withhold an income tax at the rate of 10% on dividends from the A shares of the company invested by Hong Kong investors (including enterprises and individuals) through the SSE, and apply for withholding via the competent tax authorities (before the Hong Kong Securities Clearing Company Limited is able to provide details such as investor identities and holding periods to China Securities Depository and Clearing Corporation Limited, the policy of differentiated rates of taxation based on holding periods will temporarily not be implemented). For investors who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authority of the listed company for the entitlement of the rate under such tax treaty. Upon approval by the competent tax authority, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

II. Holders of H Shares

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules effective on 1 January 2008, where a PRC domestic enterprise distributes dividends for financial periods beginning from 1 January 2008 to non-resident enterprise shareholders, it is required to withhold 10% enterprise income tax for such non-resident enterprise shareholders. Therefore, the Company will, after withholding 10% of the final dividend as enterprise income tax, distribute the final dividend to non-resident enterprise shareholders, i.e. any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H Shares registered in the name of other organizations and groups.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No. 348) and relevant laws and regulations, if the individual holders of H shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these shareholders. However, if otherwise provided by tax laws, relevant tax treaties or notices, the tax will be withheld in accordance with the relevant requirements and tax levy and administration requirements.

REPORT OF THE DIRECTORS

According to the requirements of the Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect published by the Ministry of Finance, the State Administration of Taxation and the CSRC (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), H-share companies shall withhold an individual income tax at the rate of 20% on dividends from the H shares of the company invested by mainland individual investors on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds from investment through the Shanghai-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland enterprise investors from investment through the Shanghai-Hong Kong Stock Connect, H-share companies shall not withhold income tax of dividends, and mainland enterprise investors shall report and pay the tax amount by themselves. In particular, the dividends received by resident enterprises in mainland which hold H shares for at least 12 consecutive months shall be exempted from enterprise income tax according to law.

According to the requirements of the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect published by the Ministry of Finance, the State Administration of Taxation and the CSRC (Cai Shui [2016] No. 127) (《財政部、國家稅務總局、中國證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), H-share companies shall withhold an individual income tax at the rate of 20% on dividends from the H shares of the company invested by mainland individual investors on the Hong Kong Stock Exchange through the Shenzhen-Hong Kong Stock Connect. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds from investment through the Shenzhen-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland enterprise investors from investment through the Shenzhen-Hong Kong Stock Connect, H-share companies shall not withhold income tax of dividends, and mainland enterprise investors shall report and pay the tax amount by themselves. In particular, the dividends received by resident enterprises in mainland which hold H shares for at least 12 consecutive months could be exempted from enterprise income tax according to law.

The shareholders of the Company shall pay the relevant tax and/or are entitled to tax reliefs in accordance with the above requirements.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which, in order to maintain the balance of the Company's reasonable return on investment to investors and the sustainable development of the Group, the Board shall take into account the following factors when formulating the profit distribution plan: (1) the actual and expected financial results of the Group; (2) the dividends received by the Company from the subsidiaries; (3) the contract restrictions of the Group; (4) the Group's expected funding needs and future expansion plans; (5) the characteristics of the industry in which the Group operates; (6) external factors that have an impact on the Group's business, financial performance and positioning; (7) other factors that the Board considers appropriate.

In accordance with the Articles of Association, the Company's profit distribution policy is as follows:

1. Profit distribution principles: the Company adopts consistent and stable profit distribution policies, which should emphasize on investors' reasonable investment return while maintaining sustainable development of the Company, but the profit distribution shall not exceed the range of the accumulated distributable profits or damage the Company's ability to continue operations.

2. Form of the profit distribution: the Company may distribute profit in the form of cash, shares, or by the combination of cash and shares, and shall adopt cash distribution as the prioritised mean to distribute profit provided that the conditions for cash distribution are satisfied.

3. Profit distribution interval: (1) the Company must make profit distribution at least once a year, provided that the Company records profit for the year with positive accumulative profit undistributed; (2) the Company may make interim profit distribution. The Board may propose to declare interim dividend according to the current profit scale, cash flows, development stage and capital needs.

4. The Board shall propose differentiated cash dividend policies according to the procedures as set out in the Articles of the Association by considering the following different circumstances after taking into full consideration the characteristics of the industry in which the Company operates, its stage of development, its business model, profitability and whether there are any arrangements for significant capital expenses: (1) if the Company is at mature stage and there are no arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 80% of the total profit to be distributed; (2) if the Company is at mature stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 40% of the total profit to be distributed; (3) If the Company is at growth stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 20% of the total profit to be distributed; If the stage of development of the Company is difficult to identify and there are arrangements for significant capital expenses, the preceding provision shall apply.

5. The specific conditions for the cash dividend distribution are as follows: (1) positive figures are recorded for the distributable profits of the Company (i.e. the remaining after-tax profits after the Company has covered loss and has extracted statutory reserve fund) during the preceding financial year; (2) a standard unqualified audit report is issued by an auditor for the financial report of the Company during the preceding financial year. If the Company recorded negative distributable profits for the preceding financial year or the auditor issued non-standard qualified audit report, the Company shall not distribute cash dividends during that year; (3) the Company has no such events as major investment plans or significant cash expenditures (excluding fund-raising projects).

REPORT OF THE DIRECTORS

FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five financial years is set out on page 4 in this annual report. This summary does not form part of the audited consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out on pages 137 to 138 in this annual report.

USE OF PROCEEDS FROM THE A SHARE OFFERING

As approved by the document "Approval in Relation to Registration of the Initial Public Offering of Shanghai Haohai Biological Technology Co., Ltd." (Zheng Jian Xuke 2019 No. 1793) granted by CSRC, the Company was permitted to issue 17,800,000 ordinary shares (A Share) in RMB to the public at an issue price of RMB89.23 per Share. The total amount raised amounted to RMB1,588,294,000. After deducting the issuing expenses, the proceeds amounted to approximately RMB1,529,268,758. The share proceeds have been fully received, and have been verified by Ernst & Young Hua Ming LLP. The proceeds are held in dedicated accounts of the Company.

I. Management of share proceeds

In order to reinforce and regulate the management and use of the fund raised, enhance the efficiency and benefits of use of proceeds, and protect investors' interests, the Company formulates the "Share Proceeds Management System of Shanghai Haohai Biological Technology Co., Ltd." (the "**Management System**") in accordance with requirements of the applicable laws and regulations, together with the actual situation of the Company. According to the Management System, the Company adopts a dedicated account storage system for the share proceeds, establishes a dedicated account for the share proceeds in the bank, and signed the "Tripartite Supervision Agreement on Dedicated Account for Share Proceeds" with the sponsor UBS Securities Co., Ltd., Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd. and Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd., signed the "Quadripartite Supervision Agreement on Dedicated Account for Share Proceeds" with Shanghai Jianhua, the sponsor and Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd., both of which clarified the rights and obligations of all parties. There is no significant difference between the above-mentioned supervision agreements and the model of supervision agreement of SSE. The Company has strictly followed the performance when using the share proceeds, in order to facilitate the management and use of the share proceeds and to monitor their use and ensure that the special funds are used exclusively.

II. Actual use of share proceeds

The Company strictly uses the share proceeds in accordance with the Management System. For details of the actual use of share proceeds by the raised capital investment projects, please refer to the "Comparison Table of Use of Share Proceeds of A Share Offering for 2022".

Comparison Table of Use of Share Proceeds of A Share Offering for 2022

Unit: RMB ten thousand

Net amount of share proceeds	152,926.88	Total share proceeds invested during the year	20,863.79
Total amount of share proceeds involving changes in investment purpose	-	Accumulated total of share proceeds investments	88,254.50
As a percentage of the total amount of share proceeds involving changes in investment purpose	-		

Committed projects	If changed (including partial changes)	Committed Total Investment from Proceeds	Total investment after Adjustments	Total Amount committed for Investment as of the end of the Reporting Period (1)	Total amount invested during the Reporting Period	Accumulated Amount Invested as of the end of the Reporting Period (2)	Difference between Accumulated Total Amount invested and the Total Amount Committed for Investment as of the end of the Reporting Period (3)=(2)-(1)	Investment Rate (%) as of the end of the Reporting Period (%) (4)=(2)/(1)	Date of project becoming Ready for Intended Use	Profits Achieved during the year	Whether the Expected profits have been achieved	Whether there are any Material Changes in relation to the Feasibility of the Projects
Committed projects												
International Medical R&D and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目)(note 1)	-	128,413.00	128,413.00	128,413.00	20,863.79	63,369.15	-65,043.85	49.35	2025	-	N/A(note 2)	No
Supplementary liquidity (note 3)	-	20,000.00	20,000.00	20,000.00	-	20,135.79	135.79	100.68	N/A	N/A	N/A	No
Subtotal of committed investment projects	-	148,413.00	148,413.00	148,413.00	20,863.79	83,504.94	-64,908.06	56.27	-	-	-	-
Surplus proceeds investment (note 4)												
Supplementary liquidity	-	1,300.00	-	-	-	-	-	-	N/A	N/A	N/A	No
Fengxian-base Phase I Construction Project of Shanghai Jianhua Fine Biological Products Company Limited (建華生物奉賢基地一期建設項目)	-	-	4,552.22	4,552.22	-	4,749.56	197.34	104.34	2021	-	N/A	No
Sub-total of surplus proceeds	-	1,300.00	4,552.22	4,552.22	-	4,749.56	197.34	104.34	-	-	-	-
Total	-	149,713.00	152,965.22	152,965.22	20,863.79	88,254.50	-64,710.72	57.70	-	-	-	-

REPORT OF THE DIRECTORS

Reasons for projects no progressing as scheduled (by specific fundraising projects)	The International Medical R&D and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd. ("Project 208") is planned to reach the intended usable state at the end of 2023. However, at the beginning of 2020, the construction personnel of Project 208 could not arrive in time as planned, resulting in the failure of the construction progress of the project to come up to expectations. At the procurement stage of project equipment, the procurement, delivery and acceptance of relevant equipment, particularly imported equipment, became more troublesome. This prolonged the equipment confirmation and delivery and slowed down the implementation of Project 208. Having regard to the current construction progress of Project 208 and the use of share proceeds, Project 208 is expected to be postponed after prudent evaluation until the end of 2025 to reach a usable state, so as to tailor the construction results of fundraising projects to the production and operation needs of the Company. The Company adjusts the implementation progress of Project 208 based on its particular implementation conditions and after prudent consideration. The adjustment only involves the postponement of the date when Project 208 reaches the intended usable state. It does not change the investment content, investment purpose, total investment amount and implementation subject of the share proceeds, or in disguised form change the investment of the share proceeds and damage to the interests of shareholders. In short, the adjustment will not have a material adverse effect on the normal production and operation of the Company. The above postponement was considered and approved at the 34th meeting of the fourth session of the Board and the 21st meeting of the fourth session of the Supervisory Committee of the Company, and the sponsor issued verification opinions thereon.
Explanation for material changes in the feasibility of projects	N/A.
Initial investment in share proceed projects and replacement with share proceeds	During the year of 2022, there is no initial investment in share proceed projects and replacement with share proceeds of the Company.
Idle share proceeds used for short-term liquidity	During the year of 2022, there is no idle share proceeds used for short-term liquidity of the Company.

REPORT OF THE DIRECTORS

Cash management of idle share proceeds and investment in related products	The Proposal on the Use of Temporarily Idle Share Proceeds for Cash Management was considered and approved at the 30th meeting of the fourth session of the Board and the 18th meeting of the fourth session of the Supervisory Committee held on 20 December 2021. Pursuant to the proposal, the Company would use the temporarily idle fundraising share proceeds up to RMB980.00 million for cash management on the premise of not affecting the progression of the investment plan of the Company's share proceeds. The share proceeds will be used to purchase investment products with high security, good liquidity and guaranteed capital (including but not limited to agreement deposit, notice deposit, time deposit, large certificate of deposit and income certificate, etc.) for a period not exceeding the construction period of the fundraising investment project. The period will be valid for 12 months from the date of consideration and approval by the Board. Within the aforementioned quota and period, the Company can use it cyclically. The Proposal on the Use of Temporarily Idle Share Proceeds for Cash Management was considered and approved at the 6th meeting of the fifth session of the Board and the 6th meeting of the fifth session of the Supervisory Committee held on 19 December 2022. Pursuant to the proposal, the Company would use the temporarily idle share proceeds up to RMB870.00 million for cash management on the premise of not affecting the progression of the investment plan of share proceeds. The share proceeds will be used to purchase investment products with high security, good liquidity and guaranteed capital (including but not limited to agreement deposit, notice deposit, time deposit, large certificate of deposit and income certificate, etc.) for a period not exceeding the construction period of the fundraising investment project, which will be valid for 12 months from the date of consideration and approval by the Board. Within the aforementioned quota and period, the Company can use it cyclically. The sponsor has issued a verification opinion on the matter. In 2022, the Company used idle share proceeds to purchase investment products with high security, good liquidity and guaranteed capital, with an ending balance of RMB770,000,000.00, from Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd.
Surplus share proceeds used for permanently replenishing liquidity or returning bank loans	During the year of 2022, the Company did not use surplus share proceeds for permanently replenishing liquidity or returning bank loans.
Surplus shares proceeds used for projects under construction and new projects	During the year of 2022, there is no surplus shares proceeds used for projects under construction and new projects of the Company.
Surplus share proceeds of projects and the reasons	N/A.
Other uses of share proceeds	During the year of 2022, there is no other uses of the share proceeds of the Company.

Note 1: The amounts in this column are tax-included amounts.

Note 2: As of 31 December 2022, the construction of the "International Medical R&D and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd." have not been completed.

Note 3: Supplementary liquidity has been invested a total of RMB201.3579 million, which is RMB1.3579 million more than the total committed investment of RMB200.00 million, which is the net interest income from the share proceeds of the project.

Note 4: Surplus share proceeds has been invested a total of RMB47.4956 million, which is RMB1.9734 million more than the total committed investment of RMB45.5222 million, which is the net interest income from the share proceeds of the project.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Share capital of the Company as at 31 December 2022 was as follows:

	Number of shares	Percentage of total issued share capital
A Shares	137,800,000	79.136%
H Shares	36,330,000	20.864%

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Details of the H Shares repurchased by the Company during the year ended 31 December 2022 are as follows:

Month of repurchase in 2022	No. of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate Consideration(1) (HK$)
January	1,601,700	56.00	49.70	85,262,530.00
September	2,819,900	30.90	27.30	82,839,215.00
November	39,100	28.40	26.55	1,058,020.00
Total	4,460,700			169,159,765.00

Note (1): The aggregate consideration excludes transaction fee.

The Directors considered that such repurchase would lead to an enhancement of the net asset value per Share and/or earnings per Share of the Company.

Save as disclosed in this annual report, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS AND ARRANGEMENTS ON OPTIONS OF SHARES

There are no provisions for pre-emptive rights for the shareholders of the Company under the PRC laws and the Articles of Association. During the Reporting Period, the Company did not have any arrangement on options of shares.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers comprised 53.21% of the Group's total purchases for the year ended 31 December 2022, among which, the purchases attributable to the Group's largest supplier during the Reporting Period amounted to 19.08%.

REPORT OF THE DIRECTORS

During the Reporting Period, the aggregate sales attributable to the Group's five largest customers comprised 9.94% of the Group's total sales for the year ended 31 December 2022, among which, the sales attributable to the Group's largest customer during the Reporting Period amounted to 3.72%.

During the Reporting Period, none of the Directors or their close associates or shareholders which, to the knowledge of the Directors, owned more than 5% of the Company's total issued shares had any beneficial interest in the five largest suppliers or customers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during Reporting Period are set out in note 13 to the financial statements.

RESERVES

As at 31 December 2022, the amount of the Company's reserves available for distribution calculated in accordance with the relevant rules and regulations of the PRC is RMB904,838,000.

TAX RELIEF AND EXEMPTION

Saved as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

BANK LOANS AND OTHER BORROWINGS

During the Reporting Period, the information on the bank loans and other borrowings of the Group are set out in note 29 to the financial statements.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth the particulars of the Directors, Supervisors and senior management as at the end of the Reporting Period and as at the date of this annual report:

Name	Capacity
Dr. Hou Yongtai	Chairman and Executive Director
Mr. Wu Jianying	Executive Director and General Manager
Mr. Tang Minjie	Executive Director and Chief Financial Officer
Ms. Chen Yiyi	Executive Director
Ms. You Jie	Non-executive Director
Mr. Huang Ming	Non-executive Director
Mr. Guo Yongqing	Independent Non-executive Director
Mr. Jiang Zhihong	Independent Non-executive Director
Mr. Su Zhi	Independent Non-executive Director
Mr. Yang Yushe	Independent Non-executive Director
Mr. Zhao Lei	Independent Non-executive Director
Mr. Liu Yuanzhong	Chairman of the Supervisory Committee and Shareholder Supervisor
Ms. Yang Qing	Independent Supervisor
Mr. Tang Yuejun	Independent Supervisor
Mr. Wei Changzheng	Employee representative Supervisor
Ms. Song Xiao	Employee representative Supervisor
Ms. Ren Caixia	Deputy general manager
Mr. Zhang Jundong	Deputy general manager
Mr. Wang Wenbin	Deputy general manager
Ms. Tian Min	Secretary of the Board and one of the joint company secretaries

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation letters from all Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. Based on their confirmations, the Company considers that all Independent Non-executive Directors are independent.

PARTICULARS OF THE PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

See "Profiles of Directors, Supervisors and Senior Management" under this annual report for biographical details of Directors, Supervisors and senior management of the Company. Save as disclosed in that section, up to the date of this annual report, there were no changes in information of the Directors, Supervisors or chief executive which shall be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of our Directors (including our non-executive and Independent Non-executive Directors) has entered into a service contract with our Company for a term of three years subject to termination provision. Each of the Supervisors has entered into a service contract with our Company for a term of three years and in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration.

None of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group which is not determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in this annual report, no Director or Supervisor had a material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group or its subsidiaries, to which the Company or any of its subsidiaries and controlling companies or any of its subsidiaries entered into during or at the end of the Reporting Period.

CONTRACT OF SIGNIFICANCE

Except as disclosed in this annual report, during the Reporting Period, no contracts of significance in respect of provision of services or otherwise were entered into between the Company or its subsidiaries and the controlling shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

In order to restrict competition activities with the Company, our controlling shareholders, Ms. You Jie (who is also a non-executive Director of the Company) and Mr. Jiang Wei (who is the spouse of Ms. You Jie) (collectively, the "**Covenantors**") have entered into a deed of non-competition in favour of the Company dated 8 December 2014 (the "**Deed of Non-Competition**"). The undertakings and covenants stipulated under the Deed of Non-Competition cover any business which is or may be in competition with the Core Operations (as defined therein) or the business of any member of our Group from time to time within the territories of Hong Kong and the PRC and such other parts of the world where such businesses are carried on by any member of our Group.

REPORT OF THE DIRECTORS

In determining whether the Covenantors had fully complied with the non-competition undertakings during the year ended 31 December 2022, the Company noted that (a) the Covenantors declared that they had fully complied with the non-competition undertakings in the Non-Competition Deed as at 31 December 2022, (b) no new competing business was reported by the Covenantors as at 31 December 2022, (c) there was no particular situation rendering the full compliance of the non-competition undertakings being questionable, and (d) the Independent Non-executive Directors had reviewed the compliance of non-competition undertakings by the Covenantors as part of the annual review process stipulated in the Deed of Non-Competition.

During the year ended 31 December 2022, the Directors were not aware of any business or interest of the Directors, Supervisors or any substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

INDEMNITY OF THE DIRECTORS

Pursuant to provisions of the Articles of Association, the Company may insure against the various possible legal risks faced by the Directors, Supervisors, general manager and other senior management in the ordinary course of performing their duties and the Company has arranged appropriate liability insurance for the Directors, Supervisors and senior management of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of emoluments of Directors, Supervisors, senior management and five highest paid individuals of the Company are set out in notes 8 and 9 to the financial statements. During the Reporting Period, there was no arrangement under which any Directors or Supervisors of the Company waived their remuneration.

Executive Directors are remunerated according to their performance appraisal in accordance with the specific management positions they hold in the Group and are no longer separately remunerated as Directors, such remuneration will be determined by the Board. Non-executive Directors (including Independent Non-executive Directors) are remunerated at a fixed rate and should be determined by the Shareholders at the general meetings of the Company with reference to his/her background, experience and duties and responsibilities with the Company and the prevailing market conditions. Ms. You Jie, a non-executive Director, is not remunerated as a Director.

REPORT OF THE DIRECTORS

Remuneration of senior management members of the Company set out in this annual report, other than Directors and Supervisors, falls within the following bands:

Band	Number
RMB500,000-RMB1,000,000	3
RMB1,000,001-RMB1,500,000	1

REMUNERATION OF EMPLOYEES AND POLICIES

As at 31 December 2022, the Group had 1,990 employees in total. The remuneration package for our employees generally includes salary, allowances and bonuses. Employees can also receive benefits such as housing allowance and social insurance. The remuneration particulars of the employees of the Company are set out in note 6 to the financial statements.

PENSION SCHEME

Pursuant to the provisions of the relevant laws and regulations of the PRC, the Group is required to participate in contribution to retirement benefit schemes established by the relevant provincial and municipal government authorities. The Group and its employees are required to make contributions, at certain percentages of employees' total salaries, to the retirement benefit scheme in accordance with such scheme. Upon retirement, employees will receive the pension issued by the provincial and municipal government authorities on a monthly basis.

Details of the Company's pension scheme are set out in note 6 to the financial statements.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, none of the Directors or Supervisors or their respective associates (as defined in the Hong Kong Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights during the Reporting Period.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2022, the interests or short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of 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 required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 of the Hong Kong Listing Rules were as follows:

Name	Number of H Shares (shares)	Approximate percentage of total issued H Shares (%)	Number of A Shares (shares)	Restricted Shares[1] (shares)	Approximate percentage of total issued A Shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Hou Yongtai			5,982,000 (L)	50,000 (L)	4.38	3.46	Beneficial owner
Wu Jianying			6,000,000 (L)	70,000 (L)	4.40	3.49	Beneficial owner
Chen Yiyi			400,000 (L)	50,000 (L)	0.33	0.26	Beneficial owner
Tang Minjie	7,000 (L)	0.02		50,000 (L)	0.04	0.03	Beneficial owner
You Jie[2]			28,800,000 (L)		20.90	16.54	Beneficial owner
			50,920,000 (L)		36.95	29.24	Interest of spouse
Huang Ming			2,000,000 (L)		1.45	1.15	Beneficial owner
Liu Yuanzhong			2,000,000 (L)		1.45	1.15	Beneficial owner
Wei Changzheng[3]				2,000 (L)	0.001	0.001	Interest of spouse

Notes: L denotes long position

1. On 11 March 2022 and 16 November 2022, respectively, the Board has resolved to grant a total of 1,800,000 Restricted Shares in the First Grant and Reserved Grant, pursuant to the Company's 2021 Restricted A Share Incentive Scheme. As at 31 December 2022, such Restricted Shares have not yet been attributed.

2. Ms. You Jie directly holds 28,800,000 A Shares in the Company. She is the spouse of Mr. Jiang Wei and therefore she is deemed under the SFO to be interested in the 44,449,000 A Shares directly held by Mr. Jiang Wei and 6,471,000 A Shares held through Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) in the Company.

3. On 11 March 2022, 2,000 Restricted Shares were granted to the spouse of Mr. Wei Changzheng, a supervisor, pursuant to the Company's 2021 Restricted A Share Incentive Scheme. Mr. Wei Changzheng is therefore deemed to be interested in the 2,000 Restricted Shares under the SFO.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2022, none of the other Directors, Supervisors or any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, to the knowledge of the Directors of the Company, the interests or short positions of persons other than Directors, chief executives or Supervisors of the Company in the shares and underlying shares of the Company which were required to be notified to the Company and Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows. In the event of changes in the shareholding of the shareholders in the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the shareholders in the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS HOLDING A SHARES OF THE COMPANY

Name	Number of A Shares (shares)	Approximate percentage of total issued A Shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Jiang Wei[1]	44,449,000 (L)	32.26	25.53	Beneficial owner
	28,800,000 (L)	20.90	16.54	Interest of spouse
	6,471,000 (L)	4.70	3.72	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanxi Corporate Management Limited Company[2]	6,471,000 (L)	4.70	3.72	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership)[2]	6,471,000 (L)	4.70	3.72	Beneficial owner
Lou Guoliang	7,125,075 (L)	5.17	4.09	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 44,449,000 A Shares. He is the spouse of Ms. You Jie, our non-executive Director, and therefore he is deemed under the SFO to be interested in the 28,800,000 A Shares held by Ms. You Jie in the Company. He holds 6,471,000 A Shares through his interest in controlling Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its executive partner Shanghai Zhanxi Corporate Management Limited Company.

2. Each of Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) and its executive partner Shanghai Zhanxi Corporate Management Limited Company is deemed to be interested in such shares.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS HOLDING H SHARES OF THE COMPANY

Name	Number of H Shares (shares)	Approximate percentage of total issued H Shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Morgan Stanley[1]	2,220,542 (L)	6.11	1.28	Interest of corporation controlled by the substantial shareholder
	826 (S)	0.002	0.0005	Interest of corporation controlled by the substantial shareholder
Prudence Investment Management (Hong Kong) Limited	1,969,600 (L)	5.42	1.13	Investment Manager

Notes: L denotes long position; S denotes short position

1. Under the SFO, Morgan Stanley was deemed to have interests in long position of 2,220,542 H Shares and short position of 826 H Shares (both Morgan Stanley & Co. International plc and Morgan Stanley & Co. LLC were wholly owned by Morgan Stanley, and were beneficially holding long position of 2,220,542 H Shares and short position of 826 H Shares in aggregate in the Company).

2. The above disclosure is based on the information available on the website of the Hong Kong Stock Exchange (www.hkexnews.com.hk).

Save as disclosed above, as at 31 December 2022, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the shares or underlying shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

2021 RESTRICTED A SHARE INCENTIVE SCHEME

On 29 December 2021, the Board proposed to adopt the 2021 Restricted A Share Incentive Scheme, which was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022.

I. Purpose of the Incentive Scheme

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's core management personnel, core technical or operational personnel, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized.

II. Form and Source of the Restricted Shares to be Granted

The form of incentive instrument adopted under the Incentive Scheme is Restricted Shares. The source of all Restricted Shares under the Incentive Scheme will be new ordinary A Shares to be issued by the Company to the Participants.

III. Number of the Restricted Shares to be Granted

On 11 March 2022 and 16 November 2022, respectively, the Board resolved to grant a total of 1,800,000 Restricted Shares in the First Grant and Reserved Grant, pursuant to the Incentive Scheme, representing 1.05% of the total share capital of the Company as at the date of this annual report.

IV. Participants of the Incentive Scheme

The participants under the Incentive Scheme (the "**Participants**") include directors, members of the senior management, core technical staff of the Company and its subsidiaries, and other persons of the Group considered by the Board to be required to be incentivized (excluding independent non-executive Directors, Supervisors, persons who individually or jointly hold or control 5% or more of the total issued share capital of the Company or their spouses, parents and children). The total number of shares to be granted to any Participant under all share incentive schemes of the Company which are within their validity period shall not exceed 1.00% of the total share capital of the Company.

V. Grant Price of the Restricted Shares

On 16 November 2022, the Board resolved that the Grant Price was to be adjusted from RMB95.00 per share to RMB94.30 per share pursuant to the Incentive Scheme.

REPORT OF THE DIRECTORS

VI. Validity Period, Attribution Arrangements and Black-Out Periods

The Incentive Scheme will become effective upon the Grant Date, and shall be valid until the date on which all Restricted Shares have been attributed or lapsed. Such period shall not exceed 36 months. As at the date of this annual report, the remaining life of the First Grant under the Incentive Scheme is approximately 22.5 months, and that of the Reserved Grant is approximately 30.5 months.

Subject to the attribution conditions having been fulfilled, the Restricted Shares may be attributed to the Participants in tranches 12 months after the Grant Date. An attribution date must be a trading day within the validity period of the Incentive Scheme, and shall not fall within any of the periods during which the listing rules of the place where the Company's securities are listed prohibit the attribution. Within the validity period of the Incentive Scheme, if the relevant provisions of the listing rules of the place where the Company's securities are listed on the attribution period change, the attribution date for the Participants shall conform to the provisions of the revised relevant laws, regulations and normative documents.

Attribution arrangements of the First Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the First Grant until the last trading day within the 24 months following the Grant Date of the First Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the First Grant until the last trading day within the 36 months following the Grant Date of the First Grant	50%

Attribution arrangements of the Reserved Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the Reserved Grant until the last trading day within the 24 months following the Grant Date of the Reserved Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the Reserved Grant until the last trading day within the 36 months following the Grant Date of the Reserved Grant	50%

Those Restricted Shares which have not been attributed during the period of their respective tranches as a result of failure to fulfil the attribution conditions are not allowed to be deferred to be attributed in the next attribution period(s) and shall lapse.

There is no additional black-out period for the Restricted Shares under the Incentive Scheme upon attribution. The requirements of black-out are implemented in accordance with relevant laws, regulations and regulatory documents including the Company Law and the Securities Law of the People's Republic of China and the Article of Association.

VII. During the Reporting Period, details of the Restricted Shares granted and to be granted to Directors, Supervisors and chief executives of the Company and their respective associates under the Incentive Scheme are set out below:

Name of Participant(s)	Category of Participant(s)	Number of Restricted Shares Granted during the Reporting Period	Number of Unattributed Restricted Shares as at 1 January 2022	Number of Attributed Restricted Shares during the Reporting Period	Number of Unattributed Restricted Shares as at 31 December 2022	The closing price of A Shares immediately before the Grant Date (RMB per Share)	Number of Restricted Shares Lapsed/ Forfeited during the Reporting Period
Dr. Hou Yongtai	Executive Director	50,000	N/A	0	50,000	92.25	0
Mr. Wu Jianying	Executive Director and general manager	70,000	N/A	0	70,000	92.25	0
Mr. Tang Minjie	Executive Director	50,000	N/A	0	50,000	92.25	0
Ms. Chen Yiyi	Executive Director	50,000	N/A	0	50,000	92.25	0
Ms. Sheng Ailian	Spouse of a Supervisor	2,000	N/A	0	2,000	92.25	0

The Restricted Shares granted to the above Participants is granted at the price of RMB94.3 per share, and the Grant Date is 11 March 2022, the fair value on the Grant Date is as follows:

Attribution Period	Fair Value (RMB per share)
First tranche	20.33
Second tranche	26.96

Please refer to the Company's announcement dated 11 March 2022 for the attribution period, the method for determining the fair value and the accounting standards and policies adopted for the Restricted Shares granted to the above Participants.

REPORT OF THE DIRECTORS

Further details of the 2021 Restricted A Share Incentive Scheme are set out in the Company's announcements dated 29 December 2021, 11 March 2022 and 16 November 2022, and the circular dated 15 February 2022.

PUBLIC SHAREHOLDINGS

Based on the public information available to the Company and so far as the Directors are aware, up to the date of this annual report, at least 25% of the issued share capital of the Company is held by the public.

CONNECTED TRANSACTIONS

I. Entering into the Spray Pump Customization Agreement

On 26 March 2021 (after trading hours), the Company entered into the Spray Pump Customization Agreement with Haohai Technology (Changxing) Company Limited (昊海科技（長興）有限公司) ("**Haohai Changxing**"), pursuant to which the Company agreed to engage Haohai Changxing to process spray pumps for use in the Company's product packaging until 31 December 2023. At that time, Haohai Changxing is held indirectly as to 49% by Mr. Jiang Wei, a controlling shareholder of the Company and the spouse of Ms. You Jie, also a controlling shareholder of the Company and a non-executive Director. Ms. You Jie separately indirectly controls 51% in Haohai Changxing. Haohai Changxing is therefore a connected person of the Company under the Hong Kong Listing Rules and the transactions contemplated under the Spray Pump Customization Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the transactions contemplated under the Spray Pump Customization Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Spray Pump Customization Agreement are subject to reporting, announcement and annual review requirements but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

In 2022, the Company's total transaction amount with Haohai Changxing contemplated under Spray Pump Customization Agreement was RMB3,790,325. The annual cap for the year 2022 was RMB9,500,000.

The above annual caps were determined according to (1) the historical procurement volume of the Company, actual market conditions and unexpected market events such as the Pandemic being declared in 2020; (2) the expected growth of sales volume of relevant products; and (3) the prevailing price in market.

REPORT OF THE DIRECTORS

During the Reporting Period, the Company followed the pricing policies and mechanisms set out in the agreement for the above continuing connected transaction when determining the prices and terms of those transaction.

The Independent Non-executive Directors have reviewed the above continuing connected transactions for the year ended 31 December 2022 and have confirmed that these continuing connected transactions were: (1) entered into in the ordinary and usual course of business of the Group; (2) entered into on normal commercial terms or better to the Group; and (3) in accordance with the terms of respective agreements governing the transactions that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong standards on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions Under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

II. Grant of Restricted Shares to Connected Participants

As disclosed in "2021 Restricted A Share Incentive Scheme" above, the 2021 Restricted A Share Incentive Scheme was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022.

The Restricted Shares under the First Grant will be granted to the participants at the grant price of RMB95.00 per A Share according to the 2021 Restricted A Share Incentive Scheme. Among such participants, Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi are executive Directors; Ms. Jiang Lixia, Ms. Jin Sha, Ms. Tian Min, Ms. Huang Ling, Ms. Li Zirui, Ms. Huang Rongrong, Mr. Robert John McGregor, Mr. David Simon Wyatt, Mr. Mak Cheung Kwai Anthony and Mr. Robert Edward Lewis are directors or supervisors of one or more subsidiaries of the Company; and Ms. Sheng Ailian is the spouse of Mr. Wei Changzheng, a Supervisor. Each of them is a connected person under Chapter 14A of the Hong Kong Listing Rules. A total of 345,000 Restricted Shares under the First Grant were granted to these 15 Connected Participants on 11 March 2022. On 16 November 2022, the Board resolved that the Grant Price was to be adjusted from RMB95.00 per share to RMB94.30 per share.

Accordingly, the issue and grant of the Restricted Shares to the Connected Participants under the 2021 Restricted A Share Incentive Scheme constitutes non-exempt connected transactions of the Company, and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Further details of the 2021 Restricted A Share Incentive Scheme and the grant of Restricted Shares to the Connected Participants are set out in the Company's announcements dated 29 December 2021, 7 March 2022, 11 March 2022 and 16 November 2022, and the circular dated 15 February 2022.

REPORT OF THE DIRECTORS

Save as disclosed above, during the year ended 31 December 2022, the Group had not entered into any connected transactions or continuing connected transactions which were subject to disclosure in this annual report under Chapter 14A of the Hong Kong Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

Information on connected transactions effective during the Reporting Period are contained in note 42 to the financial statements in this annual report, among which, note 42(b) is fully exempt connected transactions pursuant to the Rule 14A.76 of the Hong Kong Listing Rules.

The related party transactions in respect of the remuneration of Directors, Supervisors and chief executives of the Company constitute continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than Directors, Supervisors and chief executives) of the Company were not connected transactions or continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

RELATED PARTY TRANSACTIONS

The details on the related party transactions of the Group for the year ended 31 December 2022 are set out in note 42 to the financial statements in this annual report.

Save as disclosed above, none of the related party transactions constituted a connected transaction or continuing connected transaction which is subject to the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules throughout the Reporting Period.

CORPORATE GOVERNANCE CODE

The Company had complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix 14 of the Hong Kong Listing Rules throughout the Reporting Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the code provisions as set out in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

The Company had adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors of the Company. Having made specific enquiries to all Directors and Supervisors of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

DONATIONS

During the Reporting Period, the Group made donations of RMB131,500.

REPORT OF THE DIRECTORS

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. So far as the Directors are aware, there is no material litigation or claims which are pending or threatened against the Company.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference. Since 29 June 2022, Ms. Li Yingqi no longer served as an independent non-executive Director nor the chairlady of the Audit Committee. Mr. Guo Yongqing was elected as an independent non-executive Director and the chairman of the Audit Committee on 29 June 2022. As at the date of this report, the Audit Committee comprises five Directors, namely Mr. Guo Yongqing (Chairman), Ms. You Jie, Mr. Jiang Zhihong, Mr. Su Zhi and Mr. Zhao Lei. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting procedures, risk management and internal control systems, and the environmental, social and governance ("**ESG**") work. The 2022 annual results and financial statements of the Group for the year ended 31 December 2022 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young has been appointed as Auditors in respect of the financial statements for the year ended 31 December 2022 prepared in accordance with International Financial Reporting Standards. These financial statements have been audited by Ernst & Young. Since the date of preparation for the listing on the Hong Kong Stock Exchange, the Company has been engaging Ernst & Young for their services. Ernst & Young will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HONG KONG LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Hong Kong Listing Rules.

By order of the Board
Hou Yongtai
Executive Director and Chairman of the Board

24 March 2023

CORPORATE GOVERNANCE REPORT

The Company and its subsidiaries are committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

SUMMARY OF CORPORATE GOVERNANCE

In accordance with the Company Law, the Securities Law of the People's Republic of China and the regulatory requirements of the place where the Shares are listed, the Company has established a corporate governance structure comprising the general meeting, the Board, Supervisory Committee and the management, among which, the general meeting is the authority. The Board implements the resolutions passed at general meetings and is accountable to the general meetings, and it reports its work at general meetings. The senior management is responsible for the daily management, administration and operation of the Group. As a supervisory agency of the Company, the Supervisory Committee is responsible for the supervision of the Board and senior management so as to prevent them from the misuse of authority and infringement of lawful rights of the Shareholders, the Company and the Company's employees.

CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all the code provisions set out in the Corporate Governance Code and substantially adopted all the recommended best practices therein.

COMPOSITION AND TERM OF OFFICE OF THE BOARD

As at the end of the Reporting Period, the Board comprised of eleven members, consisting of four executive Directors, two non-executive Directors and five Independent Non-executive Directors. Listed below are incumbent Directors of the Company during the Reporting Period:

Executive Directors
Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Mr. Tang Minjie *(Chief Financial Officer)*
Ms. Chen Yiyi

Non-executive Directors
Ms. You Jie
Mr. Huang Ming

Independent Non-executive Directors
Ms. Li Yingqi(1)
Mr. Guo Yongqing(1)
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Yang Yushe
Mr. Zhao Lei

Note:

(1) On 29 June 2022, Ms. Li Yingqi was retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

During the Reporting Period, the Board had complied with the requirements of the Hong Kong Listing Rules on appointment of at least three Independent Non-executive Directors, representing at least one-third of members of the Board and at least one of whom shall have appropriate professional qualifications, or accounting or relevant financial management expertise. The qualifications of the five Independent Non-executive Directors of the Company fully comply with the requirements of Rules 3.10(1) and (2) of the Hong Kong Listing Rules.

None of the Independent Non-executive Directors of the Company has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence. The Company has received from each of the Independent Non-executive Directors an annual confirmation of their independence under Rule 3.13 of the Hong Kong Listing Rules. Accordingly, the Company is of the opinion that all the Independent Non-executive Directors are independent under Rule 3.13 of the Hong Kong Listing Rules.

The detailed biographies of the Directors are set out on pages 113 to 117 in this annual report. Members of the Board do not have any relationships between each other (including financial, business, family or other material or related relations). The Board is well-balanced in structure and each of its members possesses extensive knowledge, experience and talent in relation to the business operation and development of the Company. All the Directors are well aware of their joint and several responsibilities towards the shareholders of the Company.

CORPORATE GOVERNANCE REPORT

Meetings of the Board

According to the Articles of Association, meetings of the Board shall be held at least four times a year. Meetings shall be convened by the chairman of the Board. Notice of the meetings shall be sent to all Directors and Supervisors before the meeting is held under the relevant provisions.

A meeting of the Board shall be attended by more than half of all the Directors. Meetings of the Board shall be attended by the Directors in person. If a Director cannot attend a meeting for any reason, he may appoint in writing another Director as his proxy to attend the meeting on his behalf. The instrument of proxy shall specify the scope of authority.

During the Reporting Period, the Board held 12 meetings in total, with details of the attendance of Directors specified as follows:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	12/12
Mr. Wu Jianying	12/12
Ms. Chen Yiyi	12/12
Mr. Tang Minjie	12/12
Ms. You Jie	12/12
Mr. Huang Ming	12/12
Ms. Li Yingqi[(1)]	6/6
Mr. Guo Yongqing[(1)]	6/6
Mr. Jiang Zhihong	12/12
Mr. Su Zhi	12/12
Mr. Yang Yushe	12/12
Mr. Zhao Lei	12/12

Note:

(1) On 29 June 2022, Ms. Li Yingqi retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

Board and the Management

The functions and powers of the Board and the management are well defined in the Articles of Association, aiming to provide an adequate balance and restriction mechanism for the purpose of sound corporate governance and internal control. The management of the Company is accountable to the Board. Under the leadership of the General Manager, the management is responsible for implementing the resolutions duly approved by the Board, formulating specific regulations of the Company and supervising the daily operation and management of the Company.

The Company has established internal systems to ensure that independent views and opinions are available to the Board. The Directors shall avoid from voting on relevant proposals associated with them when considered by the Board, and independent non-executive Directors have the right to receive independent professional advices on any matter relating to the performance of their duties at the Company's expense. The relevant mechanisms have been reviewed by the Board and are considered to be properly implemented and effective.

Directors' Continuous Training and Development

Pursuant to code provision C.1.4 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, all current Directors (i.e. Dr. Hou Yongtai, Mr. Wu Jianyin, Ms. Chen Yiyi, Mr. Tang Minjie, Ms. You Jie, Mr. Huang Ming, Mr. Guo Yongqing, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei) participated in the trainings regarding the "Guidelines on Climate Information Disclosure" and "Equity Incentive System Design" provided by the Company. Besides, according to the records maintained by the Company, all of the Directors also attended various training courses organized by relevant regulatory authorities, the training courses covered a wide range of topics, including the corporate governance, investor relationship management and rules and guidelines on information disclosure.

Chairman and General Manager

Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of the Chairman and the chief executive officer (the Company's General Manager) should be segregated and should not be performed by the same individual. During the Reporting Period, Dr. Hou Yongtai acted as the Chairman and Mr. Wu Jianying acted as the General Manager. The Chairman and the General Manager do not have any relationships (including financial, business, family or other material relationship connected with each other). The Articles of Association have defined the division of roles and duties between the Chairman and the General Manager.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

Pursuant to the requirements of the Articles of Association, Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years. A Director shall be eligible for re-election on the expiry of each term. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to approval by election at the general meeting.

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board.

The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

The Company has put in place a Director nomination policy. For evaluating and determining the candidates of Directors, the Nomination Committee and the Board of Directors shall consider the following factors: personal characters; professional qualifications, skills, knowledge, and experience related to the Group's business and strategy; willing to devote sufficient time to fulfill the duties of the Directors and members of the special committees of the Board of Directors; whether their appointment is in compliance with the requirements of the Listing Rules of the places where the Shares are listed regarding the Board and Directors (including the independence requirements of the Independent Non-executive Directors); whether their appointment is in compliance with the Company's Board diversity policy and any measurable targets adopted by the Nomination Committee to diversify the members of the Board.

The nomination procedures for Company Directors include:

I. Nomination procedures for appointment of new Directors

Upon receipt of the proposal on appointment of new Director and the biographical information of the candidate, the Nomination Committee shall require the nominee to submit biographical information and the consent to be appointed as a Director, and evaluate the candidate based on the criteria for Director selection to determine whether such candidate is qualified for directorship. The Nomination Committee shall then make recommendations to the Board on the appointment of a suitable candidate to serve as a Director; if an Independent Non-executive Director is to be appointed, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate's role in promoting the diversity of Board members, etc..

II. Re-election of Directors at shareholders' meeting

The Nomination Committee shall review the overall contribution and service to the Company of the retiring Directors, including its attendance at Board meetings and general meetings (if applicable), and his/her level of participation and performance on the Board. The Nomination Committee shall require the nominee to submit biographical information and the consent to be appointed as a Director; and shall review and determine whether retiring Directors still meet the criteria for Director selection. The Nomination Committee shall then make recommendations to the Board on the re-election of Directors; if an Independent Non-executive Director is to be re-elected, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate's role in promoting the diversity of Board members and etc..

Board Diversity Policy

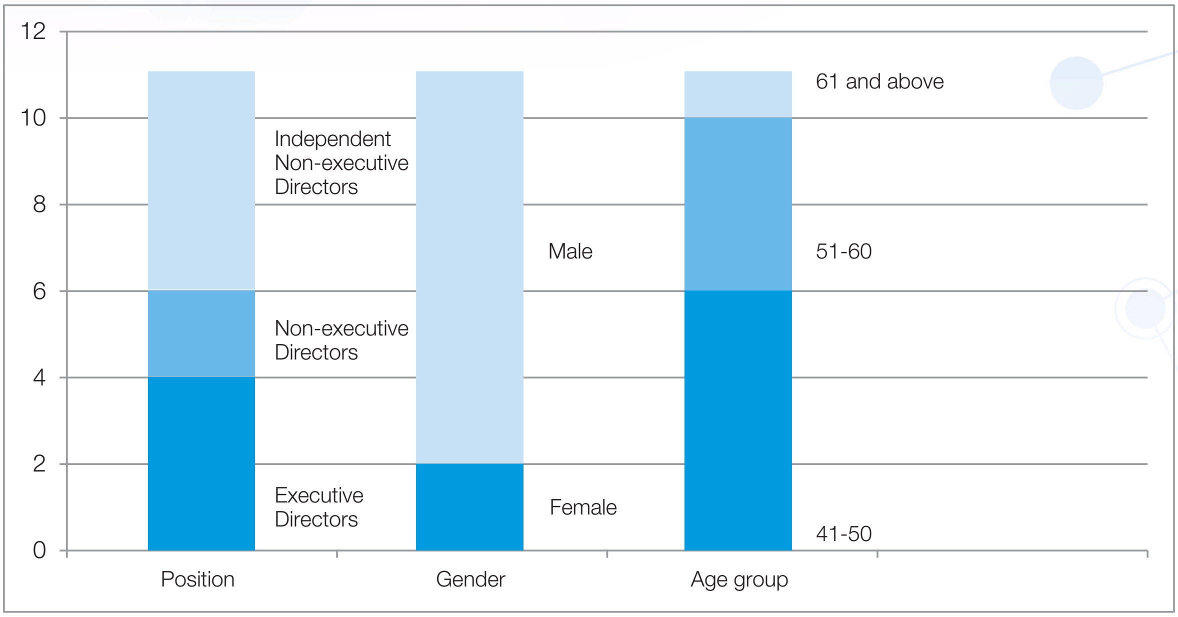
In accordance with the requirements of Corporate Governance Code and Corporate Governance Report, the Company has adopted a board diversity policy and submitted to the Board for approval. The policy is summarized as below:

The Board has adopted a policy on Board diversity (the "**Diversity Policy**"). The Diversity Policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to the age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Nomination Committee will disclose the composition of the Board in the Corporate Governance Report every year and supervise the implementation of this Diversity Policy. The Nomination Committee will review the effectiveness of this Diversity Policy in due course and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE REPORT

As at the date of this report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 113 to page 117 of this annual report.



The Company's measurable objectives is that: in addition to meeting the requirements of the Company Law, the STAR Market Listing Rules, and the Hong Kong Listing Rules, the selection of candidates will be based on a range of diversified areas, including but not limited to the gender, age, professional experience, education background and term of service. The final decision will be based on the strengths of the candidate and the contributions he can make to the Board. During the Reporting Period, the Nomination Committee has reviewed the diversity of the structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable and maintain the diversity in aspects of gender, age, experience and skills. The Nomination Committee considers that the Board has maintained an appropriate balance in all aspects of member diversity (including the proportion of women members), and satisfy with the current situation.

As at 31 December 2022, the Company has a total of 4 senior management (excluding directors and supervisors), including 2 males and 2 females. The Group has a total of 1,990 employees, among which 1,052 are female and 938 are male, and the gender ratio is fairly balanced. The Group advocates gender diversity of employees, conducts comprehensive evaluation of talents from professional quality and work skills in the recruitment, and opposes gender discrimination.

Directors', Supervisors' and Senior Management's Liability Insurance

The Company has entered into Directors', Supervisors' and senior management's liability insurance policy to cover any possible legal action against them.

Corporate Governance Function

The Board exercises its duties in accordance with the regulatory rules of the place where the Shares are listed and internal policies such as the Articles of Association, which include the following duties relating to corporate governance:

(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 Corporate Governance Code and disclosure in the Corporate Governance Report.

During the Reporting Period and as at the end of the Reporting Period, the Company has formulated the Articles of Association, Rules of Procedure for The General Meeting, Rules of Procedure for The Board, Rules of Procedure for The Supervisory Committee, Working Rules for The General Manager, Working Rules for The Independent Director, Working Rules for The Secretary to The Board, Rules for Management of Information Disclosure, Related Transaction Management Measures, Internal Audit System, Risk Assessment Management System, Rules for The External Guarantee Management, Investor Relationship Management System, Measures for The Management of Shareholding Changes of Directors, Supervisors and Senior Managers, Subsidiary Management System and other corporate governance policies.

BOARD COMMITTEES

There are four committees under the Board, namely, Audit Committee, Remuneration and Review Committee, Nomination Committee and Strategy Committee.

Audit Committee

The primary duties of the Audit Committee are to maintain an appropriate relationship with the Company's auditors, review the Company's financial information, and oversee the Company's financial reporting system, risk management and internal monitoring system, and ESG matters. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Audit Committee consists of five Directors, namely Mr. Guo Yongqing (Independent Non-executive Director), Ms. You Jie (non-executive Director), Mr. Jiang Zhihong (Independent Non-executive Director), Mr. Su Zhi (Independent Non-executive Director) and Mr. Zhao Lei (Independent Non-executive Director), and one of them (i.e. Mr. Guo Yongqing) is an Independent Non-executive Director who possesses appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules. Mr. Guo Yongqing is the chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Audit Committee held six meetings in total and reviewed the audited financial statements and annual report for the year ended 31 December 2021, reviewed the unaudited financial statements and interim report for the six months ended 30 June 2022, reviewed financial statements for the first quarter and the third quarter of 2022, reviewed the ESG report for the year of 2021, reviewed the onshore and offshore audit firms' expenses in 2021, recommendation to engage onshore and offshore audit firms in 2022, as well as reviewed the 2021 work summary and 2022 work plan of the audit department of the Company. The table below sets out the details of attendance of each member at meetings of the Audit Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Ms. You Jie	6/6
Ms. Li Yingqi(1)	2/2
Mr. Guo Yongqing(1)	4/4
Mr. Jiang Zhihong	6/6
Mr. Su Zhi	6/6
Mr. Zhao Lei	6/6

Note:

(1) On 29 June 2022, Ms. Li Yingqi retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

Remuneration and Review Committee

The Remuneration and Review Committee has adopted the second model described in paragraph E.1.2(c) of Part 2 of Appendix 14 to the Hong Kong Listing Rules (i.e. making recommendation to the Board on the remuneration package of individual executive Director and senior management member). The primary duties of the Remuneration and Review Committee include: formulating job description, performance evaluation system and target, remuneration system and standards for the Company's members of the senior management; formulating share incentive scheme for the Company's Directors, Supervisors and members of the senior management pursuant to relevant laws, regulations or normative documents; making recommendations to the Board on remuneration policy and structure for the Company's Directors and members of the senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board, from time to time, on total remuneration and/or interests that have been granted to Directors and members of the senior management; making recommendations to the Board on the remuneration of non-executive Directors; and such other matters authorized by the Board. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Remuneration and Review Committee consists of five Directors, namely Mr. Su Zhi (independent non-executive Director), Mr. Wu Jianying (executive Director), Mr. Huang Ming (non-executive Director), Mr. Guo Yongqing (Independent Non-executive Director) and Mr. Zhao Lei (Independent Non-executive Director) among which, Mr. Su Zhi is the chairman of the Remuneration and Review Committee.

During the Reporting Period, the Remuneration and Review Committee held one meeting and mainly reviewed the remuneration of Directors and senior management personnel in 2021 and remuneration plan of Directors, Supervisors and senior management personnel in 2022. The table below sets out the details of attendance of each member at the meeting of the Remuneration and Review Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Wu Jianying	1/1
Mr. Huang Ming	1/1
Ms. Li Yingqi[(1)]	1/1
Mr. Guo Yongqing[(1)]	0/0
Mr. Su Zhi	1/1
Mr. Zhao Lei	1/1

Note:

(1) On 29 June 2022, Ms. Li Yingqi retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

Nomination Committee

The primary duties of the Nomination Committee include: making recommendations to the Board on the size and composition of the Board and the management based on the Company's business operation, asset scale and shareholding structure, and reviewing the structure, size and composition of the Board at least annually, and taking diverse factors into account when reviewing the composition of the Board; making recommendations to the Board on the appointment, re-election and succession planning of directors; assessing the independence of Independent Non-executive Directors and formulating policies relating to the diversity of members of the Board. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Nomination Committee consists of five Directors, namely Mr. Zhao Lei (Independent Non-executive Director), Mr. Hou Yongtai (executive director), Ms. You Jie (non-executive Director), Mr. Guo Yongqing (independent non-executive Director) and Mr. Su Zhi (Independent Non-executive Director). Mr. Zhao Lei is the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Nomination Committee held three meetings to review the candidates for Directors and Senior Management. The table below sets out the details of attendance of each member at meetings of the Nomination Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	3/3
Ms. You Jie	3/3
Ms. Li Yingqi(1)	2/2
Mr. Guo Yongqing(1)	1/1
Mr. Su Zhi	3/3
Mr. Zhao Lei	3/3

Note:

(1) On 29 June 2022, Ms. Li Yingqi retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

Strategy Committee

The primary duties of the Strategy Committee are to study and provide advice on the long-term development strategy plan of the Company; study and provide advice on material matters such as external investment, acquisition and disposal of assets, assets pledge, provision of external guarantee, entrusted financial management, connected transactions, financing plan and development strategies which shall be submitted to the Board for approval in accordance with the provisions of the Articles of Association, the Listing Rules of the place where the shares are listed and relevant laws and regulations; study and provide advice on other material matters affecting the development of the Company; review the implementation of the above matters and other matters authorized by the Board.

As at the end of the Reporting Period, the Strategy Committee consists of five Directors, namely Dr. Hou Yongtai (executive Director), Mr. Wu Jianying (executive Director), Mr. Huang Ming (non-executive Director), Ms. You Jie (non-executive Director) and Mr. Yang Yushe (Independent Non-executive Director). Ms. You Jie is the chairlady of the Strategy Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Strategy Committee held two meetings to review the 2021 work report of the Board, the proposal on granting the following general mandate to the Board to repurchase the H Shares, the proposal on the grant of general mandate to issue A Shares and/or H Shares, and the resolution on the authorization of the Board for the issuance of A Shares to specific targets by simplified procedure. The table below sets out the details of attendance of each member at meetings of the Strategy Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	2/2
Mr. Wu Jianying	2/2
Mr. Huang Ming	2/2
Ms. You Jie	2/2
Mr. Yang Yushe	2/2

SUPERVISORY COMMITTEE

The Supervisory Committee is a supervisory agency of the Company which is responsible for the supervision of the Board and its members and senior management such as the general manager and deputy general manager so as to prevent them from the misuse of authority and infringement of lawful rights of the Shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in compliance with the provisions and requirements of the laws, regulations and the Articles of Association. During the Reporting Period, the Supervisory Committee consisted of five Supervisors, of whom two were employee representative Supervisors democratically elected by our employees. The background and biographical details of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

During the Reporting Period, the Supervisory Committee held ten meetings and mainly reviewed the audited financial statements and annual report for the year ended 31 December 2021, reviewed the unaudited financial statements and interim report for the six months ended 30 June 2022, reviewed financial statements for the first quarter and the third quarter of 2022, supervised the use of proceeds from the issue of the A Shares, and reviewed matters related to 2021 Restricted A Share Incentive Scheme.

CORPORATE GOVERNANCE REPORT

AUDITORS AND THEIR REMUNERATIONS

At the 2021 annual general meeting convened on 29 June 2022, the Company approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the Company's domestic and international auditors for 2022, respectively, and authorized the Board to fix their respective remunerations; approved the appointment of Ernst & Young Hua Ming LLP as the internal control auditor for 2022 to conduct annual audit on the Company's internal control and issue internal control audit report, and authorized the Board to fix its remuneration.

The remuneration paid to the external auditors of the Company in respect of audit services for the annual report for the year ended 31 December 2022 was RMB2.78 million. And the remuneration paid to external auditors in respect of non audit services was RMB0.15 million, relating to consultation services.

In respect of the matters relating to the selection, appointment, resignation or dismissal of the external auditors, the Board concurs with the view of the Audit Committee.

RESPONSIBILITY OF THE DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2022 which give a true and fair view of the state of affairs of the Group as at 31 December 2022 as well as its profit and cash flows during the Reporting period. The accounts of the Company were prepared in accordance with all relevant regulations and applicable accounting principles. In preparing these consolidated financial statements, the Directors selected and applied suitable accounting policies and made accounting estimates that are reasonable in the circumstances. Moreover, the consolidated financial statement has been prepared on the assumption that the Company will continue as a going concern. The Directors are responsible for keeping proper financial records which disclose with reasonable accuracy the financial position of the Group at any time. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment on the Group's financial information and status, which are submitted to the Board for approval.

Ernst & Young, the auditors of the Company, have set out their responsibility in the independent auditors' report as set out on pages 121 to 127 in this annual report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors of the Company. Having made specific enquiries of all Directors and Supervisors, all of them confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT

In accordance with D.2 of the code provisions set out in the Corporate Governance Code, the Board has established a risk management and internal monitoring system, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board acknowledges its responsibility for the effectiveness of the Group's risk management and internal monitoring system and the Directors are responsible for regularly reviewing the Group's internal monitoring and risk management system to ensure its effectiveness and efficiency.

The risk management and internal control work of the Group involves joint work of the Board, the Audit Committee, the audit department and the management. The Board is responsible for maintaining a robust and effective risk management and internal control system, and assessing the effectiveness of the said system annually through the Audit Committee, which shall cover all significant monitoring including finance, operation and compliance monitoring as well as risk management function. The Audit Committee is responsible for assisting the Board in monitoring the Group's risk management and internal control system, and review and discussion with the management annually to ensure the discharging of duties by the management so as to maintain the effectiveness of the said system, and is responsible for considering the important survey results in relation to risk management and internal control and making recommendations to the Board. The audit department, the executive body for the work of the Audit Committee, is responsible for facilitating the effective operation and management of the Company and providing support to the Board and the Audit Committee in discharging their duties. The management is responsible for designing, implementing and monitoring the Group's risk management and internal control system, and reporting to the Board and the Audit Committee the effectiveness of the said system.

During the Reporting Period, the Group has carried out internal control self-evaluation and three special audit projects, including sales contract management, internal control audits on Shanghai Likangrui and Shanghai Jianhua, to evaluate the effectiveness of the Company's risk management and internal control system. In particular, the internal control self-evaluation refers to the aspects of corporate governance, strategy and risk management, social responsibility, human resources, research and development, assets management and construction project management. During the Reporting Period, through internal control self-assessment and special audit works, we found 36 design or implementation problems which were then timely rectified, and put forward two suggestions for management improvement, thus improving the efficiency of risk control and supervision of the Group. On 24 March 2023, the Audit Committee and the Board reviewed and approved the Company's 2022 Internal Control Self-evaluation Report, and the Board reviewed the effectiveness of internal controls for 2022. The Board considered that the internal control system of the Group is sound and effectively implemented, and no material defects in the design or implementation of the Company's internal control were identified.

The Company has formulated Rules for Management of Information Disclosure and Rules for Management of The Insider to regulate inside information management. The Board leads the information disclose affairs, in particular, the secretary of the Board takes charge of organizing and implementing information disclosure affairs. The secretary of the Board shall report to the Board immediately upon receiving inside information, and the Board shall decide whether to release the information or not. During the Reporting Period, the Company formulated the Subsidiary Management System and further standardized the details of the internal reporting requirements for subsidiaries' major matters.

CORPORATE GOVERNANCE REPORT

SIGNIFICANT RISKS

The Group's financial position, operating results and business prospect may be directly or indirectly affected by a series of risks and uncertainties relating to the businesses of the Group. During the Reporting Period, there was no change in the nature and extent of major risks faced by the Group. The potential risks taken by the Group are set out below:

I. Core Competitiveness Risk

The technological advancement of products is the basis for forming the Group's core competitiveness. However, in recent years, the field of biomedical materials has developed rapidly, and technical capabilities have been continuously upgraded. If breakthrough new technologies or products appear internationally or domestically in the indication area of the Group's products in the future, the failure of the Group in adjusting its technical route in a timely manner may cause the Group's technological level to lag behind, which will adversely affect the competitiveness of its products in the market.

In order to maintain and strengthen its core competitiveness, the Group continued to focus on the major technology R&D platforms of IOL, refractive lens and optical materials, medical chitosan, medical sodium hyaluronate/sodium hyaluronate, and hEGF technology, to develop new products in related fields. However, the R&D of biomedical materials has the characteristics of long cycle, high technical difficulty, large capital investment, high added value and return, and long product market life cycle. If the R&D project fails to make R&D results, or the market acceptance of the new product developed does not meet expectations, it will adversely affect the long-term core competitiveness of the Group and create uncertainty on the Group's profitability and operating results.

II. Operating Risk

In recent years, adverse reactions caused by the safety of pharmaceutical products have received close attention from the whole society. If the Group fails to strictly abide by the production safety system, which may lead to quality problems or adverse reactions of the Group's products, it will cause the Group to face the risks of compensation, product recall and administrative penalties, which will adversely affect the Group's operating performance and reputation.

At present, the Group's main business areas are characterized by broad market prospects and high gross profit levels. However, this will also attract new enterprises into these areas, which will intensify market competition in the medium and long term. The Group's market share and gross profit margin are affected by the intensified market competition, which in turn affects profitability.

In recent years, in order to complete the industrial chain layout of the Group, the Group has conducted a number of upstream and downstream industry mergers and acquisitions and investments around its main business, forming a certain scale of goodwill. If the integration effect of the company or business acquired fails to meet expectations in the future, adverse changes in operating conditions may cause the Group to make provision for impairment of the goodwill generated by the acquisitions and adversely affect the Group's performance. If the invested enterprise fails to get the expected performance or operates poorly, the Group will face the risk of investment loss or failure to recover the funds.

III. Industry Risk

At present, the reform of China's medical and health system is gradually deepening, involving the approval, registration, manufacturing, packaging, licensing, and sales of medicine and medical devices. Major industry policies such as the basic list of medicines, list of medicines, the "Two-Invoice System", and large-scale procurement have been introduced. If the Group fails to make timely adjustments in accordance with the ongoing regulatory policies of the pharmaceutical industry, it may lead to increased compliance costs and reduced product demand of the Group, which will adversely affect the Group's financial position and operating performance.

IV. Macro Environmental Risk

The growth of the Group's performance has benefited in part from the improvement of Chinese residents' payment ability and health awareness, which in turn is reflected in the continued growth of China's biopharmaceutical industry. If the overall growth rate of the biopharmaceutical industry slows down in the future, or if public events that are adverse to the quality of the biopharmaceutical industry or related to public safety affect the overall image of the industry, it may cause the market demand for the Group's products to slow down, thereby adversely affecting the financial position and operating performance of the Group.

Internationalization is one of the key strategies for the development of the Group. The Group has acquired a number of companies overseas to promote the transfer of advanced technologies and products to China. If the overseas business conditions are affected by major changes in the laws and regulations, industrial policies or political and economic environment of the country and region where the overseas business is located, or unforeseen factors such as tension in international relations, war, trade sanctions or other force majeure, the normal development and sustainable development of the Group's overseas business may potentially be adversely affected.

ARTICLES OF ASSOCIATION

In view of the amendments to a series of listing and regulatory rules by the CSRC, the SSE and the Hong Kong Stock Exchange, the Company resolved to amend the Articles of Association pursuant to the special resolutions passed by the Shareholders at the 2021 annual general meeting of the Company on 29 June 2022 in order to continuously comply with the relevant regulatory requirements. The details of the above amendments are set out in Appendix VI, Appendix VII, Appendix VIII and Appendix IX to the circular of the Company dated 20 May 2022.

Pursuant to the general mandate granted to the Board to repurchase H Shares by the general meetings of the Company, the Board repurchased and cancelled a total of 4,551,100 H Shares, and the total share capital and registered capital of the Company also decreased accordingly. Based on such changes in the total share capital and registered capital of the Company, the Board has amended the Articles of Association without submitting these amendments for further consideration and approval at the general meeting of the Company. For details of the above amendment, please refer to the announcement of the Company dated 24 March 2023.

Apart from the above, there had not been any significant changes in the Articles of Association during the Reporting Period. The current valid Articles of Association is available on the websites of the Hong Kong Stock Exchange and that of the Company.

CORPORATE GOVERNANCE REPORT

JOINT COMPANY SECRETARIES

Mr. Chiu Ming King, the managing director of corporate services of Vistra Corporate Services (HK) Limited (an external service provider), has been appointed as a joint company secretary of the Company, effective from 17 November 2014. Ms. Tian Min is another joint company secretary of the Company, who acts as the main contact person of Mr. Chiu Ming King and the internal departments of the Company.

In compliance with Rule 3.29 of the Hong Kong Listing Rules, Ms. Tian Min and Mr. Chiu Ming King both undertook not less than 15 hours of relevant professional training to improve their skills and knowledge during the year ended 31 December 2022.

SHAREHOLDERS' RIGHTS

I. Procedures for Shareholders to Convene an Extraordinary General Meeting

Shareholders who individually or in aggregate hold more than 10% of the shares carrying the right to vote at the meeting sought to be held requesting the convening of an extraordinary general meeting or a meeting of shareholders of different classes shall proceed in accordance with the procedures set forth below:

1. Two or more shareholders holding a total of more than 10% of the shares carrying the right to vote at the meeting sought to be held may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. The Board shall make a written response as to whether or not it agrees to hold the extraordinary general meeting or the class meeting within 10 days after having received the above-mentioned written request. The shareholding referred to above shall be calculated as of the date on which the written request is made by shareholder(s).

2. If the Board agrees to convene the extraordinary general meeting or the class meeting, it shall issue the notice of the extraordinary general meeting or the class meeting in 5 days after making the resolution of the Board. If there is any change to the original proposal in the notice, it shall be approved by the relevant shareholders.

3. If the Board disapproves the proposal to convene the extraordinary general meeting or the class meeting, or fails to provide a response in 10 days after receiving the request, shareholders shall be entitled to propose to the Supervisory Committee in writing for the purpose of convening the extraordinary general meeting or the class meeting.

4. If the Supervisory Committee approves the convening of the extraordinary general meeting or the class meeting, it shall issue a notice thereof within 5 days of receipt of said request, provided that any changes made in such notice to the original proposal shall be subject to prior consent from the relevant shareholders.

5. If no notice is issued by the Supervisory Committee of the extraordinary general meeting or the class meeting within the stipulated period, the Supervisory Committee shall be deemed to have failed to convene and chair the extraordinary general meeting or the class meeting, in which case the shareholder(s) individually or jointly holding more than 10% of the Company's shares for consecutive 90 days may convene and chair such meeting on their own. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which general meetings are to be convened by the Board. The shareholding proportion of the convening shareholders before the announcement of the resolutions passed at the shareholders' general meeting shall not be under 10%.

6. In the event that the Supervisory Committee or shareholders convenes a general meeting by themselves, they shall notify the Board in writing and lodge a filing with the stock exchange(s). The Supervisory Committee or convening shareholders shall submit the relevant evidentiary materials to the stock exchange(s) when the notice of shareholders' general meeting and the announcement of the resolutions passed at the shareholders' general meeting are issued.

II. Procedures for Directing Shareholders' Enquiries to the Board

According to the Articles of Association, a shareholder may propose to access or obtain relevant information provided for in the Articles of Association of the Company. The Company has disclosed its address, hotline for investor relationship, fax and email in the Company website and the periodical reports, and arranges manpower specially for taking calls from investors, handling investors' emails, and timely reporting to the Company's management.

III. Procedures to Propose Motions at General Meetings

According to the provisions of the Articles of Association, whenever the Company convenes a general meeting, the Board, the Supervisory Committee and shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose motions in writing to the Company. The Company shall include such proposed motions in the agenda of such meeting if they are matters falling within the functions and powers of general meetings.

CORPORATE GOVERNANCE REPORT

Shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose an extempore motion ten (10) days prior to the general meeting by submitting the same to the convener in writing. The convener shall serve a supplemental notice of general meeting to other shareholders within two (2) days upon receipt of the proposed motion, and shall include such proposed motions in the agenda of such general meeting if they are matters falling within the functions and powers of general meetings and submit to the general meeting for consideration. Where required otherwise by the listing rules of the stock exchange where the Company's shares are listed, such requirements shall be satisfied. Shareholders shall propose motions which meet the following requirements:

(i) the content does not infringe the law, regulations and falls within the scope of the Company's business and the functions and powers of general meetings;

(ii) with definite issues to discuss and specific matters to resolve; and

(iii) is made in writing submitted or delivered to the Board.

For matters in relation to nominating a person for election as a Director, please refer to the relevant procedures published on the Company's website.

IV. General Meetings

For the year ended 31 December 2022, six general meetings of the Company were held. Details are as follows:

Date	Venue	Meeting
7 March 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 Extraordinary General Meeting
7 March 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 First A Shareholders' Class Meeting
7 March 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 First H Shareholders' Class Meeting
29 June 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2021 Annual General Meeting
29 June 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 Second A Shareholders' Class Meeting
29 June 2022	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 Second H Shareholders' Class Meeting

Statistics on Directors' attendance at general meetings:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai(1)	3/6
Mr. Wu Jianying	6/6
Ms. Chen Yiyi	6/6
Mr. Tang Minjie	6/6
Ms. You Jie	6/6
Mr. Huang Ming	6/6
Ms. Li Yingqi(2)	3/3
Mr. Guo Yongqing(2)	3/3
Mr. Jiang Zhihong	6/6
Mr. Su Zhi	6/6
Mr. Yang Yushe	6/6
Mr. Zhao Lei	6/6

Notes:

(1) Mr. Hou Yongtai was occupied with other affairs of the Company and thus was unable to attend the Extraordinary General Meeting, 2022 First A Shareholders' Class Meeting and 2022 First H Shareholders' Class Meeting held on 7 March 2022.

(2) On 29 June 2022, Ms. Li Yingqi was retired as an independent non-executive Director and all positions in each of the special committees under the Board. And Mr. Guo Yongqing was elected as an independent non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

CORPORATE GOVERNANCE REPORT

INVESTOR RELATION

The Company has formulated Investor Relationship Management System, Information Disclosure Management System and other policies related to the investor relationship management to standardize investor relationship management by regulating information collection and disclosure, as well as investor relationship working principles, communication methods and main responsibilities. Having considered the various channels of communication and the participation of the Shareholders at the general meetings held during the Reporting Period, the Board considers that the foregoing policies were properly implemented and effective during the Reporting Period.

The Company publishes its announcements, financial information and other relevant information on the designated websites, as a channel to facilitate effective communication. At the same time, the Company communicates and exchanges with investors through road shows, visiting receptions, investor relations hotlines, dedicated mailboxes, and the "SSE E-networking(上證e互動)" platform, and strengthens communication with investors and analysts to effectively protect the legitimate rights and interests of investors, especially small and medium investors.

The Board welcomes shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. Chairman of the Board and the chairmen of all committees (or their proxy) will attend the annual general meeting and other general meetings. At the general meeting, all shareholders attending the meeting may make enquires to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the shareholders and annual reports for shareholders to express their views or make enquiries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the seventh environmental, social and governance ("**ESG**") report released by the Group. It focuses on the disclosure of concepts, practices and performance regarding the Group's economic, social and environmental aspects. We look forward to enhancing communication with stakeholders, building consensus and promoting sustainable development through the release of the ESG report.

THE REPORTING PERIOD

1 January 2022 to 31 December 2022 (the "**Reporting Period**"), part of which involves the information prior to 2022.

SCOPE OF THE REPORT

The disclosure scope of the report is consistent with that of this annual report.

Unless otherwise stated, environmental KPIs specified in this report mainly cover the Company and its major domestic subsidiaries which are engaged in product R&D and production (the "**Major Domestic Subsidiaries**").

The Group will continuously assess the range of material ESG operations of different business segments or its key subsidiaries and determine whether they should be included in the scope of the ESG Report.

REPORTING PRINCIPLES

"Materiality" principle: The Group identifies significant ESG issues through stakeholder engagement and materiality matrix analysis.

"Quantitative" principle: The Group reports key performance indicators in quantitative measurement units where feasible.

"Consistency" principle: This report adopts a consistent methodology from previous years to make meaningful comparisons and to mark changes in statistical methods and key performance indicators.

BASIS FOR COMPILATION OF THE REPORT

This report is in compliance with reference to the "Environmental, Social and Governance Reporting Guide" (the "**ESG Reporting Guide**") under Appendix 27 of the Hong Kong Listing Rules.

SOURCES OF DATA AND ASSURANCE OF RELIABILITY

The data and cases contained in this report are mainly derived from the Group's statistical reports and related documents. The Company undertakes that this report does not contain any false records, misleading statements or material omissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CONFIRMATION AND APPROVAL

This report was considered and approved by the Board on 14 April 2023.

ACCESS TO THE REPORT

The electronic version of this report is available for download at the SEHK's website (www.hkexnews.hk), the SSE's website (www.sse.com.cn) and the Company's website (www.3healthcare.com).

PERFORMANCE HIGHLIGHTS

Projects for 2022

The project of "Development of Ophthalmic Specialty Drugs Based on Local Timing Research, Establishment and Application of Key Technologies for Industrialization" won the third prize of the "Science and Technology Award of the 17th Chinese Pharmaceutical Association"

The project of "Construction and Application of Key Technology Platform for Quality Control and Industrialization of Ophthalmic Formulations" won the "Excellent Achievement Award of Shanghai Pharmacy Science and Technology"

Shanghai Qisheng's project of "Development of Bionic Artificial Vitreous Product and Research on Artificial Vitreous Product Regeneration Scaffold" won the "Silver Award of the 34th Shanghai Excellent Invention Competition"

The project of "Research and Development of New IOL and High-end Ophthalmic Implant Materials" included in the National Key R&D Program of the 13th Five-Year Plan was successfully completed

Cross-linked hyaluronic acid gel for injection was included in the recommended list of innovative products in Shanghai, and was recognized as a high-tech achievement transformation project in Shanghai

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Honors for 2022

Shanghai Qisheng won the "Enterprise Award for Outstanding Contribution in Hongqiao International Central Business District (Minhang) for 2021"

The Company was included in the "SSE STAR Market Biomedical Index"

Shanghai Qisheng was recognized as a "SRDI enterprise (that is specialized, refined, differential and innovative)" of Shanghai in 2022

The Company received four awards, namely the "Top 100 Shanghai Manufacturing Enterprises in 2022", "Top 100 Shanghai Private Manufacturing Enterprises in 2022", "Top 100 Shanghai Emerging Industries in 2022" and "Shanghai Top 100 Growth Enterprises in 2022"

Shanghai Qisheng won the "Shanghai Labor Day Award" in 2022

The Company ranked second in the industry with an ESG rating of AA by Wind for Chinese A-share listed companies

The Company was recognized as the "Enterprise with Outstanding Contribution for the 30th Anniversary of Songjiang Economic and Technological Development Zone"

Products for 2022

NIMO's Orthokeratology Lens product "Optoshare" (童享) obtained the medical device registration certificate issued by the NMPA

Small volume injection (sodium hyaluronate injection) of Shanghai Jianhua passed the GMP compliance inspection

The "Eyesucom Rigid Corneal Contact Lens Rinse" product with PH value and osmotic pressure similar to those of human tear fluid is launched into the market

A semiconductor laser hair removal device of the subsidiary in Israel obtained the registration certificate of imported medical devices from the NMPA and passed the US FDA(510)K certification

Moxifloxacin hydrochloride eye drops product was certified with a "passing consistency evaluation" mark

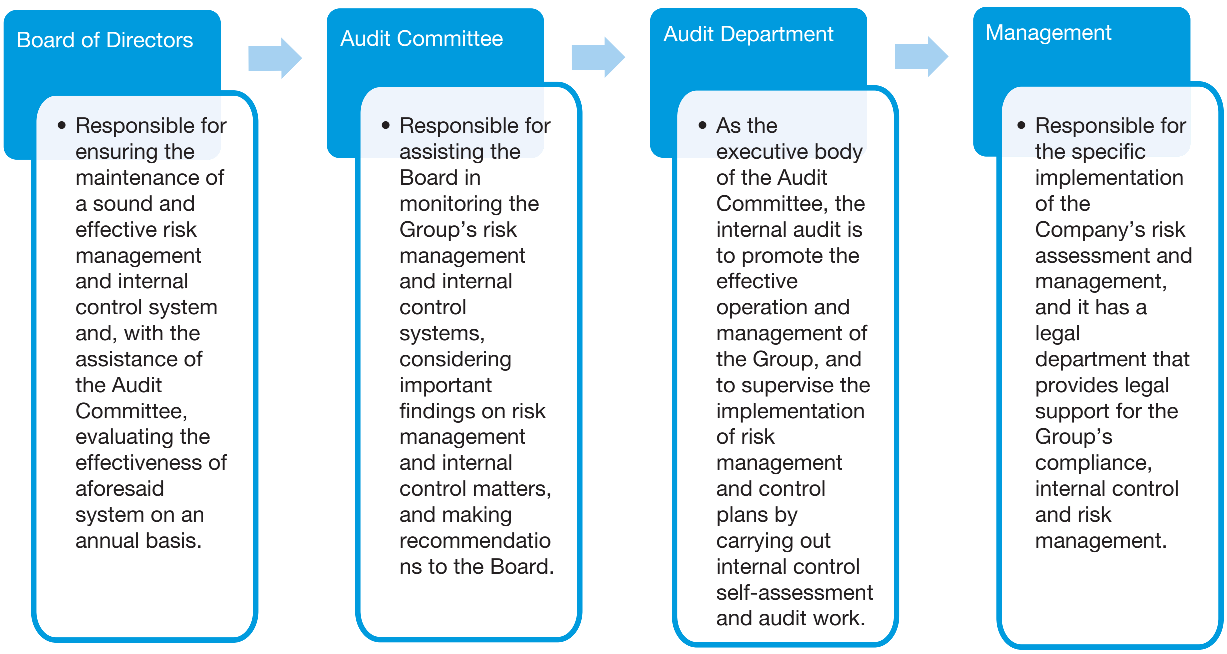
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEDICATED TO CORPORATE GOVERNANCE

1.1 Compliance operation

Risk management and control

The Group has established a stable and effective risk control mechanism by formulating the Internal Audit System, which specifies the duties and authority of the audit department and internal auditors, internal audit procedures, professional ethics of internal auditors, rewards and punishments. The Group has also developed the Risk Assessment Management System, which specifies the risk management structure and division of labor at all levels, and the procedures for risk identification and assessment. The risk management and internal control of the Group are jointly participated by the Board, the Audit Committee, the Audit Department and the management.



Risk Management Structure

During the Reporting Period, the Group carried out three special audit projects, including internal control self-assessment and sales contract management, Shanghai Likangrui internal control audit and Shanghai Jianhua internal control audit, assessing the effectiveness of the Company's risk management and internal control systems. Among them, internal control self-assessment covers organizational governance, strategy and risk management, social responsibility, human resources, research and development, asset management and engineering management, etc. Through internal control self-assessment and special audits, we identified thirty-six issues concerning design or implementation and made timely corrections. Meanwhile, we made two management improvement recommendations, thus enhancing the effectiveness of the Group's risk control and supervision and management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-Corruption and business integrity

The Group has established internal systems such as the Code of Conduct against Sales-related Corruptions, Anti-fraud and Whistle-blowing System, and the Reporting System for Conflict of Interests, which clearly enumerate the prohibited acts and fraudulent acts of integrity in sales, the process of reporting, handling and remediation of fraud cases by the Group, and the scope of declaration of conflict of interest and the declaration process. In addition, the Company's Employee Handbook sets out in detail the relevant provisions for corruption-free practices to standardize the integrity and self-discipline among employees.

At the same time, we have published a hotline for reporting on the Company's website. Employees of the Group and all parties in society can report actual or suspected corruption of all subsidiaries of the Group and their employees, including violations of professional ethics, to the Company via the reporting hotline, E-mail and other channels. When receiving complaints or whistle-blowing information, the audit department of the Company shall report to the general manager of the Company and the Board respectively according to the position of the respondent or the person who has been reported, and shall conduct further investigation and handle the matters; the audit department shall notify the complainant or whistleblower of the outcome of the investigation. We promise to keep confidential the whistleblower's personal information and reporting materials.

We agree on business ethics restraint clauses in the contract terms with our customers, requiring them to strictly comply with ethics and professional conduct in conducting business activities; we agree on integrity and honesty clauses in the contracts with some of our suppliers, requiring them to promise not to commit unfair competitive practices.

The Group focuses on building a culture of corporate integrity and honesty. To that end, the Group engages third-party professional consulting agencies to provide directors, especially new directors, with training on directors' responsibilities, including performance responsibilities, integrity and honesty. Meanwhile, the Group supervises directors, supervisors and senior management to attend compliance training organized by regulatory authorities. During the Reporting Period, the Company organized two anti-corruption and internal control communication meetings attended by different departments, in which the general manager communicated with the department heads on the Company's anti-corruption purposes, important principles and rewards and punishments. During the Reporting Period, the legal department of the Company provided eight compliance training sessions for employees and opened the "Haohai Compliance" corporate Wechat ID, which delivered new industry regulations and analyzed typical cases to all employees on a weekly basis, broadening the channels for compliance dissemination.

During the Reporting Period, the Group strictly complied with the Criminal Law of the People's Republic of China, the Civil Code of the People's Republic of China, the Anti-unfair Competition Law of the People's Republic of China and other relevant laws and regulations, and the Group was not involved in any corruption-related lawsuits.

Information security and privacy protection

The Group guarantees information and data security in terms of technology and management.

In terms of technology, the Company is equipped with full-time IT information security management personnel to supervise and control the software and hardware firewalls. In addition, the Company selected professional third-party institutions to provide cloud services to servers. The machine room conforms to the international T3+ standard, and the cloud infrastructure has passed the National Information System Security Level Protection Evaluation (Level 3). The cloud platform adopts the mature virtualization architecture of the industry and deploys professional network and security equipment. Cloud services include meticulously maintenance services for related systems, data backup and recovery and other security services.

In terms of management system, the Group has formulated the Employee Handbook, Patent Management Regulation, Trademark Management Regulation, R&D Management System, File Management System, Emergency Plan for Loss and Disclosure, and Information System Security Policy and Management Procedures, pursuant to which, the Company classifies confidential information and adopted corresponding confidentiality measures. The relevant system sets forth specific confidentiality requirements for employees in different positions and business lines. We also attach importance to the promotion of trade secrets and data protection, and provide training to our employees on relevant topics. In addition, we specifically agree on the confidentiality of information in our agreements with key partners (e.g., suppliers, customers, etc.).

Meanwhile, the Group attaches importance to the protection of personal information and privacy of employees, customers and patients. The Group strictly abides by the Civil Code of the People's Republic of China, the Personal Information Protection Law of the People's Republic of China and other laws and regulations. We have included respect for employees' privacy in our Employee Handbook and uphold the principles of lawfulness, reasonableness and minimization in collecting employees' personal information; we have incorporated the confidentiality of employee and customer information into our information management system, and regulate the access rights and scope of use of employee and customer information through the development and implementation of a series of information confidentiality and data security-related systems.

1.2 ESG management

The Group integrates sustainable development into its business operations based on a clear management structure. The Group has established an ESG governance structure consisting of "the Board, Audit Committee and ESG working group", with clear responsibilities at all levels to ensure the orderly implementation of ESG-related work. Among them, the ESG working group consists of the heads of various departments and major subsidiaries of the Company.

The Board	• Responsible for formulating the Group's ESG strategies and objectives, assessing, defining and managing ESG risks • Ensure that the Group establishes an appropriate and effective ESG management and internal monitoring system • Review and approve ESG reports
Audit Committee	• Review and monitor the Group's ESG structure, policies and operational management • Review the Group's annual ESG report and disclose the Group's exposure to ESG risks and measures taken • Recommend the Group's ESG strategy and identify significant ESG risks and opportunities • Advise the Board on ESG related work
ESG working group	• Responsible for daily ESG promotion, including collection of data and information, as well as communication on related matters • Prepare reports based on collected materials, and implement specific ESG work • Report ESG work to the Audit Committee on a regular basis

ESG governance structure

BOARD STATEMENT

➢ The Company has established an ESG governance system under the leadership of the Board which is the highest decision-making body for ESG matters. The Board is responsible for formulating the Group's ESG strategy and objectives and implementing them in the daily operations of the Company through the effective operation of the ESG governance system. The Board has set ESG KPIs in accordance with the ESG reporting guide and, while evaluating the implementation and achievement of the KPIs, makes recommendations for improvement taking into account the actual situation of the Group.

➢ The Board adopts the methods of stakeholder engagement and materiality matrix analysis to identify and evaluate ESG issues that have a great impact on the Group, and ranks these issues in importance. We preliminarily identified ESG issues that have a great impact on the Group based on ESG regulatory requirements, in-depth investigations into the industry, and collection of feedback from various stakeholders; and then we distributed questionnaires to internal and external stakeholders around the preliminary identified ESG issues; finally, we assessed the impact of major issues on the sustainable development of stakeholders and the Group, and prioritized related issues in accordance with the comparison and evaluation results of materiality on each issue conducted by the stakeholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- The Board is responsible for overseeing the Group's overall risk management and internal control matters, including ESG-related risks. The Audit Committee is assisting the Board in monitoring the Group's risk management and internal control systems, and considering and making recommendations to the Board on significant findings relating to risk management and internal control matters. The Board also monitors and reviews the Group's compliance with ESG-related laws and regulations of external regulators.

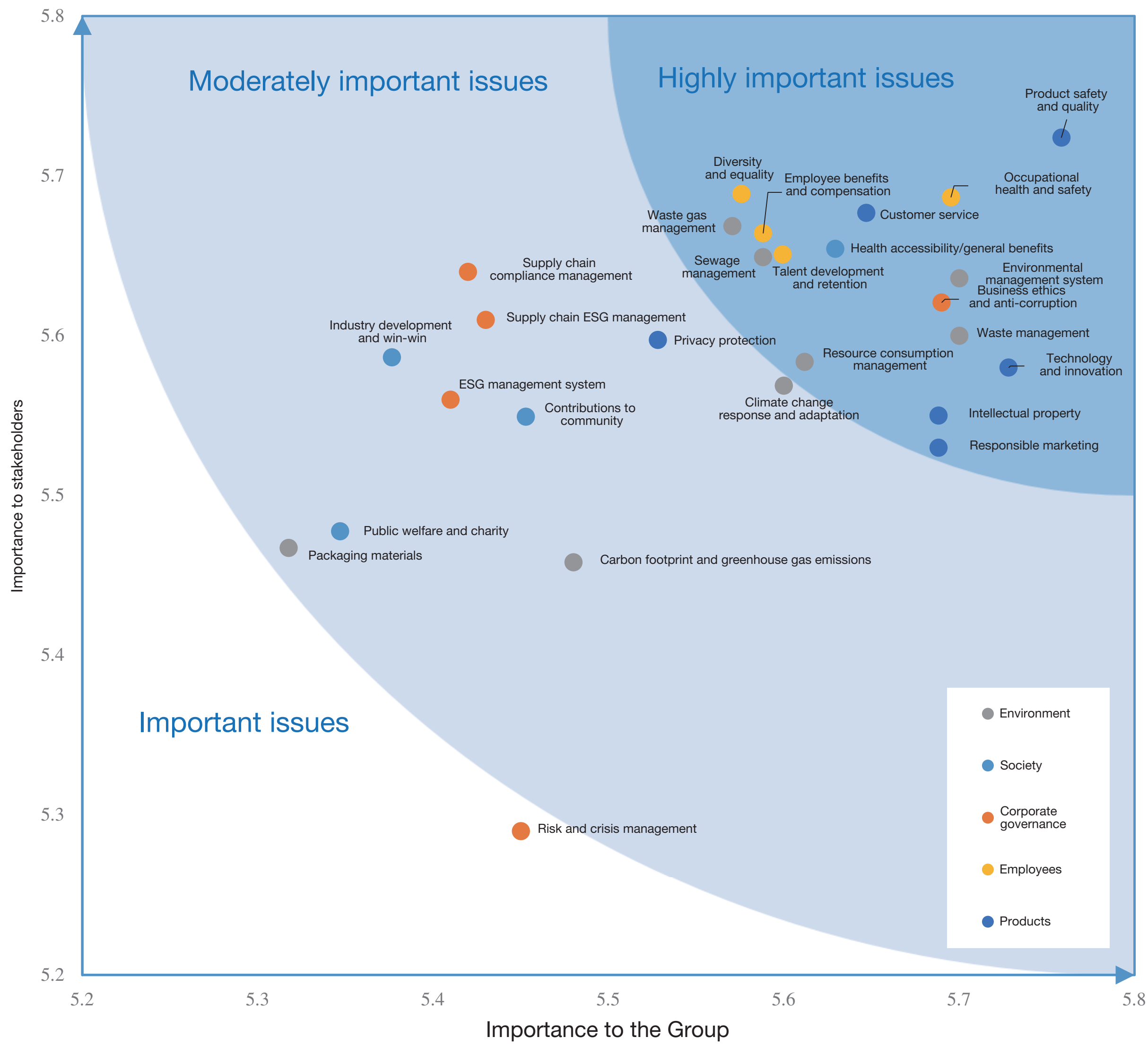
Communication with stakeholders

The Group pays attention to the needs and expectations of stakeholders, understands the needs of stakeholders such as employees, shareholders, customers, suppliers, regulators and communities through diversified communication channels, and clarifies the direction of the Group's sustainable development based on their opinions. Meanwhile, the Group is working on further optimizing the ESG management system. During the Reporting Period, the topics concerned by different stakeholders and the main channels for communication are as follows:

Stakeholders	Topics of concern to stakeholders	Communication and feedback channels
Customers	Product quality, after-sales service	Quality management system construction, customer visits, complaint hotline
Shareholders	Business performance, regulatory compliance	Information disclosure, reception of investigations, investor hotline
Government/ Regulators	Regulatory compliance, R&D innovation, environmental protection	Operation according to the law, transformation of results, safe production
Employees	Remuneration and benefits, career development, and humanistic solicitude	Performance appraisal, professional training, and teambuilding activities
Suppliers	Honesty and business integrity, and supplier management	Fair and transparent procurement, assessment and evaluation, supplier meetings
Community	Communication with communities, industry development, environmental protection	Public donations, industry conferences

Materiality matrix

We identified a total of 27 material issues based on ESG's regulatory requirements, industrial features and stakeholders' priorities, and prioritized issues in order of importance in terms of their importance to the Group and to stakeholders, and drew a matrix of material issues for 2022. We classified the identified issues into five categories: corporate governance, products, environment, employees and society, and identified a total of 16 issues of high materiality.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

DEVOTED TO PRODUCT DEVELOPMENT

2.1 Innovative development

Product Innovation

We have established a sound R&D management system and we are staffed with a professional and high-quality R&D team. Supported by advanced research platforms and hardware equipment, we have made available R&D advantages with our own characteristics, which will further solidify our leading position in the market segment. During the Reporting Period, the Group's research and development expenses amounted to approximately RMB182.19 million, representing an increase of 8.71% year-on-year and accounting for approximately 8.66% of the revenue.

Management System Construction

R&D management serves as an important part of the Group's quality management system. The Group has established a multi-level management structure consisting of a project team, industrialization center and a compliance and security team. The Group regulates R&D activities through the "8 definitions" principle of defining positions, responsibilities, projects, schedules, processes, budgets, performance and rewards. The Group has formulated internal systems and operational management procedures for regulating R&D project, procurement, assessment, incentive and file management. This aims to ensure that R&D management is institutionalized and standardized. During the Reporting Period, we revised and formulated a number of R&D management systems such as the Standard Management Regulations for Project Research Program, Standard Management Regulations for Standardized Official Documents of R&D Department, Standard Management Regulations for Registration Progress Tracking, Standard Management Regulations for Meetings of R&D Department, Standard Management Regulations for R&D Project Tracking, and the Standard Management Regulations for Drug Approval and Attachments.

The Group monitors and evaluates the entire R&D process from project justification, project approval, product research and development, registration filing to product launch. In addition, the Group promotes R&D projects in an orderly manner from project management, document management, site management and safety management, ensuring that the risks, quality and efficiency of R&D projects are controllable.

The results from the effective operation of our R&D management system have received a wide range of recognition. During the Reporting Period, Shanghai Qisheng's project of "Development of Bionic Artificial Vitreous Product and Research on Artificial Vitreous Product Regeneration Scaffold" won the "Silver Award of the 34th Shanghai Excellent Invention Competition"; the Company's project of "Development of Ophthalmic Specialty Drugs Based on Local Timing Research, Establishment and Application of Key Technologies for Industrialization" won the third prize of the "Science and Technology Award of the 17th Chinese Pharmaceutical Association", which is the highest award in pharmacy in China. The Company's project of "Construction and Application of Key Technology Platform for Quality Control and Industrialization of Ophthalmic Formulations" won the "Excellent Achievement Award of Shanghai Pharmacy Science and Technology" which is the highest award in the pharmacy field in Shanghai.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

R&D Team Guarantee

The Group continuously strengthens the construction of R&D team by selecting and cultivating outstanding talents from the existing staff while actively introducing high-level talents, building a R&D team featuring reasonable staff structure and matching professional fields. As of December 31, 2022, the Group had a total of 344 R&D technicians worldwide, accounting for approximately 17.29% of the total number of employees of the Group, among which 24 have doctoral degrees and 78 have master's degrees.

The Group also enhances the innovation capability of its research and development staff and stimulates their enthusiasm for research and innovation through cooperation in research projects with key institutions and colleges, implementation of performance incentive mechanism, participation in professional seminars in the industry and encouragement and provision of professional skills training.

Hardware Platform Guarantee

The Group has built a number of R&D and industrialization platforms. At present, the Group has a national-level enterprise technology center, a national-level postdoctoral research workstation, two national-level R&D platforms, four provincial and ministerial-level technology and R&D transformation platforms, and one Shanghai academician expert workstation. The Group is committed to providing a good working environment for the R&D team by building a research platform, introducing advanced R&D equipment and achieving management integration and resource sharing.

Intellectual Property Protection

The Group always attaches importance of the management and protection of intellectual property rights. That means improving the management of intellectual property rights and effectively protecting R&D achievements through risk control, system construction, internal audits and professional training and exchanges. Both the Company and Shanghai Jianhua have obtained the qualification of intellectual property management system certification. During the Reporting Period, the Group filed 67 new patent applications and was granted 37 new patents. As of 31 December 2022, the Group had been granted a total of 348 patents, of which 100 were invention patents. In addition, we were subject to three intellectual property litigations during the Reporting Period, all of which have been properly handled.

Risk Management and Control

We have formulated a series of internal systems and operating procedures such as the Trademark Management Regulation, the Patent Management Regulation, the Control Procedures for Risk Management of Intellectual Property Rights and the Procedures for Dispute Resolution of Intellectual Property Rights based on the Patent Law of the People's Republic of China, the Rules for the Implementation of the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China, Guide to Patent Examination and other relevant laws, regulations and normative documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

System construction

We continue to improve our IPR standardization and manage IPRs in a comprehensive manner based on our certified IPR management manual (version R3).

Internal audit

The Group regularly conducts self-assessment on the management and protection of IPRs through the annual internal control self-assessment conducted by the audit department and special audits, and rectifies problems in a timely manner.

Exchange and training

The Group organizes regular internal training on IPR management and protection every year, covering senior management and the employees in R&D, project management and quality control departments. The Group also provides support for employees to participate in external professional training and exchanges.

Winning the "23rd China Patent Award" Excellence Award

In July 2022, "A method of preparing cross-linked sodium hyaluronate gel with hyaluronidase activity inhibition" of Shanghai Qisheng won the "23rd China Patent Award" Excellence Award held by China National Intellectual Property Administration, which further strengthened our protection and application of IPRs.

Participation in the 19th Shanghai International Intellectual Property Forum

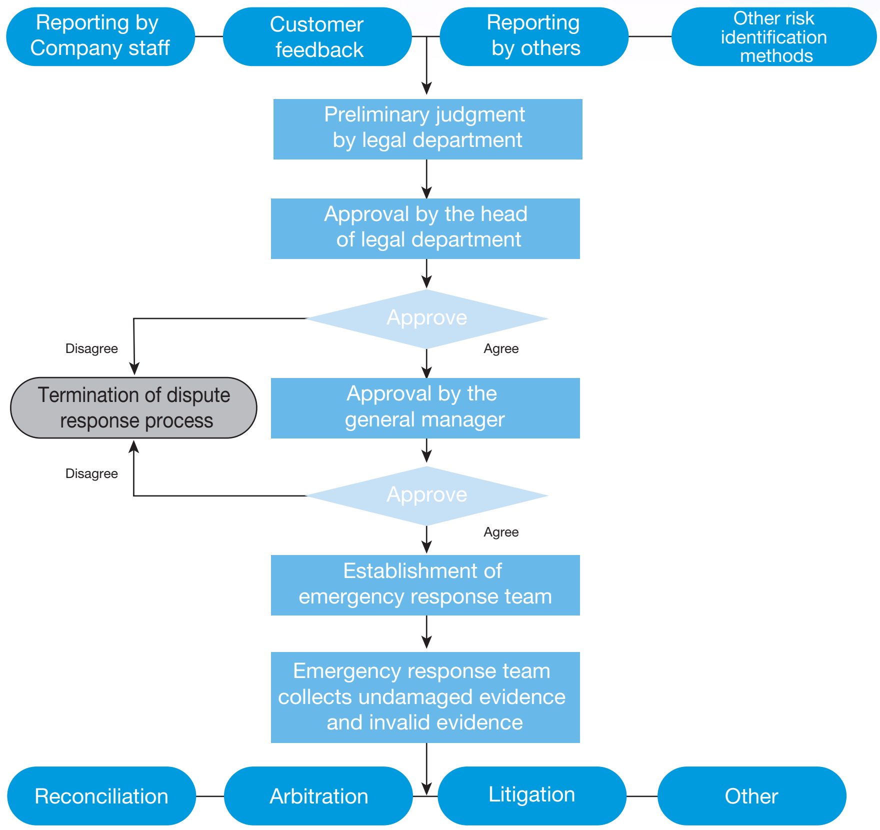
In November 2022, Mr. Wu Jianying, an executive Director and general manager of the Company, was invited to attend the 19th Shanghai International Intellectual Property Forum co-hosted by the China National Intellectual Property Administration, the World Intellectual Property Organization and the Shanghai Municipal People's Government, discussing and exchanging views with the officials of domestic and international government departments and experts in the context of the Group's IPR investment, financing and work practices.

Participation in National Patent-intensive Product Certification

The Group actively participates in the national patent-intensive product registration and certification. As of the date of this report, three products, namely hEGF, medical sodium hyaluronate injection solution and cross-linked sodium hyaluronate gel for injection have obtained patent registration certificates.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, we revised our IPR risk prevention and contingency plan and other related procedures. Below sets out the Group's IPR contingency handling process:



IPR contingency handling process

2.2 Devoted to quality

The Group complies with and implements laws and regulations related to product quality and safety, such as the Pharmaceutical Administration Law of the People's Republic of China, Pharmacovigilance Quality Management Standards, Administrative Measures for Recall of Drugs, Administrative Measures for Reporting and Monitoring of Adverse Drug Reactions, Regulations on Supervision of Medical Devices and Administrative Measures for Recall of Medical Devices. The Company and its subsidiaries have established a series of internal systems and operating procedures depending on the types of products they manufacture and the applicable laws, regulations and regulatory requirements. They have also established a quality management system that covers the entire life cycle of product design and development, procurement of raw materials, production and storage, sales and after-sales services. The quality management systems of the Group's pharmaceutical product manufacturers have all been accredited by the relevant certification systems.

During the Reporting Period, Shanghai Jianhua passed the GMP compliance inspection for its small volume injection (sodium hyaluronate injection) product, becoming the third pharmaceutical company under the Group to pass the GMP compliance inspection following the Company and Shanghai Likangrui. Shanghai Jianhua is also another company other than the Company that is qualified to manufacture gel-based biological drugs.

Responsible procurement

In order to reduce procurement costs, improve procurement efficiency and ensure stable supply of important raw materials, the Group implements centralized procurement of major raw materials common to all its subsidiaries, and the procurement center of the Company selects and manages suppliers of important raw materials. We have established a procurement process with a clear division of responsibilities. The procurement specialists of each company regularly count the demand and inventory of materials of their companies and submit them to the procurement center after approval. The procurement center is responsible for the procurement plan statistics of relevant materials, participating in supplier selection, evaluation and on-site assessment, and supervising the procurement implementation process.

The Group has established criteria for access and review of suppliers in terms of qualification, quality, environment, personnel and price, and will give priority to suppliers with better performance in environmental protection and social responsibility fulfillment after a comprehensive evaluation of product and service quality and the price level. For the selected suppliers, we strengthen our contact with them through various communication methods such as supplier conferences and telephone communication. We ensure that our suppliers constantly meet our quality requirements through regular on-site audits and annual evaluations. We completed the audit of our major raw material suppliers through a combination of online and on-site audits during the Reporting Period.

In order to optimize the procurement process and ensure the quality control of raw materials, the Company and its relevant subsidiaries have formulated procurement management systems and operating procedures governing the procurement, acceptance, inspection and release, and storage of raw materials in the light of their respective procurement and business characteristics. After purchasing raw materials, we strictly control the quality at the source through a well-defined raw material quality inspection process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Quality Assurance Department is responsible for the receipt, quantity check, inspection and distribution, and storage management of raw materials entering the factory; the laboratory conducts sampling and quality inspections of raw materials, and issues inspection reports; and the packaging materials inspectors of the Quality Assurance Department are responsible for conducting visual inspection and quality inspection of other items of packaging materials, and issuing of the inspection report of the packaging materials.

During the Reporting Period, the Group had a total of 341 suppliers, of which 281 were suppliers in the mainland China and 60 from overseas, Hong Kong, Macao and Taiwan.

Production inspection

The Group's production sites strictly follow the proved production processes, operating procedures and inspection methods for production, operation and inspection and release. We have established quality control procedures for the production process, identified key control nodes for product production, and supervised the production process by quality assurance personnel. In addition, we have inspection procedures in place for materials, intermediate products, semi-finished products and samples. Each batch of products is sampled and sent for inspection on the basis of the specified quantity, and all kinds of unqualified products identified during the production are handled according to the Control Procedures for Unqualified Products, thus preventing them flowing into normal products. The quality officer keeps a truthful and complete record of the quality supervision of the production process to ensure the traceability of product quality.

Pursuant to the management procedures for production environment monitoring, we monitor and manage the clean area environment for ensuring that the clean area environment meets the production and inspection environment requirements. According to the management procedures for product quality review, we conduct product quality review analysis for all products by species every year to confirm the stability and reliability of the process and the applicability of the current quality standards for raw and auxiliary materials and finished products. This helps identify the adverse trends in a timely manner and thus determine the product and process improvement. In addition, we have improved our quality assurance and quality control capabilities by adding and upgrading testing equipment and production facilities.

Henan Universe implementing the "Clairvoyant Project" (千里眼工程)

During the Reporting Period, Henan Universe actively responded to the "Clairvoyant Project" implemented by Henan Medical Products Administration. To that end, Henan Universe added cameras in the key production and inspection areas to facilitate remote inspection and supervision by regulatory authorities. Meanwhile, Henan Universe uploaded production and inspection batch records through the enterprise terminal of the "Clairvoyance Project" in a timely manner in order to facilitate real-time and dynamic inspection by regulatory authorities.

Pharmacovigilance and product recall

During the Reporting Period, the companies under the Group that manufacture drugs and medical devices have established pharmacovigilance systems and monitoring systems for adverse events on medical devices in accordance with the requirements of laws and regulations and their respective actual conditions. Such companies monitored, identified, evaluated and controlled adverse product reactions by setting up internal organizational structures, staffing and training professional personnel, and formulating and implementing relevant systems and operating procedures. This ensures that each company reports promptly the collected adverse drug reactions and adverse events on medical devices.

Organizational setup and operation

All of our pharmaceutical companies have established drug safety committees and dedicated pharmacovigilance departments. The drug safety committee is responsible for major risk judgment, handling of major or emergency drug events, risk control decisions and other major matters related to pharmacovigilance; the pharmacovigilance department is taking charge of collecting, handling and reporting suspected adverse drug reactions, identifying and assessing drug risks, making risk management recommendations, and organizing and participating in post-marketing safety studies of drugs and other pharmacovigilance-related efforts.

Development and implementation of systems and operating procedures

We revised and improved the operational procedures for pharmacovigilance according to the Guidelines for the Preparation of Master Files of Pharmacovigilance Systems issued by the National Center for Adverse Drug Reaction Monitoring. We have also formulated recall procedures in accordance with laws and regulations on drug and medical device recalls, which provide detailed regulations on the levels and processes of recalls. During the Reporting Period, we revised our drug recall management procedures pursuant to the newly revised Administrative Measures for Recall of Drugs by the National Medical Products Administration, which further clarified the content of the recall notice, refined the control process for changes in the recall plan and specified the supervisory authority for the destruction of recalled products.

During the Reporting Period, the Group did not experience any product recalls due to product quality defects.

Staffing and training of professionals

We attach importance to the management and training of pharmacovigilance personnel. In June 2022, we organized full-time staff to attend a workshop on core pharmacovigilance techniques held by the National Center for Adverse Drug Reaction Monitoring, for the sake of improving the professional pharmacovigilance techniques of full-time staff. In September 2022, we organized internal drug safety training, aiming at popularizing pharmacovigilance-related regulations and explaining in detail the collection channels and follow-up feedback process of safety information such as adverse drug reactions. These efforts helped to improve the staff pharmacovigilance expertise and strengthen their awareness of pharmacovigilance participation.

2.3 Responsible marketing

Compliance promotion

The Group designs and registers/files labels and instructions of pharmaceutical products in accordance with the requirements of laws and regulations such as the Pharmaceutical Administration Law of the People's Republic of China, the Regulations on Supervision of Medical Devices, the Provisions on the Administration of Pharmaceutical Directions and Labels and the Provisions on the Administration of Instructions and Labels of Medical Devices. We submit the content of pharmaceutical product advertising to the drug supervision and administration department for review in accordance with the Advertising Law of the PRC and other requirements of laws and regulations on pharmaceutical product advertising, and release the advertising after approval.

We have established a multi-level review mechanism for external promotional materials. Advertisements on product and corporate brand or other external promotional materials are reviewed by the product marketing department, medical department, legal department and even the Board Office from the perspectives of medical, advertising compliance and information disclosure compliance, respectively. This aims to ensure that the promotional materials are scientific, objective and compliant. In addition, the Company's legal department conducts regular awareness-raising on advertising compliance through training and WeChat official account.

Quality service

The Group attaches importance to customer and patient services. That means understanding customer needs and collecting information on adverse reactions and adverse events through such channels as regular visits, customer satisfaction surveys and hotlines, for the sake of timely investigation, analysis, evaluation and reporting. Customers can also provide feedback or make complaints by contacting the Company's sales staff, hotline and other channels.

Each of our production bases has in place a complaint handling process. Upon receiving a complaint about products, we promptly carry out investigations, handling and analysis and communicate immediately with relevant departments. That is how we deliver a satisfactory resolution for the customer. If the product complaint is indeed a product quality defect and there is a potential safety hazard, and it is necessary to take recall measures, we will handle it according to the product recall procedures. The Group's pharmaceutical product manufacturers in China received one quality-related complaint during the Reporting Period, which was properly handled.

During the Reporting Period, we actively promoted the digitization and refinement of customer management. In June 2022, the Group launched a project to build a customer relationship management ("CRM") system. The customer-oriented CRM system records customer information in all aspects, and integrates customer information with the accumulation of customer information and data. This helps the Group gain a deeper and more accurate insight of customers, so as to provide personalized products and services to them. Meanwhile, we think highly of the protection of customer information, especially the information security management of the CRM provider who has prepared a system security program.

GREEN AND LOW CARBON DEVELOPMENT

3.1 Environmental management

The Group attaches great importance to the development of environmental management systems and is committed to incorporating sustainable development and green management concepts into all aspects of corporate development. We strictly complied with the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and other environmental protection-related laws and regulations and industry standards applicable to the place of operation. In addition, based on our situation and excellent industry practice, we have developed internal systems to regulate environmental management on sewage, waste gas, waste and noise, including the Regulations on Hazardous Waste Management, the Management System for Exhaust Emission Control Operations, the Control and Management System for Life and Production Wastewater, the Operating Procedures for Sewage Disposal System, and the Management System for Solid Waste Classification, Recycling and Disposal. We have "Environment, Health and Safety" ("EHS") specialists in place who are responsible for supervising and directing the safety and environmental protection work in the production and operation process, so that the laws, regulations and systems are effectively implemented in the production and operation. We carry out assessment for the significant impact of production and operation on the environment and develop corresponding emergency plans for identified environmental risks for the purpose of enhancing the response capability for emergency environmental incidents. We are making great efforts in exploring the potential of energy conservation and emission reduction and implementing energy conservation and emission reduction initiatives.

During the Reporting Period, the Company obtained the ISO 14001 environmental management system certification. During the Reporting Period, the Group was not involved in any incidents that violated environmental laws and regulations.

3.2 Tacking climate change

In recent years, the global climate has undergone tremendous changes. The impacts brought about by climate change have become increasingly significant, and climate change has become a global concern. We understand the significant impacts of climate change on economic and social development, and on corporate development. We are also well aware of the important role that companies should play in tacking climate change.

As a high-tech biopharmaceutical company, we are committed to strengthening climate change risk management and following the Task Force on Climate-related Financial Disclosures (TCFD) guidelines to actively identify and evaluate climate change risks, and develop countermeasures. Our goal is to effectively reduce the adverse impact of climate change risks and reduce greenhouse gas emissions as effective contribution to global action against climate change.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We conducted a comprehensive analysis, evaluation and prioritization of the main climate change risks and opportunities based on external factors such as regulations, policies, planning, and historic records of weather extremes in the main operating locations within China, as well as internal factors such as production and operation activities and product characteristics. This was done through considering factors such as the level and likelihood of impact. Through this process, we identified the following main climate change risks and opportunities to lay a solid foundation for the management and response to climate change risks on a regular basis.

Climate change risks

We have decomposed the identified climate change risks into two major categories: physical risks and transition risks. Physical risks are primarily identified as risks associated with frequent weather extremes. Transition risks mainly comprise of policy and legal risks (carbon pricing), technological risks (the cost of transitioning to low-carbon emission technologies), market risks (increasing prices of raw materials and energy), and reputational risks (the attention and expectations of stakeholders) related to transitioning towards a low-carbon economy.

Climate change risks	Description	Countermeasures
Frequent extreme weather	Climate change may lead to frequent extreme weather such as typhoons, floods, and extreme heat. There is a high probability that our affiliated companies and production bases located in Shanghai and Guangdong Province may be affected by extreme weather in the future. Extreme weather may cause damage to factories, equipment, and infrastructure, interrupt logistics operations, and affect normal production and operation. In addition, extreme heat may change the properties of raw materials and require stricter storage and production conditions, ultimately affecting the revenue and increasing operating costs of the Group.	➢ Pay attention to weather changes, understand climate information, and promptly anticipate the impact of weather on production and operation, in order to take climate disaster prevention and emergency measures in advance. ➢ Establish emergency plans for weather extremes, production safety, etc., and conduct emergency drills every year to respond to emergencies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Climate change risks	Description	Countermeasures
Carbon pricing	Currently, some pharmaceutical companies have been included in the carbon emission quota management list. With the expansion of the carbon market coverage, there is a possibility that the pharmaceutical companies under the Group may be subjected to the carbon emission quota management. When that possibility turns out to be a fact, the compliance costs will be incurred, further causing increase or decrease in operating costs, once the Group's carbon emissions exceed the quota.	➢ Pay attention to related regulations and policies, and keep collecting data of greenhouse gas emissions to ensure timely response when being subjected to carbon emission quota management. ➢ Establish carbon emissions targets, implement measures such as optimizing production processes, retrofitting production equipment, and promoting energy conservation awareness among employees to reduce unit product energy consumption, in order to decrease greenhouse gas emissions and gradually reduce carbon emissions intensity.
Cost of transitioning to low-carbon emission technologies	Currently, there is increasing policy pressure from the government for the pharmaceutical industry to adopt green technologies in the short to medium term. If the Group is required to comply with such regulations or chooses to respond to customer and public expectations by implementing clean energy and optimizing production equipment, we may incur high initial operating costs for the adoption of new technologies and equipment, and increased operating costs for the adoption of low-carbon new technologies.	➢ Before transformation to low-carbon technologies, evaluate the projects and choose the most suitable technology based on the investment return period and feasibility. ➢ Ensure a smooth transition and connection between new technology and existing technological processes. ➢ Identify and seize opportunities in risks and enhance competitiveness through low-carbon technology advantages in products.

Climate change risks	Description	Countermeasures
Increasing prices of raw materials and energy	Upstream suppliers of raw materials and energy to the Group may also be affected by climate change risks, including physical and transition risks, leading to an increase in prices of raw materials and energy, and a rise in the production costs of the Group.	➢ Ensure timely grasp of market information and energy policy changes to respond appropriately. ➢ Optimize production processes, continuously innovate technologies, and reduce energy consumption. ➢ Continuously optimize supplier management and regularly analyze raw material supply risks.
Attention and expectations of stakeholders	As a listed company on both the Hong Kong Stock Exchange and the Sci-tech Innovation Board, the Company's policies for and contributions to climate change as well as disclosure of relevant information will receive more and more attention from stakeholders such as investors, customers, the public, and the government. Failure to disclose relevant information or to meet stakeholders' expectations may negatively affect the Company's reputation and investors' decisions, resulting in reduced product demand, decreased investor interest, and reduced government support, ultimately compromising the Company's overall revenue.	➢ Effectively contribute to global action against climate change by strengthening climate change risk management and adopting a series of energy-saving and carbon-reducing measures to reduce the Company's impact on the environment. ➢ Strengthen communication with stakeholders through the release of ESG reports and management of investor relations.

Climate-related opportunities

Opportunities presented by climate change	Description
Opportunities in resource efficiency	Improve production processes to reduce water consumption intensity, and further enhance the rate of water cyclic utilization to address water resource risks, reduce water waste, and lower operating costs. Upgrade equipment, and optimize technology and processes to improve energy use efficiency in product development and production processes, reduce energy consumption intensity and lower our operating costs.
Opportunities in product competitiveness	Reduce product carbon footprint from the procurement, production and packaging of raw materials to cater to customers' low-carbon preferences. The Group proposes measures to address climate change issues with the hope to enhance product competitiveness by leveraging on the advantages of low-carbon technology in their products.
Opportunities in adaptability	The Group identifies and assesses climate change risks, and then proposes and actively implements countermeasures, enhancing the Group's adaptability to climate change.

3.3 Resource management

During the Reporting Period, the energy resources consumed by the Group mainly include electricity, natural gas, externally purchased steam and fuel oil for motor vehicles; the water consumption of the Group's production and operation was mainly from municipal water supply, and there was no risk in obtaining suitable water sources; the packaging materials used by the Group in production activities mainly include paper, plastic and glass.

We continuously strengthened resource management, and formulated the goals of water use efficiency, energy use efficiency, and carbon emission based on our own operations and industry conditions.

Goal of water use efficiency	• By 2025, the water use density (total water consumption/operating revenue) will decrease by 10% as compared to 2021 • Further improve water resource utilization efficiency beyond 2026
Goal of energy use efficiency	• By 2025, the comprehensive energy consumption density (total comprehensive energy consumption/operating revenue) will decrease by 10% as compared to 2021 • Constantly improve energy use efficiency, and seek opportunities for using clean energy
Carbon emission goal	• By 2025, the carbon emission density (total greenhouse gas emissions (scope I and scope II)/operating revenue) will decrease by 10% as compared to 2021 • Gradually integrate the guidance of “dual carbon” target-related policies into the Group’s emission management and explore opportunities for carbon reduction technology.

Through feasible facility renovations and production process improvements, we optimized resource utilization approaches and increased resource use efficiency at various stages of production and operation. We developed a reclaimed water reuse system to improve water resource utilization rate. We used scientific water metering measures and installed new water meters to monitor any abnormality in daily water usage, and reduce unnecessary waste of water resources. In addition, we also attach great importance to promoting the awareness of green development and energy conservation and emission reduction. We continually enhance employees’ awareness of environmental protection and energy conservation by posting green office slogans in the workplace and training employees on environmental protection to reduce waste of paper, water, electricity and other resources. During the Reporting Period, we adopted the following measures to improve resource utilization efficiency and reduce unit energy consumption:

Water resource management

- The Company is conducting water balance test at the Songjiang production base in order to gain a better understanding of the current water usage and to provide guidance for water resource management based on the measured data. This will enable us to discover the potential for water conservation.

Production process improvements

- Henan Universe conducted technological transformation for related products by expanding the reaction kettle to improve the utilization rate of related product raw materials, increase production capacity, and thereby reduce unit power consumption.
- While introducing advanced sterilization equipment, Henan Universe also improved the sterilization process of related products, simplified the process flow, reduced the occupancy of production rooms and consequently decreased the energy consumption by the workshop.

Packaging management

- Hangzhou Aijinglun designed the packaging for the Posterior Chamber-PRL product with reduced lining of outer packaging materials in order to save the usage of packaging materials.
- Laserconn changed its product packaging mode from the self-cut packaging to machine customized packaging. This not only reduces packaging waste generated from manual cutting of packaging materials but also improves the aesthetics of product packaging.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the Group's use of water resources and packaging materials, as well as energy consumption and greenhouse gas emissions, are as follows:

Category	Unit	2022	2021	2020
Water resource consumption				
Water consumption	Tonnes	274,515	320,552	229,074
Water consumption intensity	Tonnes/RMB10,000 of revenue[5]	1.56	2.30	2.07
Packaging materials				
Packaging materials	Tonnes	668.08	564.58	474.25
Packaging material intensity	Kilograms/RMB10,000 of revenue[5]	3.80	4.04	4.28
Energy consumption				
Externally purchased electricity	GWh	26.07	26. 52	19.77
Unleaded gasoline	Tonnes	40.21	62.42	111.90
Diesel oil	Tonnes	0	0	2.90
Externally purchased steam	Tonnes	11,163.60	9,872.26	10,589.63
Natural gas	normal cubic meter	1,848,339	2,014,772	1,555,197
Integrated energy consumption[1]	Tonnes of standard coal	6,824.17	6,836.81	5,748.83
Integrated energy consumption intensity	Standard coal (kg)/RMB10,000 of revenue[3]	38.81	48.92	51.90
Greenhouse gas emissions[2]				
Greenhouse gases (scope I)[3]	Tonnes of standard CO_2e	4,119	4,546	3,712
Greenhouse gases (scope II)[4]	Tonnes of standard CO_2e	18,174	21,314	16,939
Total greenhouse gas emissions	Tonnes of standard CO_2e	22,293	25,860	20,651
Greenhouse gas intensity	Tonnes of standard CO_2e/RMB10,000 of revenue[5]	0.13	0.19	0.19

Note 1: The conversion coefficients chosen for the calculation of comprehensive energy consumption refer to the General Rules for Calculating Comprehensive Energy Consumption (GBT2589-2020)

Note 2: The accounting of greenhouse gas was based on the Guidelines on Greenhouse Gas Emission Accounting Methods and Reporting of Enterprises in Other Industrial Sectors (Trial) issued by the National Development and Reform Commission

Note 3: Greenhouse gases (scope I) are generated from combustion of unleaded gasoline, diesel and natural gas

Note 4: Greenhouse gases (scope II) are generated from the use of externally purchased electricity and steam, the data of which in 2022 were accounted and prepared in accordance with the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Enterprises Power Generation Facilities (2022 Revision) (H.B.Q.H.(2021) No. 111) issued by the National Development and Reform Commission

Note 5: "Revenue" refers to the operating revenue of the Company and its Domestic Subsidiaries during the Reporting Period

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.4 Discharge management

Waste gas management

The waste gas emissions of the Group mainly include waste gas emissions from boilers, production process and laboratories. The Group strictly complies with the Boilers' Air Pollution Discharge Standards, the Pollutant Emission Standards for Biopharmaceutical Industry, and the Comprehensive Standards for Air Pollutant Discharge and other relevant standards and laws and regulations on waste gas emissions in its operating locations, formulates waste gas emissions management procedure and strictly controls waste gas emissions to ensure compliance of waste gas emission with relevant standards.

The Group constructs air pollution treatment facilities in accordance with the requirements of EIA to ensure high-altitude organized emissions after collection and treatment up to the standards. The boilers at our production bases have all been retrofitted towards low nitrogen to reduce the production of nitrogen oxide. Based on the actual situation of waste gas emission, we have installed online waste gas detection systems at the production bases and engaged a third party to provide regular maintenance and inspection services.

For volatile organic compounds("VOCs"), we regularly detect the VOCs in each exhaust funnel and regularly replace the odor spray facility for VOCs of the sewage plant. The quality inspection room is equipped with an activated carbon adsorption devices which are replaced regularly for VOCs purification treatment, thus reducing VOC emissions.

Waste water management

The wastewater produced by the Group includes domestic sewage, R&D and production wastewater, and circulation cooling system sewage. We strictly implement the Pollutant Emission Standards for Biopharmaceutical Industry, the Comprehensive Standards for Wastewater Discharge and other relevant requirements and laws and regulations for wastewater discharge in our operation locations, and formulate wastewater discharge management procedure to control wastewater discharge.

The Group continuously optimizes its wastewater discharge management initiatives, and enhances its wastewater treatment capacity by strengthening the construction of wastewater discharge infrastructure, conducting monitoring and evaluation, and optimizing wastewater treatment process.

We collect production wastewater and domestic sewage together and treat them at the factory's sewage treatment plant before discharging them into the municipal pipe network. Based on the wastewater discharge situation at our production bases, we have installed wastewater monitoring system to monitor wastewater indicators online, and engaged a third party to provide regular maintenance and inspection services.

For the small amount of production waste liquid generated during the production process, we collect it all together and engage a specialized hazardous waste treatment company for disposal. In addition, we take preventative measures such as using leak-proof containers and secondary containments, paving impermeable hardened ground, and installing rainwater cut-off valves and emergency accident pools to prevent the leakage of liquid chemicals and hazardous waste.

Waste management

The Group strictly complies with the solid waste control standards and laws and regulations of the operating locations such as the Standards for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes and the Standards for Pollution Control on Hazardous Waste Storage, and has formulated internal systems and operating procedures such as the Wastes Management Regulation, the Waste Classification Management Regulation, the Control and Management Regulation on Storage, Use and Disposal of Hazardous Chemicals, and the Emergency Plan for Hazardous Waste to strictly control the storage and disposal of solid waste. It also organizes regular emergency drills for hazardous chemicals and conducts on-site disposal demonstrations for hazardous chemical leakage and contamination to improve the emergency disposal ability of designated personnel.

To manage different types of solid waste such as hazardous waste, general industrial waste, and household garbage, we have established different storage points and a hazardous waste storage center to centrally manage the stored hazardous waste, dedicated responsible person for recording entries into the center, and engaged qualified third parties for disposal.

Waste management goals

The intensity of hazardous waste (total waste/business revenue) to decrease steadily:

– Supported environmental protection facilities are installed for construction projects in accordance with laws and regulations. Harmful waste is completely disposed of in compliance with relevant requirements.

– Reduced hazardous waste by taking measures such as laboratory waste assessment.

Noise management

The Group strictly complies with the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution and the Environmental Noise Emission Standards at the Boundary of Industrial Enterprises. Environmental noise that may be generated during the work progress of construction projects shall be reported to the local ecological environment authority before the commencement of construction according to law. For environmental noise generated from production, each major production base has formulated a noise control management policy that suits its own condition. Measures such as outlet noise reduction, foundation vibration isolation, and building sound insulation are adopted respectively in accordance with the characteristics of each noise source to minimize noise impact.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, the data of wastewater, waste gas and solid waste discharged from the Group's production operations is as follows:

Category	Unit	2022	2021	2020
Waste gas				
Total waste gas emissions	Million cubic meters	238.08	317.05	25.42
Sulfur dioxide (SO_2) emissions	Tonnes	0.07	0.32	0.05
Nitric oxide (NOx) emissions	Tonnes	0.88	1.28	0.94
Volatile organic compound (VOCs) emissions	Tonnes	0.53	0.71	0.22
Wastewater				
Total wastewater emissions	Million cubic meters	0.19	0.20	0.17
Chemical oxygen demand (COD) emissions	Tonnes	5.99	8.46	15.31
Ammonia nitrogen emissions	Tonnes	0.07	0.29	0.15
Harmless waste				
Total non-hazardous waste produced	Tonnes	379.67	356.14[4]	305.60
Intensity of non-hazardous waste produced	Kilograms/RMB10,000 of revenue[3]	2.16	2.55[4]	2.76
Packaging waste produced[1]	Tonnes	37.27	20.86	11.41
Packaging materials recycled[2]	Tonnes	81.38	71.99	95.77
Total domestic waste	Tonnes	261.02	263.29	198.42
Hazardous waste				
Total hazardous waste produced	Tonnes	59.88	59.21	55.92
Intensity of hazardous waste produced	Kilograms/RMB10,000 of revenue[3]	0.34	0.42	0.50

Note 1: The data caliber of the amount of packaging waste produced is the total amount of non-recyclable packaging waste (such as cartons, cardboards, bottles, etc.)

Note 2: The data caliber of the amount of packaging materials recycled is the total amount of recyclable packaging waste materials

Note 3: "Revenue" refers to the operating revenue of the Company and its Domestic Subsidiaries during the Reporting Period

Note 4: Revision to summation of non-hazardous waste produced in 2021

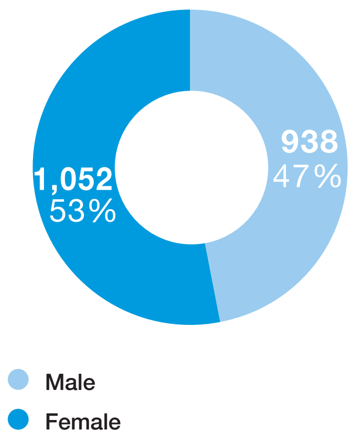
HARMONIOUS TEAM

With the people-oriented philosophy, the Group firmly believes that human is the cornerstone for the sustainable development of an enterprise. We abide by laws, regulations and relevant policies, protect the basic rights and interests of staff through fair employment regime, smooth career advancement path, diversified incentives, scientific training systems, a healthy working environment, and rich entertainment activities, striving to create a win-win situation for staff and the Group to grow together.

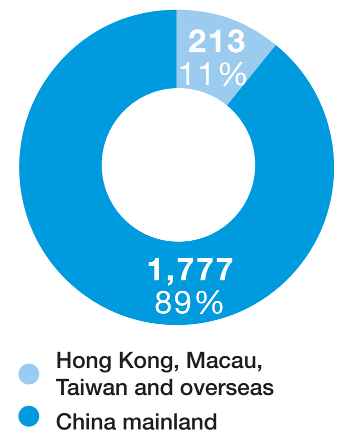
We strictly abide by the Labor Law, the Labor Contract Law, the Social Insurance Law, Regulations on Work-related Injury Insurance and other laws and regulations. We have established a series of human resources management regimes, such as the Employee Handbook, which clearly stipulates the recruitment and promotion, salary and benefits, working hours and holidays and standardize the human resources management process. We are determined to eliminate the employment of child labor and forced labor, oppose employment discrimination due to the gender, age, race, religious belief and etc., and ensure that all employees enjoy equal employment rights. We have incorporated provisions against discrimination and the avoidance of child labor and forced labor into the Employee Handbook. If the aforementioned improper behaviors and phenomena are found, after full investigation, the relevant responsible personnel will be held responsible according to the internal system, the severity of the consequences of the improper behaviors and their post responsibilities. During the Reporting Period, the Group did not engage in any illegal employment practices involving child labor or forced labor.

As at the end of the Reporting Period, the Group had a total of 1,990 employees, all of whom were full-time employees. The staff structure was as follows:

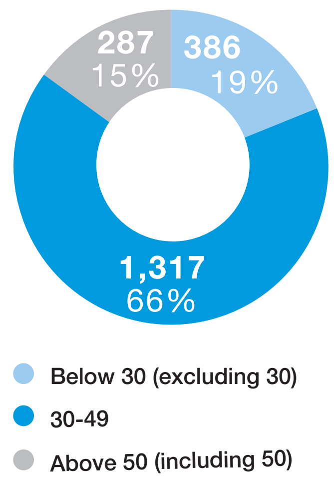
Number of employees by gender



Number of employees by region



Number of employees by age



4.1 Talent development

Recruitment and promotion

According to the proposed annual recruitment goals and recruitment plans, we introduce talents through campus recruitment, social recruitment, internal recommendation and other channels. During the Reporting Period, we continued to implement online and offline recruitment, and admitted two fresh graduates to the Group through the school-enterprise cooperation mode for vocational education between the Company and Shanghai Vocational College of Agriculture and Forestry.

We have defined clear responsibilities for each department, with post settings and job description, and have developed internal management regimes to regulate the promotion conditions and processes for employees, providing them with a clear career development path.

Remuneration and benefit

We actively explore flexible and diverse remuneration systems to make salaries more competitive in the market and to enhance employees' sense of security and belonging. In order to help employees improve their skills by objectively evaluating their performance, we have set up a performance assessment mechanism that combines qualitative and quantitative indicators and features multifaceted assessment; additionally, for R&D staff, we have adopted a scientific research project reward program to stimulate R&D innovation.

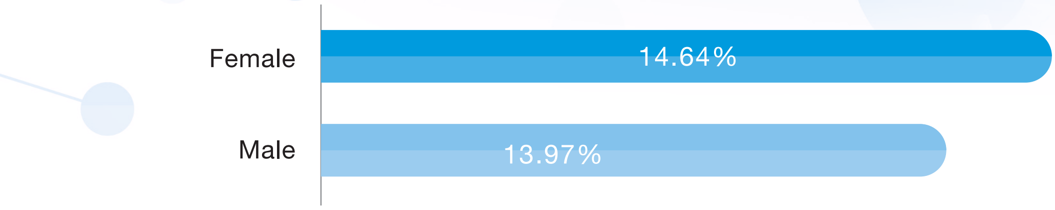
To attract and retain core management personnel, core technologies or business backbones, the Board agreed to recommend the adoption of the 2021 Restricted A Share Incentive Scheme on 29 December 2021, which was approved and adopted by the shareholders on 7 March 2022. Under the Incentive Scheme, the Company granted 1,440,000 restricted shares to 204 incentive recipients for the first time on 11 March 2022, and granted the reserved 360,000 restricted shares to 93 incentive recipients on 16 November 2022.

In addition, the Group complies with local laws and regulations related to social security and provides social insurance benefit programs for employees, and some of our subsidiaries also purchase supplementary medical insurance for their employees; we provide benefits such as transportation allowance, food and beverage allowance, housing allowance, high temperature allowance and shuttle bus service for different cases of employees.

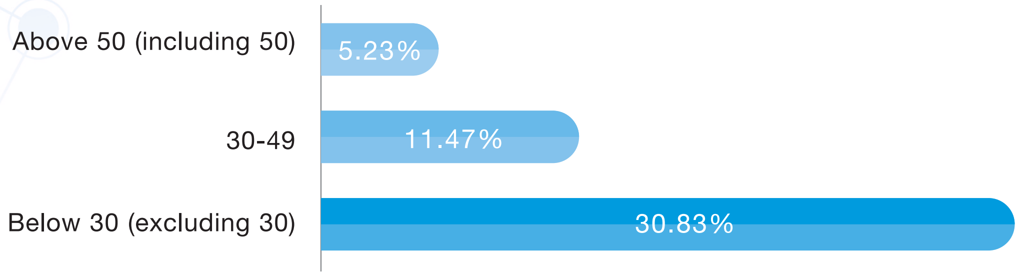
During the Reporting Period, the number of employee's turnover of the Group was 285, with a turnover rate of 14.32%. The turnover structure of employees was analyzed as follows:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

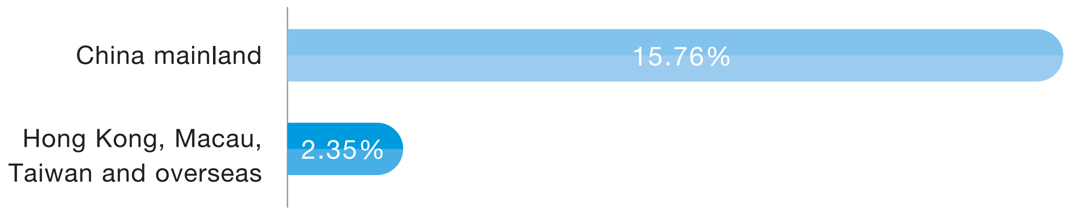
Turnover rate of staff by gender



Turnover rate of staff by age group



Turnover rate of staff by location



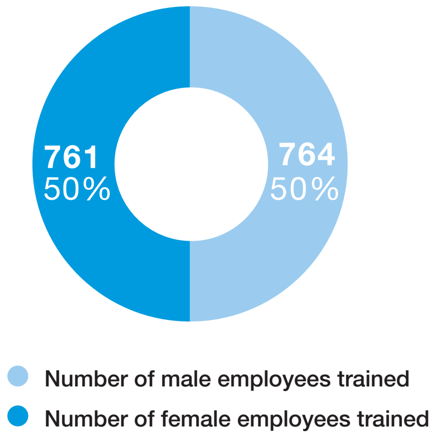
Training and development

We attach importance to the training of our staff and the development of our talents. The Company has formulated a relatively complete training management system. We formulate annual training plans based on industry development, the needs of the Company and employees while encouraging and regulating subsidiaries and departments to organize trainings. In addition, we encourage and support our employees to participate in industry conferences and skill competition, and to take the opportunity for peer exchanges and to tap their development potential.

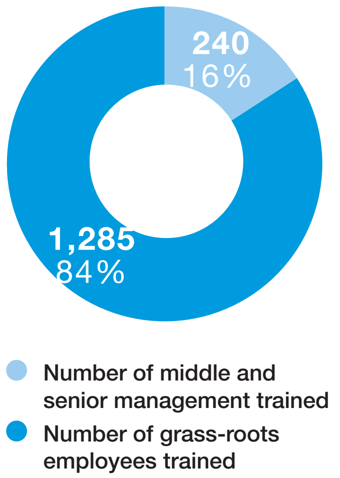
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, we continued to provide regular and diversified internal and external training for employees, and provide employees with precise training courses based on their positions and seniority. For example, we provided training for new employees on the Company's development history and corporate culture, basic management regimes and anti-commercial bribery to enable them to adapt to the new environment faster; we provided training on industry-specific laws and regulations, professional knowledge and skills for employees holding professional skill positions such as R&D, production, quality management and system internal auditors, and conducted written assessments to test the training effectiveness; we provided training for marketing personnel on product knowledge and compliance promotion. In 2022, a total of 1,525 people participated in the training, with a total training duration of 20,951 hours, and the average training duration of about 13.74 hours per person.

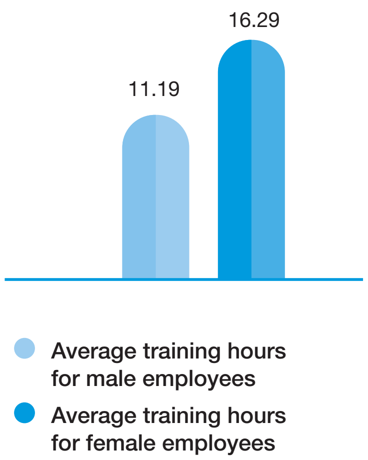
Proportion of employees in training by gender



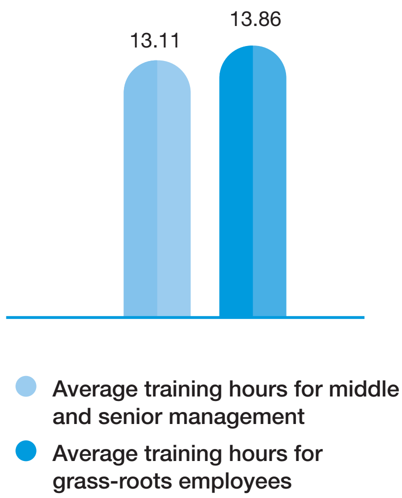
Proportion of employees in training by category



Average training hours for employees by gender



Average training hours for employees by category



While our employees worked hard and diligently in their respective positions, their excellent performance has also gained recognition from society. In the "2022 Shanghai Workers' Vocational Skills Competition – Pharmaceutical Industry Drug Inspector Skills Competition", our employees achieved good results with a gold medal and a silver medal. During the Reporting Period, one of our employees was awarded the "Shanghai Craftsmanship" honor, and several employees were awarded the "Minhang District Chunshen Pyramid Excellent Talent", "Minhang District Chunshen Pyramid Outstanding Talent", "Minhang District Youth Innovation Talent", "Songjiang Craftsmanship", "Songjiang District Outstanding Talent", "Songjiang District Chief Technician", "Songjiang District Youth Innovation Talent", and other honorary titles.

4.2 Employee care

Safety and health

We strictly abide by the Work Safety Law of the People's Republic of China and other laws and regulations, adhere to the safety management policy of "conducting comprehensive management with safety first and prevention as the main task", and formulated the Work Safety Management Regime, the Ledger for Investigation, Treatment and Rectification of Hidden Dangers in Production Safety, the Safety Education and Training Programme, the Emergency Response Plan for Sudden Production Safety Accidents, Management System for Storage, Use and Disposal of Hazardous Chemicals and other rules and regulations. At each production base of the Group, dedicated personnel are arranged to maintain safety facilities and monitor and manage hazards in the workplace according to their specific situations, in order to eliminate safety risks.

Additionally, each production base has developed safety drill and training plans, and regularly conducts safety drills and training activities, with detailed records of the implementation process. During the Reporting Period, each production base organized emergency safety drills and provided "three-level" safety education (at company level, department level, and position level) for new employees. In addition, special safety knowledge training on safety management and hazardous chemical management was also conducted, effectively improving employees' safety awareness and laying a solid foundation for future compliance, safety, and sustainable development.

Henan Universe invited Henan Fire Training Center to conduct fire safety training

In March 2022, Henan Universe invited the instructors of Henan Fire Training Center to conduct fire safety training to help employees master the basic theoretical knowledge of fire safety, improve their awareness of fire safety, and to eliminate fire hazards, which laid a good foundation for the regularization and institutionalization of the company's fire safety work.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We strictly abide by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Work Injury Insurance Regulations and other laws and regulations. We regularly engaged qualified third-party agencies to test and evaluate the occupational disease hazard factors in the workplace. In addition, we attach great importance to employee health and provide annual health examinations for all employees. We also provide labor protection equipment and organize occupational health examinations for employees in positions exposed to occupational hazards. During the Reporting Period, the Company obtained and maintained the ISO 45001 occupational health and safety management system certification. Shanghai Qisheng obtained the "Production Safety Standardization Level-Three Enterprise" certification and conducts self-evaluation annually. During the Reporting Period, the Company and Shanghai Qisheng commissioned a third party to monitor and assess occupational hazards in the workplace, and all test points passed the assessment. During the Reporting Period, the company renovated the piping in the raw material handing plant and moved noise-generating delivery pumps out of the production area to further improve the production environment.

For any occurrence of any work-related accidents, the Group will, in accordance with laws and regulations, handle the identification of work-related injury, work ability appraisal and application for work-related injury treatment, and conduct safety education to other relevant employees to avoid the recurrence of accidents. In the past three years, the Group had not experienced any accident of work-related deaths, and the number of work-related deaths was nil. During the Reporting Period, the loss of working hours of the Group due to work-related injuries was nil.

Communication and caring

The Group values communication between the Company and its employees. "Relations and Communication with Employees" section is included in our Employee Handbook, which stipulates that when employees believe that they have been treated unfairly at work, or they have raised opinions to their superiors but have not been properly resolved, they can lodge complaints through the processes. A smooth communication mechanism facilitates the Company to listen to the voices of employees and fully understand their demands. In addition, the Group's subsidiaries show care for employees during special holidays, further bridging the gap between the company and its staff.

NIMO makes employees feel warm

NIMO embraces a caring and warm corporate culture, sweating the details for the well-being of employees. On the International Women's Day, gifts are prepared for all female staff, while surprises are given to employees' children on Children's Day. For the Dragon Boat Festival, Mid-Autumn Festival, and Spring Festival, holiday benefits and heartfelt blessing videos are distributed to all employees, effectively enhancing their sense of belonging.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group also encourages communication and interaction among employees. We conduct various employee activities every year. We organize small-scale outings, short-distance trips and other team building activities in subsidiaries and departments to promote mutual understanding and enhance team cohesion.

Team building activity by Shanghai Jianhua

Employee outward bound by Shanghai Qisheng

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HEART IN COMMUNITY

While achieving steady growth, we pay full attention to the needs of the community, giving full play to the advantages as a pharmaceutical enterprise to give back to the society. We apply our expertise to promote innovation of the industry and benefit both doctors and patients. We actively organize and participate in academic exchange and industry discussions to seek common development of enterprises, industry and society. We donated RMB131,500 during the Reporting Period.

Artificial vitreous body is a medical device product mainly used in the treatment of diseases such as retinal detachment, internal bleeding, vitreous hemorrhage, and vitreous opacification in the field of fundus disease treatment. It has been researched by fundus disease experts around the world for decades. We rely on the platform technology of sodium hyaluronate and have pioneered the use of sodium hyaluronate gel to seal retinal holes in the treatment of hole source retinal detachment, which has been clinically verified for the effectiveness and safety of cross-linked sodium hyaluronate in the vitreous cavity. Our ultimate goal is to design artificial physiological vitreous body products that can be filled into the entire vitreous cavity, aiming to help patients undergoing retina surgery enjoy a safer, more comfortable and state similar to that before surgery, thereby potentially completely revolutionizing the diagnostic and therapeutic process of retinal surgery.

Our in-research preloaded heparin-surface-treated intraocular lens product can further reduce postoperative inflammatory reactions in cataract surgery while effectively improving the standardized implantation level of cataract surgery, facilitating the operation of doctors performing surgery.

Haohai Biological hosted the 2022 National Conference on Regenerative Medicine

In December 2022, the 2022 National Conference on Regenerative Medicine, sponsored by the Regenerative Medicine Materials Branch of the Chinese Society for Biomaterials, and hosted by the Shanghai Key Laboratory of Tissue Engineering and the Company, was held online. Experts, scholars, and business representatives in the field of regenerative medicine materials discussed and shared their experiences in technical research, achievement transformation, and product development. Mr. Wu Jianying, Executive Director and General Manager of the Company, as one of the co-chairs of the conference, delivered a speech on "Introduction to Translational Research on Regenerative Medicine Materials".

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
Environment			
A1: Emissions	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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Green and low-carbon development: resource management and discharge management
	A1.1	The types of emissions and respective emissions data	Green and low-carbon development: discharge management
	A1.2	Greenhouse gas emissions in total and intensity	Green and low-carbon development: resource management
	A1.3	Total hazardous waste produced and intensity	Green and low-carbon development: discharge management
	A1.4	Total non-hazardous waste produced and intensity	Green and low-carbon development: discharge management
	A1.5	Description of emission targets set and steps taken to achieve them.	Green and low-carbon development: discharge 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 and low-carbon development: discharge management

ESG Subject Area and General Disclosures and KPIs			Disclosed in
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Green and low-carbon development: resource management
	A2.1	Direct and/or indirect energy consumption by type (e.g., electricity, gas or oil) in total and intensity	Green and low-carbon development: resource management
	A2.2	Water consumption in total and intensity	Green and low-carbon development: resource management
	A2.3	Description of energy use efficiency initiatives and results achieved	Green and low-carbon development: resource management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green and low-carbon development: resource management
	A2.5	Total outsourced material used for finished products and with reference to per unit produced	Green and low-carbon development: resource management
A3: Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	GREEN AND LOW CARBON DEVELOPMENT
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	GREEN AND LOW CARBON DEVELOPMENT
A4: Climate Change	General Disclosure	Identification of policies on the significant climate-related issues which have impacted, and those which may impact, the issuer	Green and low-carbon development: Climate Change Response
	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	Green and low-carbon development: Climate Change Response

ESG Subject Area and General Disclosures and KPIs			Disclosed in
Social			
B1: Employment	General Disclosure	Information on: the policies; and 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	HARMONIOUS TEAM: Talent development
	B1.1	Total workforce by gender, employment type, age group and geographical region	HARMONIOUS TEAM
	B1.2	Employee turnover rate by gender, age group and geographical region	HARMONIOUS TEAM: Talent development
B2: Health and Safety	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	HARMONIOUS TEAM: Employee care
	B2.1	Number and rate of work-related fatalities in each of the past three years	HARMONIOUS TEAM: Employee care
	B2.2	Lost days due to work injury	HARMONIOUS TEAM: Employee care
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	HARMONIOUS TEAM: Employee care

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work Description of training activities	HARMONIOUS TEAM: Talent development
	B3.1	The percentage of employees trained by gender and employee category	HARMONIOUS TEAM: Talent development
	B3.2	The average training hours completed per employee by gender and employee category	HARMONIOUS TEAM: Talent development
B4: Labour Standards	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor	HARMONIOUS TEAM
	B4.1	Description of measures to review employment practices to avoid child and forced labor	HARMONIOUS TEAM
	B4.2	Description of steps taken to eliminate such practices when discovered	HARMONIOUS TEAM
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	DEVOTED TO PRODUCT DEVELOPMENT
	B5.1	Number of suppliers by geographical region	DEVOTED TO PRODUCT DEVELOPMENT
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	DEVOTED TO PRODUCT DEVELOPMENT
	B5.3	Description of practices relating to identifying environmental and social risks at each link of the supply chain where the practices are being implemented, how they are implemented and monitored	DEVOTED TO PRODUCT DEVELOPMENT
	B5.4	Description of practices relating to selecting suppliers to promote the use of green products and services where the practices are being implemented, how they are implemented and monitored	DEVOTED TO PRODUCT DEVELOPMENT

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B6: Product Responsibility	General Disclosure	Information on: the policies; and 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	DEVOTED TO PRODUCT DEVELOPMENT: Responsible marketing
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	DEVOTED TO PRODUCT DEVELOPMENT
	B6.2	Number of products and service related complaints received and how they are dealt with	DEVOTED TO PRODUCT DEVELOPMENT: Responsible marketing
	B6.3	Description of practices relating to observing and protecting intellectual property rights	DEVOTED TO PRODUCT DEVELOPMENT: Innovative development
	B6.4	Description of quality assurance process and recall procedures	DEVOTED TO PRODUCT DEVELOPMENT
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	DEVOTED TO PRODUCT DEVELOPMENT: Responsible marketing
B7: Anti-corruption	General Disclosure	Information on: the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery extortion, fraud and money laundering	DEDICATED TO CORPORATE GOVERNANCE: Compliant operation
	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	DEDICATED TO CORPORATE GOVERNANCE: Compliant operation
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	DEDICATED TO CORPORATE GOVERNANCE: Compliant operation
	B7.3	Description of anti-corruption trainings provided to directors and employees	DEDICATED TO CORPORATE GOVERNANCE: Compliant operation

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B8: Community	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	HEART IN COMMUNITY
	B8.1	Focus areas contribution	HEART IN COMMUNITY
	B8.2	Resources contributed to focus area	HEART IN COMMUNITY

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 61, is the chairman and executive Director of the Company. Dr. Hou engaged in postdoctoral research at the pharmacology department of University of Pennsylvania in the U.S. from July 1992 to October 1995. Thereafter, he served as a research investigator at the department of cell and developmental biology of the University of Michigan in the U.S. from 1998 to 2000. From August 2000 to August 2003, he served as a researcher and doctoral degree supervisor at Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所), where he was mainly responsible for establishing screening models for cancer drugs and the application of new biotechnologies (such as RNA interference) on new drugs development. He also served as the overseas manager of the strategy and investment committee at Shanghai Pharmaceutical (Group) Co., Ltd, a company principally engaged in investments, research in pharmaceutical products, medical devices, as well as manufacturing and sale of medical devices from July 2003 to June 2004 and was mainly responsible for assisting its formulation of overseas strategies and implementing its external relations and coordination. During July 2000 to June 2004 and April 2005 to March 2008 at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司), he served various positions such as the deputy general manager and the director of the research and development division. He was mainly responsible for formulating product development strategies, establishing its development team and development base as well as implementing its product research and development plans. He has also served as the chairman of Shanghai Qisheng from December 2007 to August 2010, and has been appointed as a director of Shanghai Likangrui since August 2022. He served as the chairman of Haohai Limited, the predecessor of the Company, from September 2009 to the date of conversion of the Company in July 2010. He has been appointed as the chairman and Director of the Company since July 2010, and was redesignated as an executive Director on 7 December 2014. Dr. Hou obtained a master's degree and a Ph.D. degree from Ohio University in the U.S. in March 1987 and August 1992, respectively.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wu Jianying (吳劍英), aged 59, is an executive Director and general manager of the Company. Mr. Wu worked as a surgeon at the General Surgery Department of the Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院普外科) from 1991 to 1999. He thereafter worked at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司) ("**Shanghai Huayuan**") from March 2003 to February 2004, at the Shanghai branch of China Huayuan Life Industry Limited (中國華源生命產業有限公司上海分公司) from February 2004 to May 2005 and at Cinkate Pharmaceutical and Chemical Intermediates (Shanghai) Company Limited (欣凱醫藥化工中間體(上海)有限公司), a company principally engaged in development and production of pharmaceutical and chemical intermediates, as well as selling its own products and providing relevant technical advisory services from May 2005 to July 2007. He served as the general manager at Haohai Limited from July 2007 to June 2010. He has served as the general manager at Shanghai Qisheng since August 2010, and served as the director of Haohai Holdings since July 2015, the vice chairman of Henan Universe since August 2015 and then the executive director, the executive director of Haohai Development since February 2016. He served as the director of Haohai Healthcare Holdings (Cayman) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since May 2016, the director of Haohai Healthcare Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since August 2016, the chairman of NIMO since November 2016 and the general manager of NIMO since January 2022, and the director of Contamac Holdings Limited since June 2017, and the director of Haohai Aesthetic Holdings (BVI) Co., Ltd., a subsidiary of our Company since November 2017. He also served as a director of Shanghai Pacific Biological Technology Co., Ltd. (上海太平洋生物高科技有限公司) and Shanghai Pacific Pharmaceutical Co., Ltd. (上海太平洋藥業有限公司), subsidiaries of the Company since May 2018, and a chairman of Hangzhou Aijinglun since April 2020. He also served as the director of International Optical Innovation Holdings Co., Limited, a subsidiary of the Company since November 2020, and the director of Art Vision Technology Co., Limited, a subsidiary of the Company since January 2021. He also served as the chairman of Hengtai Vision since April 2021, the chairman of Hebei XSK from April 2021 to July 2022, and the chairman of Nanpeng Optical since January 2022. He was retired as the general manager of Shanghai Likangrui and served as the chairman of Shanghai Likangrui in August 2022, and has served as an executive director of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022. He has been appointed as the Director and general manager since July 2010, and was redesignated as an executive Director on 7 December 2014. Mr. Wu obtained a master's degree in clinical medicine from the Second Military Medical University in June 1997 and the practicing doctor qualification in the PRC in May 1999.

Ms. Chen Yiyi (陳奕奕), aged 41, is an executive Director of the Company. Ms. Chen joined the marketing department of Haohai Chemical, a company principally engaged in the production and sale of polyurethane composite duct in July 2006 and worked as the marketing manager and assistant to general manager from January 2007 to December 2009, the supervisor of Henan Universe since November 2016, the director of NIMO since November 2016. She has also served as an executive director of Qingdao Huayuan since April 2018, a director of Henan Saimeishi Biotech Co., Ltd (河南賽美視生物科技有限公司), a subsidiary of the Company since February 2019, and a director of Hangzhou Aijinglun since April 2020, and a supervisor of Zhuhai Eyegood Vision Technology Co., Ltd. (艾格視光科技有限公司), a subsidiary of the Company since September 2020. She also served as the director of Art Vision Technology Co., Limited, a subsidiary of the Company since January 2021, the director of Hengtai Vision since April 2021, the chairman of Hebei XSK from April 2021 to July 2022, and the director of Nanpeng Optical since January 2022. She has been appointed as the Director since July 2010, and was redesignated as an executive Director on 7 December 2014. Ms. Chen obtained a bachelor of arts in June 2004 and a Master of arts in June 2006 from Huazhong University of Science and Technology.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tang Minjie (唐敏捷), aged 47, is an executive Director of the Company. Mr. Tang joined the Company in August 2016, and became a director of NIMO since November 2016. Mr. Tang was appointed as the chief financial officer of the Company on 9 December 2016 and as an executive Director on 14 February 2017, and serves as the director of Contamac Holdings since June 2017, the director of Hengtai Vision since April 2021, and the director of Nanpeng Optical since January 2022. Prior to joining the Company, he worked at Ernst & Young during the period from August 1998 to July 2016 and most recently served as an audit partner from July 2010 to July 2016. Mr. Tang obtained a bachelor degree in economics from the former international business school of the University of Shanghai in July 1998, and was qualified as a certified public accountant ("CPA") in the PRC in June 2000 and CPA in the United States in June 2006.

NON-EXECUTIVE DIRECTORS

Ms. You Jie (游捷), aged 60, is a non-executive Director. She is currently a chief physician at the Shanghai Ninth People's Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) and doctoral supervisor at Shanghai Jiaotong University School of Medicine. She worked as a clinician at the Department of Oncology, Longhua Hospital, Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬龍華醫院腫瘤科) from July 2004 to July 2014. She also worked at the Shangha Ninth People's Hospital, Shanghai Jiaotong University School of Medicine from August 2014 until present, and held a position as a director of Shanghai Haolan Corporate Management Co., Ltd (上海昊瀾企業管理有限公司) since January 2018. She has been appointed as a Director since July 2010, and was redesignated as a non-executive Director on 7 December 2014. She obtained a clinical doctorate degree from Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) in July 2004 and the practicing doctor qualification in the PRC in May 1999. Ms. You is the spouse of Mr. Jiang Wei, a controlling Shareholder of the Company.

Mr. Huang Ming (黃明), aged 47, is a non-executive Director of the Company. Since 1 January 2020, he ceased to be the joint company secretary of the Company. He worked as a manager in Haoyang Investments from September 2008 to June 2010, a director of Haohai Changxing Company Limited, a company principally engaged in the sale of agricultural byproducts since September 2010 and an executive director of Changxing Haoersi Biotechnology Company Limited (長興昊爾斯生物科技有限公司), a company principally engaged in the research and development of biological and plant products from May 2011 to December 2011. He has been serving as a supervisor of Shanghai Jianhua since November 2007, a supervisor of Shanghai Qisheng since December 2007, and a supervisor of Shanghai Likangrui from December 2010 to August 2022. He served as the director of Haohai Holdings since July 2015, the supervisor of Haohai Development since February 2016, the director of NIMO since December 2016, the director of Contamac Holdings since June 2017, and the director of China Ocean Group Limited, an indirectly wholly-owned subsidiary of the Company, since December 2017. He also has served as an associate researcher at Fudan University since October 2017. He also served as a supervisor of Shanghai Qisheng Medical Technology Development Co., Ltd. (上海旗盛醫藥科技發展有限公司), a subsidiary of the Company since April 2018 and served as a supervisor of Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd., subsidiaries of the Company since May 2018. He worked as Secretary of the Board from October 2010 to December 2019, as our joint company secretary from November 2014 to December 2020, respectively. He has been appointed as the Director since July 2010, was re-designated as an executive Director on 7 December 2014, and was re-designated as a non-executive Director on 19 December 2019. Mr. Huang, with former name Huang Ping (黃平), obtained a bachelor of laws in July 1998 and a master of laws in June 2005 from East China University of Political Science and Law (華東政法大學), and a doctoral degree in corporate management from Fudan University in June 2011. He obtained his lawyer qualification in May 1999.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Li Yingqi (李穎琦), aged 46, retired from an independent non-executive Director on 29 June 2022. She is currently a professor at Shanghai National Accounting Institute (上海國家會計學院) since March 2017, and the doctoral supervisor. Ms. Li has served successively as an assistant, the lecturer, the associate professor and the professor in Shanghai Lixin University of Commerce (上海立信會計學院) from July 1999 to February 2017. Ms. Li served as an independent director at Junhe Pumps Holding Co., Ltd. (君禾泵業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603617) during the period from March 2017 to April 2018. Ms. Li served as an independent director at Shenzhen Guangju Energy Co., Ltd. (深圳市廣聚能源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000096) during the period from April 2018 to April 2021. Ms. Li has been serving as an independent director at Eastern Air Logistics Co., Ltd. (東方航空物流股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601156) since December 2018. Ms. Li has been serving as an independent director at Shanghai International Airport Co., Ltd. (上海國際機場股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600009) since June 2019. Ms. Li obtained a Ph.D. majoring in management from Fudan University in July 2009 and has been a senior member (non-practicing) of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since March 2015.

Mr. Guo Yongqing (郭永清), aged 48, has been an Independent Non-executive Director since 29 June 2022. He has worked at Shanghai National Accounting Institute (上海國家會計學院) since 2002, and is currently a professor at Shanghai National Accounting Institute. Mr. Guo is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and a member of the Accounting Standards for Business Enterprises Consultative Committee of Ministry of Finance (財政部企業會計準則諮詢委員會). He served as an independent director at Chongqing Porton Pharmacy Science & Technology Co., Ltd. (重慶博騰製藥科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300363) from March 2016 to May 2022. He served as an independent director at Tianjin Capital Environmental Protection Group Company Limited (天津創業環保集團股份有限公司), a company listed on both SSE (stock code: 600874) and the Hong Kong Stock Exchange (stock code: 1065) from December 2015 to September 2022. He had served as an independent director at Yango Group Co., Ltd. (陽光城集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000671) from May 2020 to August 2022. He has been an independent director at Shanghai Electric Power Company Limited (上海電力股份有限公司), a company listed on the SSE (stock code: 600021) since June 2021. He has been a director at Sanxiang Impression Co., Ltd. (三湘印象股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000863) since June 2021. He has also been an independent director at Anxin Trust Co., Ltd. (安信信託股份有限公司), a company listed on the SSE (stock code: 600816) since September 2022, and an independent director at New China Life Insurance Company Ltd (新華人壽保險股份有限公司), a company listed on both SSE (stock code: 601336) and the Hong Kong Stock Exchange (stock code: 1336) since November 2022. He obtained a doctoral degree in management majoring in accounting from Shanghai University of Finance and Economics (上海財經大學) in 2002.

Mr. Jiang Zhihong (姜志宏), aged 54, has been an Independent Non-executive Director since 29 June 2020. He is currently the vice president and the chair professor of Macau University of Science and Technology. Mr. Jiang conducted post-doctor research work in the Department of Biochemistry and Molecular Pharmacology of Harvard Medical School in the United States during the period from November 1999 to September 2001. Mr. Jiang has served successively as an assistant professor, associate professor and professor at the School of Chinese Medicine in Hong Kong Baptist University during the period from October 2001 to June 2011. Mr. Jiang graduated from Nagasaki University in Japan with a doctor degree in pharmacy in 1998.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Su Zhi (蘇治), aged 45, has been an Independent Non-executive Director since 29 June 2020. He has worked at the Central University of Finance and Economics ("CUFE") (中央財經大學) since June 2009, is currently serving as professor and doctoral supervisor at the CUFE, and the chair professor and the head of the Department of Financial Technology of the School of Finance of CUFE. Mr. Su has been the deputy director of the academic committee of the Institute of International Technology and Economy under the Development Research Center of the State Council (國務院發展研究中心國際技術經濟研究所) since July 2018. Mr. Su has also worked as executive deputy director of CUFE & University of Electronic Science and Technology of China Joint Research Data Center (電子科技大學聯合數據研究中心) since March 2018. He has been an external supervisor of Bank of Guizhou Company Limited (貴州銀行股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 6199) since May 2018, and has been an independent director of Changzhou Kaneken Steel Section Co., Ltd. (常州鋼勁型鋼股份有限公司), a company listed on listed on National Equities Exchange and Quotations (stock code: 872632), since September 2020. He has been an external supervisor of Bank of Communications Co., Ltd., which is listed on both the SSE (stock code: 601328) and the Hong Kong Stock Exchange (stock code: 3328) since June 2022, and has been an independent director of Jilin Jlu Communication Design Institute Co., Ltd. (吉林吉大通信設計院股份有限公司), a company listed on the GEM of the Shenzhen Stock Exchange (stock code: 300597) since December 2022. Mr. Su obtained a doctor's degree in economics majoring in quantitative economics from Jilin University in June 2006. He engaged in the finance research at the post-doctoral study station of the School of Economics and Management of Tsinghua University from April 2007 to May 2009.

Mr. Yang Yushe (楊玉社), aged 59, has been an Independent Non-executive Director since 29 June 2020. He has been working at the Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("SIMM") (中國科學研究院上海藥物研究所) since 1998, and is currently the doctoral tutor and second-level researcher of SIMM. His main research areas include original anti-infective drugs, anticoagulant drugs, and central nervous system drug research and development. His representative achievement is the successful development of China's first new fluoroquinolone drug with independent intellectual property rights – Antofloxacin Hydrochloride in 2009. Mr. Yang won the second prize of the National Technology Invention Award (Rank first) in 2017, the first prize of the Shanghai Technical Invention Award (Rank first) in 2015, the Outstanding Achievement Award of Chinese Pharmaceutical Development for Innovative Medicine Award in 2013, and the title of Shanghai Advanced Worker in 2010 (Model Worker). Mr. Yang obtained a doctor degree in pharmacy from SIMM in 1996.

Mr. Zhao Lei (趙磊), aged 49, has been an Independent Non-executive Director since 29 June 2020. He is currently an associate director and researcher at the Commercial Law Office in the Institute of Law of the Chinese Academy of Social Sciences. Mr. Zhao has served successively as a lecturer and adjunct professor in Southwest University of Political Science and Law from 2005 to February 2013, and has served as an associate researcher at the Social Sciences in China Press of the Chinese Academy of Social Sciences from March 2013 to November 2016. Mr. Zhao has worked at the Institute of Law of the Chinese Academy of Social Sciences since December 2016. He has served as an independent director of Nanning Department Store Co. Ltd.* (南寧百貨大樓股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600712), from April 2018 to September 2022. He has been serving as an independent director of Shenwan Hongyuan Group Co., Ltd., which is listed on both the Shenzhen Stock Exchange (stock code: 000166) and the Hong Kong Stock Exchange (stock code: 6806) since May 2021. Mr. Zhao obtained a doctor degree of Civil and Commercial Law from Southwest University of Political Science and Law in July 2007.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Liu Yuanzhong (劉遠中), aged 54, is the chairman of the Supervisory Committee of the Company and a shareholder Supervisor. Mr. Liu joined Liming Research Institute of Chemical Industry (黎明化工研究院) in 1992 and served as an engineer from November 1997 to October 2001. He has been working as an engineer and was responsible for research and development of insulation and car high polymer material at Haohai Chemical from December 2001 until now. He has also been a supervisor of Ningbo Langge Haohai New Material Co., Ltd (寧波朗格昊海新材料有限公司) since September 2013. He has been appointed as our Supervisor since July 2010. Mr. Liu obtained a bachelor's degree in industrial analysis from the Department of Applied Chemistry of Beijing Institute of Chemical Technology (北京化工學院) in July 1992 and a master's degree in engineering from East China University of Science and Technology (華東理工大學) in June 2009.

Ms. Yang Qing (楊青), aged 51, is an independent Supervisor of the Company. Ms. Yang engaged in post-doctoral research at the Department of Economics of the University of Vienna in Austria from March 2005 to August 2005 and acted as a visiting scholar at the School of Economics, University of Cambridge in England from September 2006 to September 2007, and participated in the Freeman Fellows Program of the University of Illinois at Urbana-Champaign in the U.S. from August 2011 to May 2012. She has joined Fudan University since July 2001 and was responsible for research and teaching work, and she is currently a professor in the School of Economics. She has been appointed as the Supervisor since October 2014. Ms. Yang obtained a bachelor's degree in management information system from Kunming University of Science and Technology (昆明理工大學) in July 1995 and a doctor's degree in management from Fudan University in July 2001.

Mr. Tang Yuejun (唐躍軍), aged 44, is an independent Supervisor of the Company. He has been an associate professor at the School of Management, Fudan University from September 2011 until present. He has also been acting as a master's degree supervisor of MBA and EMBA from January 2011 until present, a master's degree supervisor of corporate management from September 2012 until present. He acted as a visiting scholar at the Arizona State University WP Carey School of Business in US from August 2017 to July 2018. He has been appointed as our Supervisor since October 2014. Mr. Tang obtained a bachelor's degree in economics from Nankai University (南開大學) in June 2001, and a doctor's degree in management from the School of Business of Nankai University in June 2006.

Mr. Wei Changzheng (魏長征), aged 43, is the staff representative Supervisor. Mr. Wei has been the deputy manager of the research and development department at Haohai Limited, the predecessor of the Company, since October 2009, and he has continued to serve this position after the conversion of Haohai Limited into the Company. Mr. Wei has been a director in the department of research and development from April 2016 to May 2022, and a vice general manager of Shanghai Qisheng since May 2022. He has serviced as an executive director of Shanghai Qisheng Medical Technology Development Co., Ltd., a subsidiary of the Company from April 2018 to October 2022. He has been appointed as the Supervisor since July 2010. Mr. Wei obtained a doctor of science from Ocean University of China (中國海洋大學) in June 2007.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Song Xiao (宋霄), aged 39, is the staff representative Supervisor. Ms. Song joined the Company as the senior securities manager on 1 June 2022, and has been the supervisor of Shanghai Likangrui since August 2022. She has obtained the PRC Legal Profession Qualification Certificate awarded by the Ministry of Justice of the PRC, she worked at Shanghai Oceanwisdom Lawfirm from September 2014 to May 2022, and obtained her lawyer qualification in March 2016. She has been the staff representative Supervisor since 29 June 2022. She obtained a master of laws degree from the East China University of Political Science and Law in July 2013.

Mr. Yang Linfeng (楊林鋒), aged 41, retired from a staff representative Supervisor on 29 June 2022. He had been an associate of the chief human resource officer of the Company from July 2011 to November 2015, and he had been a Performance & Development manager of Human Resource since November 2015. He had been appointed as the Supervisor since September 2014. Mr. Yang obtained a doctor's degree in management at Fudan University in June 2011.

SENIOR MANAGEMENT (EXCEPT DIRECTORS AND SUPERVISORS)

Ms. Ren Caixia (任彩霞), aged 65, is the deputy general manager of the Company. She served various positions at Shanghai Huayuan from April 2002 to May 2007. She served as the deputy general manager of Haohai Limited from July 2007 to August 2010. She has acted as the general manager of Shanghai Jianhua since November 2007 and an executive director of Shanghai Jianhua from November 2010 to December 2018. She has been appointed as our deputy general manager since July 2010. Ms. Ren obtained a bachelor's degree in inorganic chemicals from the Department of Chemicals of Hefei University of Technology (合肥工業大學) in September 1982.

Mr. Wang Wenbin (王文斌), aged 56, is a deputy general manager of the Company. He has served as the executive deputy general manager in Shanghai Qisheng since May 1995, and has served as the general manager of Qingdao Huayuan since April 2018, and has served as a general manager of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022. He served as the deputy general manager of the Company from September 2014 to September 2017 and from March 2019 to present. Mr. Wang obtained a bachelor's degree in medicine from the Second Military Medical University in July 1991 and the practicing doctor qualification in the PRC in May 1999.

Mr. Zhang Jundong (張軍東), aged 49, is a deputy general manager of the Company. He engaged in postdoctoral research in clinical medicine at the Second Military Medical University from November 2006 to October 2010. Between June 2009 to December 2013, he served at the prescription medicine business division of Xinyi Institute of Materia Medica in Shanghai Pharmaceuticals (Group) Co. Ltd. (上海醫藥(集團)有限公司處方藥事業部信誼藥物研究所) as a director of the institute, and he served as the research and development director of Shanghai Xinyi Pharmaceutical Co., Ltd. (上海信誼藥廠有限公司). He has served as an executive director of Shanghai Likangrui Agricultural Technology Development Co., Ltd., a subsidiary of the Company since June 2022. He has also served as a director and general manager of Shanghai Likangri, and an executive director of Shanghai Bosaimei Biotechnology Co., Ltd, a subsidiary of the Company since August 2022. He served as the deputy general manager of the Company from September 2014 to September 2017 and from March 2019 to present. Mr. Zhang obtained a bachelor's degree in pharmacy in July 1994 and a doctor's degree in medicine in June 2006 from the Second Military Medical University.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Tian Min (田敏), aged 33, is the Secretary of the Board and the joint company secretary of the Company. She joined the Group in July 2015, worked in the office of the Board of the Company, and was appointed as the Company's securities affairs representative in August 2019. She has also serviced as the secretary of the Board since December 2019, the joint company secretary of the Company since January 2020. She has served as the director of Juva Medical since April 2021, has serviced as an executive director of Shanghai Qisheng Medical Technology Development Co., Ltd., a subsidiary of the Company since October 2022, and has served as a supervisor of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022. She has obtained the "People's Republic of China Legal Professional Qualification Certificate" issued by the Ministry of Justice of the PRC in March 2014, and obtained the qualification certificate of the secretary of the board of directors of the Shanghai Stock Exchange in July 2019. Ms. Tian obtained a Master of Laws degree from East China University of Political Science and Law in July 2015.

JOINT COMPANY SECRETARIES

Ms. Tian Min (田敏), aged 33, has served as the joint company secretary of the Company since 1 January 2020 and is also the Secretary of the Board. For the resume of Ms. Tian, please refer to the "Senior Management" section above.

Mr. Chiu Ming King (趙明璟), aged 45, was appointed as a joint company secretary of the Company on 17 November 2014. He has joined Vistra Corporate Services (HK) Limited since June 2012 and currently serves as the managing director of corporate services of Vistra Corporate Services (HK) Limited, and prior to joining Vistra Corporate Services (HK) Limited, he was an associate director of corporate services of TMF Hong Kong Limited from October 2009 to May 2012. Mr. Chiu has over 14 years of experience in the company secretarial field. He is currently the company secretary of several companies listed on the Stock Exchange.

Mr. Chiu has been an associate member of The Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) and The Hong Kong Chartered Governance Institute ("**HKCGI**") (formerly known as the Hong Kong Institute of Chartered Secretaries) since 2003, and a fellow member of HKCGI since September 2015. He is also a holder of the Practitioner's Endorsement Certificate issued by HKCGI. He is currently a member of the Membership Committee and Professional Services Panel of HKICS. He has also been the HKICS' representative in the Young Coalition Professional Group of The Hong Kong Coalition of Professional Services since 2013.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Canada in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong in November 2003.

INDEPENDENT AUDITOR'S REPORT

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

安永會計師事務所
香港鰂魚涌英皇道 979號
太古坊一座 27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Shanghai Haohai Biological Technology Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Haohai Biological Technology Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 128 to 241, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, 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 ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group recorded revenue from the sale of goods amounting to approximately RMB2,103 million in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022. Revenue from contracts with customers is recognised when control of goods is transferred to the customers. We focused on this area because revenue recognition was assessed to have higher risks of material misstatement, including significant risks, due to the large transaction volume. The Group's specific disclosures about revenue recognition are included in note 2.4 "Summary of significant accounting policies" and note 5 "Revenue, other income and gains" to the financial statements.	Our audit procedures included, among others: – Discussing with management and obtained an understanding the revenue recognition policy, and performing tests of controls on revenue recognition; – Performing tests of details on revenue records on a sampling basis to check the occurrence and accuracy; – Obtaining the sales contracts with customers, and reviewed key terms of revenue recognition and sales return; – Obtaining revenue and trade receivables confirmations from main customers and reviewing the reconciliation of any material difference provided by management by checking the related documents, and performing alternative procedures for the confirmations with no response; – Performing analytical procedures by comparing revenue to that of previous years for the same products; – Testing the recognition of revenue transactions the end of the period end to assess whether they were recorded in the correct period.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the carrying values of goodwill and other intangible assets with indefinite useful lives	
Goodwill and other intangible assets with indefinite useful lives arising from business combination subject to impairment test amounted to RMB411 million and RMB97 million, respectively, as at 31 December 2022. The Group is required to perform the impairment test for goodwill and other intangible assets with indefinite useful lives annually. The impairment test is based on the recoverable amounts of the respective cash-generating units ("CGUs"). We focused on this area because management's impairment assessment process on goodwill and other intangible assets with indefinite useful lives was complex and involved significant judgements and estimates, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied. The Group's specific disclosures about goodwill and intangible assets are included in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", note 15 "Other intangible assets" and note 16 "Goodwill" to the financial statements.	Our audit procedures included, among others: – Involving our valuation specialists to assist us in evaluating the assumptions and methodologies, including the discount rate and growth rate used by the Group in the impairment test of goodwill and intangible assets with indefinite useful lives arising from business combination; – Assessing the competence, professional quality and objectivity of the valuation specialists; – Evaluating the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plan; – Evaluating the appropriateness of related disclosures.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Business combination	
In January 2022, the Group completed the acquisition of 51.00% equity interest in Xiamen Nanpeng Optical Co., Ltd. at a total cost of RMB70 million and recognised goodwill of approximately RMB14 million and other intangible assets of approximately RMB102 million. We focused on this area because the accounting for the acquisition relied on a significant amount of management estimations and judgements in respect of fair value assessments of assets acquired and liabilities assumed, and the review of these estimations required high level of professional judgement. The Group's specific disclosures about business combination are included in note 2.4 "Summary of Significant Accounting Policies" and note 38 "Business Combination" to the financial statements.	Our audit procedures included, among others, evaluating the competence, capabilities and objectivity of the external appraiser engaged by the Group to perform the valuation and involving our internal valuation specialists in review the valuation methodologies adopted and the assumptions used in valuation of the long-term assets by reference to the historical experience, estimation of the Group and the market practices; and furthermore, checking the adequacy and appropriateness of the related disclosures.

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.

INDEPENDENT AUDITOR'S REPORT

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 the 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSAs, 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 Yin Guowei.

Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	2,103,438	1,750,116
Cost of sales		(656,515)	(490,370)
Gross profit		1,446,923	1,259,746
Other income and gains, net	5	147,852	198,429
Selling and distribution expenses		(679,532)	(612,341)
Administrative expenses		(405,304)	(286,093)
(Impairment losses)/reversal of impairment losses on financial assets, net		(15,516)	3,182
Research and development costs		(182,192)	(167,597)
Other expenses		(72,407)	(9,907)
Finance costs	7	(7,603)	(4,963)
Share of profits and losses of:			
A joint venture		3,204	2,100
An associate		301	93
PROFIT BEFORE TAX	6	235,726	382,649
Income tax expense	10	(45,395)	(35,366)
PROFIT FOR THE YEAR		190,331	347,283
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		18,401	(16,824)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		18,401	(16,824)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		(112,896)	124,199
Income tax effect		4,865	(10,309)
		(108,031)	113,890
Net other comprehensive income that will not be reclassified to (loss)/income in subsequent periods		(108,031)	113,890
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(89,630)	97,066
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		100,701	444,349
Profit attributable to:			
Owners of the parent		180,470	352,234
Non-controlling interests		9,861	(4,951)
		190,331	347,283
Total comprehensive income attributable to:			
Owners of the parent		86,778	452,424
Non-controlling interests		13,923	(8,075)
		100,701	444,349
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year	12	RMB1.04	RMB2.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,286,396	1,197,037
Right-of-use assets	14	222,441	214,800
Other intangible assets	15	620,416	613,397
Goodwill	16	411,199	406,901
Investment in a joint venture	17	–	47,964
Investment in an associate	18	3,028	3,448
Equity investments designated at fair value through other comprehensive income	19	668,412	573,935
Deferred tax assets	30	59,323	49,356
Other non-current assets	20	89,068	130,932
Total non-current assets		3,360,283	3,237,770
CURRENT ASSETS			
Inventories	21	485,239	354,765
Trade and bills receivables	22	388,275	375,206
Prepayments, other receivables and other assets	23	104,851	74,837
Financial assets at fair value through profit or loss	24	–	6,376
Assets classified as held for sale	25	9,159	–
Pledged deposits	26	2,877	614
Cash and bank balances	26	2,541,715	2,900,788
Total current assets		3,532,116	3,712,586
CURRENT LIABILITIES			
Trade payables	27	54,533	46,264
Other payables and accruals	28	397,710	397,329
Interest-bearing bank and other borrowings	29	34,378	42,421
Tax payable		24,654	1,258
Total current liabilities		511,275	487,272
NET CURRENT ASSETS		3,020,841	3,225,314
TOTAL ASSETS LESS CURRENT LIABILITIES		6,381,124	6,463,084

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	83,880	39,493
Other payables and accruals	28	4,500	8,110
Deferred tax liabilities	30	163,508	157,910
Deferred income	31	5,500	9,402
Provision	32	793	1,765
Other non-current liabilities	33	220,560	186,118
Total non-current liabilities		478,741	402,798
Net assets		5,902,383	6,060,286
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	34	174,130	175,822
Treasury shares	34	(74,042)	–
Reserves	36	5,414,521	5,537,639
		5,514,609	5,713,461
Non-controlling interests		387,774	346,825
Total equity		5,902,383	6,060,286

Hou Yongtai	**Tang Minjie**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to ordinary equity holders of the parent										
	Share capital RMB'000	Treasury shares RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	175,822	–	3,091,122	61,243	88,923	(13,110)	(264)	2,309,725	5,713,461	346,825	6,060,286
Profit for the year	–	–	–	–	–	–	–	180,470	180,470	9,861	190,331
Other comprehensive income for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	(108,031)	–	–	–	–	(108,031)	–	(108,031)
Exchange differences on translation of foreign operations	–	–	–	–	–	14,339	–	–	14,339	4,062	18,401
Total comprehensive income for the year	–	–	–	(108,031)	–	14,339	–	180,470	86,778	13,923	100,701
Repurchase of H shares	–	(147,672)	–	–	–	–	–	–	(147,672)	–	(147,672)
Retirement of H shares	(1,692)	73,630	(71,938)	–	–	–	–	–	–	–	–
Acquisition of a subsidiary (note 38)	–	–	–	–	–	–	–	–	–	54,130	54,130
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(12,000)	(12,000)
Dividend declared	–	–	–	–	–	–	–	(121,891)	(121,891)	–	(121,891)
Capital injection of non-controlling shareholders	–	–	–	–	–	–	–	–	–	761	761
Capital injection to partially-owned subsidiaries	–	–	(10,720)	–	–	–	–	–	(10,720)	10,720	–
Share redemption option granted to non-controlling shareholders of a subsidiary	–	–	(29,439)	–	–	–	–	–	(29,439)	(5,003)	(34,442)
Share-based payments credited to the owner's equity	–	–	26,725	–	–	–	–	–	26,725	3,504	30,229
Disposal of partial equity of subsidiaries without loss of control	–	–	(2,633)	–	–	–	–	–	(2,633)	2,707	74
Disposal of a subsidiary (note 39)	–	–	–	–	–	–	–	–	–	(27,793)	(27,793)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	(1,197)	–	–	–	1,197	–	–	–
At 31 December 2022	174,130	(74,042)	3,003,117	(47,985)	88,923	1,229	(264)	2,369,501	5,514,609	387,774	5,902,383

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to ordinary equity holders of the parent										
	Share capital RMB'000	Treasury shares RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	177,207	(28,263)	3,259,803	35,606	88,923	590	(264)	1,957,149	5,490,751	243,494	5,734,245
Profit for the year	–	–	–	–	–	–	–	352,234	352,234	(4,951)	347,283
Other comprehensive income for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	113,890	–	–	–	–	113,890	–	113,890
Exchange differences on translation of foreign operations	–	–	–	–	–	(13,700)	–	–	(13,700)	(3,124)	(16,824)
Total comprehensive income for the year	–	–	–	113,890	–	(13,700)	–	352,234	452,424	(8,075)	444,349
Repurchase of H shares	–	(44,908)	–	–	–	–	–	–	(44,908)	–	(44,908)
Retirement of H shares	(1,385)	73,171	(71,786)	–	–	–	–	–	–	–	–
Acquisition of a subsidiary (note 38)	–	–	–	–	–	–	–	–	–	264,570	264,570
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(15,000)	(15,000)
Dividend declared	–	–	–	–	–	–	–	(87,911)	(87,911)	–	(87,911)
Capital injection of non-controlling shareholders	–	–	–	–	–	–	–	–	–	5,000	5,000
Acquisition of non-controlling interests	–	–	(20,836)	–	–	–	–	–	(20,836)	(33,106)	(53,942)
Share redemption option granted to non-controlling shareholders of a subsidiary	–	–	(76,059)	–	–	–	–	–	(76,059)	(110,058)	(186,117)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	(88,253)	–	–	–	88,253	–	–	–
At 31 December 2021	175,822	–	3,091,122	61,243	88,923	(13,110)	(264)	2,309,725	5,713,461	346,825	6,060,286

* These reserve accounts comprise the consolidated reserves of approximately RMB5,414,521,000 (2021: RMB5,537,639,000) 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		235,726	382,649
Adjustments for:			
Finance costs	7	7,603	4,963
Share of profits and losses of:			
A joint venture	17	(3,204)	(2,100)
An associate	18	(301)	(93)
Investment loss of disposal of a subsidiary	39	90	–
Interest income	5	(86,446)	(96,318)
Interest income from financial assets at fair value through profit or loss		(278)	(548)
Fair value loss/(gain) of financial assets at fair value through profit or loss		7,784	(24)
Dividend income from equity investments at fair value through other comprehensive income	5	(678)	(57,538)
Interest income form debt investments	5	(1,437)	(1,892)
Net loss on disposal and obsolescence items of property, plant and equipment	6	417	373
Depreciation of property, plant and equipment	6	112,111	91,800
Depreciation of right-of-use assets	6	22,262	24,819
Amortisation of other intangible assets	6	69,844	46,218
Impairment/(reversal of impairment) of trade and other receivables		15,516	(3,182)
Impairment of goodwill	6	9,574	–
Impairment of property, plant and equipment	6	6,936	–
Impairment of other intangible assets	6	29,561	–
Write-down of inventories to net realisable value	6	8,168	(687)
Recognition of government grants related to assets	31	(7,652)	(3,742)
Unrealised losses from changes in foreign currency exchange		2,684	3,875
Equity-settled share option expense	6	30,229	–
		458,509	388,573
Increase in inventories		(138,859)	(28,627)
Increase in trade and bills receivables		(52,330)	(41,923)
Decrease in prepayments, other receivables and other assets		7,454	7,248
(Increase)/decrease in pledged deposits		(2,263)	349
Decrease in provision		(1,005)	(296)
Increase in trade payables		35,442	32,347
(Decrease)/increase in other payables and accruals		(33,357)	54,830
Decrease in other non-current assets		1,426	–
Cash generated from operations		275,017	412,501
Income tax paid		(43,721)	(70,215)
Net cash flows generated from operating activities		231,296	342,286

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	86,446	96,318
Interest income received from equity investments designated at fair value through profit or loss		1,718	547
Purchases of items of property, plant and equipment		(309,207)	(270,881)
Purchase of land use rights		(6,335)	–
Purchase of other intangible assets		(1,606)	(1,216)
Proceeds from disposal of items of property, plant and equipment		390	213
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		9,068	283,292
Proceeds from disposal of financial assets at fair value through profit or loss		–	318,165
Payment for acquisition of subsidiaries		(2,936)	(48,276)
Cash distribution received from a joint venture		51,168	–
Purchase of equity investments designated at fair value through other comprehensive income		(163,162)	(387,293)
Purchase of financial assets at fair value through profit or loss		–	(309,318)
Prepayment for an acquisition		–	(35,000)
(Increase)/decrease in time deposits with original maturity of more than three months		(365,623)	147,821
Proceeds from disposal of a subsidiary	39	17,586	–
Dividends received from equity investments designated at fair value through other comprehensive income	5	678	57,538
Net cash flows used in investing activities		(681,815)	(148,090)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		(21,788)	(23,962)
Dividends paid to non-controlling shareholders		(10,800)	(15,000)
New bank loans		65,943	38,010
Repayment of bank loans and other borrowings		(47,911)	(95,538)
Repurchase of H shares		(147,672)	(44,908)
Collection of pledged deposits for bank borrowings		–	50,000
Acquisition of non-controlling interests		–	(53,942)
Capital injection from non-controlling interests		761	5,000
Interest paid		(4,992)	(3,000)
Dividends paid	11	(121,891)	(87,911)
Net cash flows used in financing activities		(288,350)	(231,251)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		(738,869)	(37,055)
Cash and cash equivalents at beginning of year		1,283,893	1,327,887
Effect of foreign exchange rate changes, net		14,173	(6,939)
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	559,197	1,283,893
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances and pledged deposits as stated in the statement of financial position	26	2,544,592	2,901,402
Time deposits with original maturity of more than three months when acquired	26	(1,982,518)	(1,616,895)
		562,074	1,284,507
Less: Pledged time deposits:			
Guarantee deposits	26	2,456	614
Other pledged deposits	26	421	–
Cash and cash equivalents as stated in the statement of cash flows		559,197	1,283,893

1. CORPORATE AND GROUP INFORMATION

The Company was established as a limited liability company on 24 January 2007 in the People's Republic of China (the "PRC"), and the Company was transformed into a joint stock company with limited liability on 2 August 2010. The registered office of the Company is located at No. 5 Tongjing Road, Songjiang Industrial Zone, Shanghai, PRC. The Company issued 40,000,000 H shares and 45,300 H shares on 30 April 2015 and 28 May 2015, respectively. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") since 30 April 2015. The Company issued 17,800,000 A shares on 30 October 2019 ("A Share Offering"). The A shares of the Company have been listed on the Sci-tech Innovation Board of the Shanghai Stock Exchange (the "SSE") since 30 October 2019. The total number of issued shares of the Company after the A Share Offering was 177,845,300 (comprising 40,045,300 H Shares and 137,800,000 A Shares).

During the year ended 31 December 2022, the Company repurchased 1,692,100 H Shares as treasury shares which were cancelled on 7 July 2022. Another 2,859,000 H Shares were repurchased and were not cancelled until 31 December 2022.

During the year ended 31 December 2022, the Group was principally engaged in the manufacture and sale of biologicals and medical hyaluronate and ophthalmology products, research and development of biological engineering, manufacture and sale of pharmaceutical and ophthalmology products and the provision of related services.

In the opinion of the directors of the Company (the "Directors"), the ultimate controlling shareholders of the Company are Mr. Jiang Wei and his spouse, Ms. You Jie (the "Controlling Shareholders").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("Shanghai Qisheng")	PRC/ Mainland China 27 May 1992	RMB160,000,000	100	–	Manufacture and sale of biological reagents, biologicals and biological materials
上海利康瑞生物工程有限公司 Shanghai Likangrui Bioengineering Co., Ltd.* ("Shanghai Likangrui")	PRC/ Mainland China 3 September 2001	RMB150,000,000	100	–	Research and development, consultation and services of biological engineering and pharmaceutical products and related technology transfer

NOTES TO FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
河南宇宙人工晶狀體研製有限公司 Henan Universe Intraocular Lens Research and Manufacture Co., Ltd. ("Henan Universe")	PRC/ Mainland China 23 April 1991	RMB9,923,200	–	100	Manufacture and sale of intraocular lens and related products
深圳市新產業眼科新技術有限公司 Shenzhen New Industries Material of Ophthalmology Co., Ltd* ("NIMO")	PRC/ Mainland China 27 April 2006	RMB11,000,000	–	60	Sale of ophthalmology products
Contamac Limited	UK 10 May 91	GBP1,000	–	79	Manufacture and sale of contact lens and intraocular lens material, machines and accessories
歐華美科(天津)醫學科技有限公司 Ouhua Meike (Tianjin) Medical Technology Co., Ltd. ("JUVA MEDICAL")	PRC/Mainland China 12 May 2014	RMB126,500,000	62.80	–	Sale machines of medical aesthetics, professional life cosmetology and home cosmetology
EndyMed Ltd.	Israel	ILS2,749,248	–	30.76	Research and development of radiofrequency instruments and product and sale of radiofrequency instruments

* English translations of names for identification purposes only

* All of the Company's subsidiaries registered in the PRC are limited liability companies under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and certain other payables and accruals, 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 when 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.1 BASIS OF PRESENTATION (Continued)

Basis of consolidation (Continued)

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.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the 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 June 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 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 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 contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments 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 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

1 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 October 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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (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 resulting from a downstream transaction 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 IICPA in January 2016 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 IICPA 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 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 FINANCIAL STATEMENTS

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (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 (provided that sufficient taxable profit is available) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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 associates and 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 associates and joint ventures is included in consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, 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 associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 either 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 net 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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.

Fair value measurement

The Group measures its derivative financial instruments and equity investments 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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.

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, financial assets, goodwill and non-current 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at the end of each 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 other than goodwill 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 profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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);

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: ***(Continued)***

(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.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 the estimated useful life. The principal annual rates used for this purpose are as follows:

Items	Principal annual rate
Land and buildings	2.4% to 5.0%
Plant and machinery	9.0% to 33.3%
Motor vehicles	9.5% to 33.3%
Office equipment and others	9.5% to 33.3%
Leasehold improvements	10.0% to 20.0%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings or plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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 as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Patents and non-patent technology

Purchased patents and non-patent technology are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 15 years.

Research and development costs

All research costs are charged to 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. Research and development costs which do not meet these criteria are expensed when incurred.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 36 to 120 months.

Customer relationship

Customer relationship is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 15 years.

Exclusive distribution right

Exclusive distribution right is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Brand

Brand is acquired in a business combination. The brand consisted of one brand that was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc. ("Aaren Business"), a legal entity registered in the USA, with an indefinite useful life in 2016, one brand that was acquired from the business combination of Contamac Holdings Limited ("Contamac Holdings") and its subsidiaries ("Contamac Group") with an indefinite useful life in 2017 and one brand that was acquired from the package business combination of Ouhua Meike (Tianjin) Medical Technology Co., Ltd. ("JUVA MEDICAL Group") and Bioxis Pharmaceuticals ("Bioxis", together with JUVA MEDICAL Group, "JUVA Group") which is amortised on the straight-line basis over its estimated useful lives of 10 years in 2021. The useful life of the brand is estimated to be indefinite because based on the current market share of the brand, management believes there is no foreseeable limit to the period over which the brand is expected to generate net cash flows for the Group.

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.

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

*Group as a lessee **(Continued)***

(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:

Buildings	2 to 10 years
Prepaid land lease payments	15 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.

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.

The Group’s lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(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 buildings (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 motor vehicles 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

*Initial recognition and measurement **(Continued)***

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.

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 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 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 profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income when the right of 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, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

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 profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income when the right of 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset 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 and which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

*General approach **(Continued)***

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, 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 payables, other payables and accruals and interest-bearing bank and other borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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 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 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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. 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 statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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 profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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, 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, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each 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 each 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.

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.

A government grant related to income is accounted for as follows: (a) if the grant is a compensation for related costs or expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or offset against relevant costs over the periods in which the related costs are recognised; (b) if the grant is a compensation for related costs or expenses or losses already incurred, it is recognised immediately in profit or loss or offset against relevant costs for the current period.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

*Revenue from contracts with customers **(Continued)***

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.

- Sale of goods

  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 of the goods.

- Equipment technical service

  Revenue from equipment technical service is recognised over time, using a output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The output method recognises revenue on the basis of proportion of service completed to the estimated total revenue.

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.

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 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"). JUVA MEDICAL Group also operates an employee share option scheme which some employees of JUVA MEDICAL Group were allowed to participate in.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Model or by the difference between the price of the most recent investor investment on the grant date and the price received for the implementation of the transactions, further details are given in note 35 to the financial statements.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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.

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 Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

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.

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 note 11 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 functional currency. 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. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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 measured. 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).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the 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 Renminbi at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in 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 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 overseas subsidiaries are translated into RMB at the weighted average exchange rates for the year. Frequently recurring cash flows of overseas subsidiaries 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 Group's financial statements requires management to make 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:

Business model

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group considers corporate appraisal, methods of reporting the results of financial assets to key management members, risks affecting the results of financial assets and its management, as well as the methods of remunerating relevant business managers and so forth. In assessing whether the objective is to collect contractual cash flows, the Group needs to analyse and judge the reasons for disposing of the financial assets before maturity, time, frequency and value of the financial assets and so forth.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow. For financial assets with advanced payment characteristics, it is necessary to judge whether the fair value of the advanced payment characteristics is minimal.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

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 described below.

Impairment of financial instruments

The Group assess the impairment of financial instruments based on the expected credit loss model ("ECLs"), and the application of the ECLs requires significant judgement and estimation, all reasonable and well-founded information should be taken into account, including forward-looking information. In making these judgements and estimates, the Group infers the expected changes in the credit risk of the debtor based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the provision for impairment, which may not be equal to the actual amount of impairment loss in the future.

Impairment of non-current assets other than financial assets (other than goodwill)

The Group determines whether there are any signs of possible impairment of non-current assets other than financial assets at the balance sheet date. For intangible assets with indefinite useful lives, in addition to annual impairment tests, impairment tests are also carried out when there are any signs of impairment. Other non-current assets, other than financial assets, are tested for impairment when there are indications that their carrying amount is not recoverable. An impairment occurs when the carrying amount of an asset or group of assets is higher than the recoverable amount. 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. The net fair value less disposal costs is determined by reference to the agreed sale price or observable market value of a similar asset in a fair transaction, less incremental costs directly attributable to the disposal of that asset. When predicting the fair value of future cash flows, management must estimate the projected future cash flows of the asset or group of assets and select an appropriate discount rate to determine the present value of future cash flows.

Useful lives of intangible assets

The Group determines useful lives and the related amortisation at least on an annual basis. The Group's management determines the estimated useful lives and the related amortisation charge for the Group's intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in amortisable lives and, therefore, amortisation charge in the future periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill and other intangible assets with indefinite useful lives

The Group determines whether goodwill and other intangible assets with indefinite useful lives are 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 and other intangible assets with indefinite useful lives are 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 amounts of goodwill and other intangible assets with indefinite useful lives subject to impairment test at 31 December 2022 were approximately RMB420,773,000 (2021: RMB406,901,000) and RMB101,988,000 (2021: RMB100,652,000), respectively. Further details are given in notes 16 and 15 respectively.

Fair value of financial instruments

For financial instruments for which there is no active trading market, the Group determines their fair value through various valuation methods. These valuation methods include discounted cash flow model analysis. In the valuation, the Group needs to estimate future cash flows, credit risk, market volatility and correlation, and select an appropriate discount rate. These related assumptions are uncertain and their changes will affect the fair value of financial instruments.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable to items with similar terms and risk characteristics. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2022 was RMB620,269,000 (2021: RMB506,042,000). Further details are included in note 19 to the financial statements.

Variable consideration involving sales discounts or sales returns

For a combination of contracts with similar characteristics, the Group makes reasonable estimates of discount rates or return rates, etc., based on historical sales data, current sales conditions, and taking into account all relevant information such as the changes of customer and the change of market. The estimated discount or return rate may not be equal to the actual discount or return rate in the future, and the Group re-evaluates the discount or return rate at least at each balance sheet date and determines accounting based on the reassessed discount or return rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provisions

The Group makes a reasonable estimate of the warranty rate based on historical warranty data and current warranty situation and taking into account all relevant information such as product improvement and market changes and provides for warranties for a combination of contracts with similar characteristics. The estimated warranty rate may not be equal to the actual warranty rate in the future and the Group reassesses the warranty rate at least at the end of each reporting period and determines the estimated liability based on the reassessed warranty rate.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are related to a single operating segment, which is the manufacture and sale of biologicals, medical hyaluronate and intraocular lens, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, management monitors the operating results of the Group's operating segment as a whole for the purpose of making decision about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 RMB'000
Mainland China	1,699,078	1,542,592
Europe	140,814	66,965
USA	103,717	82,918
Other regions and countries	159,829	57,641
	2,103,438	1,750,116

The revenue information of continuing operations above is based on the locations of the customers.

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information (Continued)

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	2,152,373	2,079,074
U.K.	256,350	260,989
USA	33,587	81,608
Other regions and countries	190,238	192,808
	2,632,548	2,614,479

The non-current asset information of continuing operations above is based on the locations of the assets and excludes equity investments designated at fair value through other comprehensive income and deferred tax assets.

Information about major customers

No revenue from a single customer contributed to 10% or more of the Group's revenue during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	2,103,438	1,750,116

NOTES TO FINANCIAL STATEMENTS

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Types of goods sold		
Ophthalmology products	765,969	670,969
Medical aesthetics and wound care products	744,342	460,985
Orthopedic products	386,477	400,001
Antiadhesion and hemostasis products	176,272	191,928
Other products	30,378	26,233
Total	2,103,438	1,750,116
Timing of revenue recognition		
Goods transferred at a point in time	2,096,764	1,746,329
Services rendered over time	6,674	3,787
Total	2,103,438	1,750,116

(b) Performance obligation

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

Sale of products

The performance obligation is satisfied upon delivery of products and payment is generally due within six months from delivery, except for distributors, where payment in advance is normally required.

Equipment technical service

The performance obligation is satisfied over time as services are rendered. Service contracts are billed based on the time incurred or monthly.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Other income and gains

	2022 RMB'000	2021 RMB'000
Bank interest income	86,446	96,318
Government grants	40,276	33,880
Dividend income from equity investments designated at fair value through other comprehensive income	678	57,538
Interest income from debt investment	1,437	1,892
Gain on disposal of items of property, plant and equipment	185	–
Others	18,830	8,801
	147,852	198,429

Note:

Various government grants have been received from local government authorities in various regions in the PRC, for compensating research activities. The government grants released have been recorded in other income and gains, among which there were no unfulfilled conditions or contingencies relating to these recognised government grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2022 RMB'000	2021 RMB'000
Cost of inventories sold	656,515	490,370
Depreciation of property, plant and equipment (note 13)	112,111	91,800
Depreciation of right of use assets	22,262	24,819
Amortisation of other intangible assets (note 15)	69,844	46,218
Auditor's remuneration	2,780	2,980
Research and development costs	182,192	167,597
Lease payments not included in the measurement of lease liabilities (note 14)	4,562	3,746
Employee benefit expense (excluding directors' remuneration as set out in note 8):		
Wages and salaries	495,058	386,222
Pension scheme contributions	38,157	28,153
Equity-settled share option expense	30,229	–
Foreign exchange differences, net	2,684	3,875
Impairment losses on financial assets, net:		
Impairment/(reversal of impairment) of trade receivables, net	14,795	(2,302)
Impairment/(reversal of impairment) of financial assets included in prepayments, other receivables and other assets, net	721	(880)
Impairment loss on property, plant and equipment	6,936	–
Impairment loss on other intangible assets	29,561	–
Impairment loss on goodwill	9,574	–
Write-down of inventories to net realisable value	8,168	(687)
Bank interest income	(86,446)	(96,318)
Interest income from debt investment	(1,437)	(1,892)
Net loss on disposal of a subsidiary	90	–
Net loss on disposal and obsolescence of items of property, plant and equipment	417	373

7. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank loans and other loans	5,288	3,385
Interest on lease liabilities	2,315	1,578
	7,603	4,963

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, 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	1,023	672
Other emoluments:		
Salaries, allowances and benefits in kind	4,257	4,003
Performance related bonuses	2,787	1,921
Pension scheme contributions	368	341
	7,412	6,265
	8,435	6,937

(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
Mr. Li Yingqi*	63	84
Mr. Guo Yongqing*	63	–
Mr. Yang Yushe*	126	84
Mr. Zhao Lei*	126	84
Mr. Su Zhi*	126	84
Mr. Jiang Zhihong*	141	84
	645	420

* The Company issued an announcement dated 29 June 2022 regarding to the change of independent non-executive Directors.

The Board further announces that Ms. Li Yingqi no longer served as independent non-executive Director of the Company as well as her respective related position in the Board Committees since the date of the AGM on 29 June 2022 due to the expiration of the term.

The Board also elected Mr. Guo Yongqing as an independent non-executive Director of the Company since the date 29 June 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

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

(a) Independent non-executive directors (Continued)

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

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

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022					
Executive directors:					
Dr. Hou Yongtai	–	795	800	63	1,658
Mr. Wu Jianying	–	855	800	63	1,718
Mr. Tang Minjie	–	795	477	63	1,335
Ms. Chen Yiyi	–	675	396	63	1,134
Non-executive directors:					
Ms. You Jie	–	–	–	–	–
Mr. Huang Ming	126	–	–	–	126
Supervisors:					
Mr. Liu Yuanzhong	–	–	–	–	–
Ms. Yang Qing	126	–	–	–	126
Mr. Tang Yuejun	126	–	–	–	126
Mr. Wei Changzheng	–	741	181	63	985
Mr. Yang Linfeng	–	177	–	29	206
Ms. Song Xiao	–	219	133	24	376
	378	4,257	2,787	368	7,790

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

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

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Executive directors:					
Dr. Hou Yongtai	–	785	494	57	1,336
Mr. Wu Jianying	–	845	565	57	1,467
Mr. Tang Minjie	–	795	370	57	1,222
Ms. Chen Yiyi	–	665	370	57	1,092
Non-executive directors:					
Ms. You Jie	–	–	–	–	–
Mr. Huang Ming	84	–	–	–	84
Supervisors:					
Mr. Liu Yuanzhong	–	–	–	–	–
Mr. Tang Yuejun	–	561	122	57	740
Ms. Yang Qing	84	–	–	–	84
Mr. Wei Changzheng	84	–	–	–	84
Mr. Yang Linfeng	–	352	–	56	408
	252	4,003	1,921	341	6,517

[1] Mr. Wu Jianying was the chief executive of the Group during the year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2021: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

9. 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 8 above. Details of the remuneration for the year of the remaining one (2021: one) highest paid employees 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	615	605
Performance related bonuses	800	273
Pension scheme contributions	63	57
	1,478	935

The numbers of five highest paid individuals whose remuneration fell within the following bands is as follows:

	2022	2021
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	2	3
HK$1,500,001 to HK$2,000,000	3	2
	5	5

10. INCOME TAX

The Company is registered in the PRC and is subject to PRC corporate income tax ("CIT") on the taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

The Company, Shanghai Qisheng, Shanghai Jianhua Fine Biological Products Co., Ltd ("Shanghai Jianhua"), Henan Universe and Qingdao Huayuan Fine Biological Product Co., Ltd. ("Qingdao Huayuan") were accredited as high and new-tech enterprises (the "HNTE") for the three years from 2020 to 2022 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during the years from 2020 to 2022 for the Company, Shanghai Qisheng, Shanghai Jianhua, Henan Universe and Qingdao Huayuan.

NIMO and Hangzhou Aijinglun Technology Co., Ltd., ("Hangzhou Aijinglun") were accredited as HNTE for the three years from 2022 to 2024 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during 2022 for NIMO and Hangzhou Aijinglun.

According to the review and recognition of HNTE qualification passed by Sanhe Laserconn Optoelectronics Technology Co., Ltd., ("Laserconn") in November 2022, as well as the filing list of HNTE in 2022, the preferential income tax rate of 15% was applied during 2022 for Laserconn.

10. INCOME TAX (Continued)

The applicable tax rate for the other subsidiaries registered in Mainland China was 25% (2021: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

The profits tax for subsidiaries in the USA has been provided at the rate of 21% (2021: 21%) on the estimated assessable profits arising in the USA during the year.

The profits tax for subsidiaries in the U.K. has been provided at the rate of 19% (2021: 19%) on the estimated assessable profits arising in the U.K. during the year.

The profits tax for subsidiaries in France has been provided at the rate of 25% (2021: 28%) on the estimated assessable profits arising in France during the year.

The profits tax for subsidiaries in Israel has been provided at the rate of 23% (2021: 23%) on the estimated assessable profits arising in Israel during the year.

	2022 RMB'000	2021 RMB'000
Current		
Charge for the year	66,521	50,719
Under/(over) provision in prior years	596	(326)
Deferred (note 30)	(21,722)	(15,027)
Total tax charge for the year	45,395	35,366

NOTES TO FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX (Continued)

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 rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

2022

	2022		2021	
	RMB'000	%	RMB'000	%
Profit before tax	235,726		382,649	
Tax at the statutory tax rate	57,654	24.4	92,470	24.1
Adjustments in respect of current tax of previous years	596	0.3	(326)	(0.1)
Profit and loss attributable to an associate	(57)	–	(18)	–
Additional deductible allowance for research and development expenses	(32,201)	(13.7)	(32,657)	(8.5)
Expenses not deductible for tax	5,913	2.5	3,733	1.0
Deductible temporary differences and tax losses not recognised	38,107	16.2	10,579	2.8
Income not subject to tax	(1,126)	(0.5)	(1,751)	(0.5)
Tax losses utilised from previous periods	(4,296)	(1.8)	(10,135)	(2.6)
Effect on opening deferred tax of decrease/(increase) in rates	2,729	1.2	(2,145)	(0.6)
Additional deductible allowance for fixed asset	(233)	(0.1)	–	–
Tax saving from preferential tax rate due to HNTE Status	(21,691)	(9.2)	(24,384)	(6.4)
Tax charge at the Group's effective rate	45,395	19.3	35,366	9.2

The effective tax rate of the Group was 19.3% during the year ended 31 December 2022 (2021: 9.2%).

11. DIVIDENDS

	2022	2021
	RMB'000	RMB'000
Proposed 2022 final dividend – RMB0.40 per ordinary share	68,508	–
Proposed 2021 final dividend – RMB0.70 per ordinary share	–	123,075
	68,508	123,075

11. DIVIDENDS (Continued)

On 24 March 2023, the Directors proposed to declare the final dividend of RMB0.40 (inclusive of tax) per ordinary share, amounting to RMB68,508,400 for the year ended 31 December 2022, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 28 March 2022, the Directors proposed to declare the final dividend of RMB0.70 (inclusive of tax) per ordinary share, amounting to RMB123,075,000 for the year ended 31 December 2021, which were paid in 2022 to shareholders of the Company.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 173,562,775 (2021: 176,125,208) in issue during the year.

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

The Group has a share option scheme that has an anti-dilution effect on earnings per share, so the amount of diluted earnings per share and basic earnings per share is the same.

The calculation of basic and diluted earnings per share is based on:

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	180,470	352,234

	Numbers of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	173,562,775	176,125,208

NOTES TO FINANCIAL STATEMENTS

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	359,382	646,336	22,973	81,548	369,565	139,825	1,619,629
Accumulated depreciation and impairment	(67,643)	(228,514)	(13,221)	(45,973)	–	(67,241)	(422,592)
Net carrying amount	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037
At 1 January 2022, net of accumulated depreciation and impairment	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037
Additions	3,376	9,613	–	4,687	218,517	7,067	243,260
Acquisition of a subsidiary (note 38)	–	110	824	324	–	–	1,258
Disposals	–	(462)	(105)	(240)	–	–	(807)
Disposal of a subsidiary (note 39)	(13,904)	(7,362)	(38)	(1,046)	(12,029)	–	(34,379)
Depreciation provided during the year	(17,002)	(63,795)	(3,885)	(9,284)	–	(18,145)	(112,111)
Impairment during the year*	–	(5,456)	(13)	(153)	(1,242)	(72)	(6,936)
Transfers	–	48,458	3,919	2,266	(55,898)	1,255	–
Exchange realignment	(1,217)	346	(169)	50	68	(4)	(926)
At 31 December 2022, net of accumulated depreciation and impairment	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396
At 31 December 2022:							
Cost	346,247	695,972	27,401	84,410	520,223	110,034	1,784,287
Accumulated depreciation and impairment	(83,255)	(296,698)	(17,116)	(52,231)	(1,242)	(47,349)	(497,891)
Net carrying amount	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings* RMB'000	Plant and machinery RMB'000	Motor vehicles* RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021:							
Cost	273,191	437,219	14,210	65,896	441,012	88,478	1,320,006
Accumulated depreciation and impairment	(53,782)	(178,862)	(11,452)	(38,940)	–	(58,953)	(341,989)
Net carrying amount	219,409	258,357	2,758	26,956	441,012	29,525	978,017
At 1 January 2021, net of accumulated depreciation and impairment	219,409	258,357	2,758	26,956	441,012	29,525	978,017
Additions	–	11,847	8,787	2,936	237,284	8,940	269,794
Acquisition of subsidiaries	13,935	12,447	424	2,024	14,464	1,799	45,093
Disposals	–	(403)	(158)	(25)	–	–	(586)
Depreciation provided during the year	(14,436)	(52,389)	(2,053)	(8,069)	–	(14,853)	(91,800)
Transfers	74,921	189,170	–	11,880	(323,195)	47,224	–
Exchange realignment	(2,090)	(1,207)	(6)	(127)	–	(51)	(3,481)
At 31 December 2021, net of accumulated depreciation and impairment	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037
At 31 December 2021:							
Cost	359,382	646,336	22,973	81,548	369,565	139,825	1,619,629
Accumulated depreciation and impairment	(67,643)	(228,514)	(13,221)	(45,973)	–	(67,241)	(422,592)
Net carrying amount	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037

At 31 December 2022 and 31 December 2021, no property, plant and equipment were pledged.

The information about the impairment loss of property, plant and equipment during the years ended 31 December 2022 is disclosed in note 16 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 15 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There is no lease contract that includes extension and termination options and variable lease payments.

(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:

	Prepaid land lease payments RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2021	174,555	27,823	202,378
Additions	–	22,582	22,582
Acquisition of subsidiaries	4,083	17,595	21,678
Exchange realignment	–	(504)	(504)
Depreciation charge	(8,891)	(22,443)	(31,334)
As at 31 December 2021 and 1 January 2022	169,747	45,053	214,800
Additions	6,335	31,983	38,318
Acquisition of a subsidiary (note 38)	–	2,470	2,470
Exchange realignment	–	465	465
Disposition	–	(847)	(847)
Disposal of a subsidiary (note 39)	(3,987)	–	(3,987)
Depreciation charge	(8,979)	(19,799)	(28,778)
As at 31 December 2022	163,116	59,325	222,441

14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	46,715	28,657
New leases	31,983	22,582
Accretion of interest recognised during the year	2,315	1,578
Acquisition of a subsidiary (note 38)	2,126	18,354
Exchange realignment	755	(494)
Disposition	(847)	–
Payments	(21,788)	(23,962)
Carrying amount at 31 December	61,259	46,715
Analysed into:		
Current portion	21,359	17,107
Non-current portion	39,900	29,608

The maturity analysis of lease liabilities is disclosed in note 46 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	2,315	1,578
Depreciation charge of right-of-use assets	28,778	31,334
Expense relating to short-term leases (included in administrative expenses)	4,562	3,746
	35,655	36,658

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Exclusive distribution rights RMB'000	Total RMB'000
31 December 2022							
Cost at 1 January 2022 net of accumulated amortization	510	278,922	6,358	182,921	109,835	34,851	613,397
Additions	–	–	1,606	–	–	–	1,606
Amortisation provided during the year	(289)	(24,085)	(3,332)	(28,980)	(950)	(12,208)	(69,844)
Acquisition of a subsidiary (note 38)	–	–	–	27,000	–	75,050	102,050
Impairment during the year	–	(23,630)	(659)	–	(5,272)	–	(29,561)
Disposal of a subsidiary (note 39)	(95)	–	–	–	–	–	(95)
Exchange realignment	(6)	1,465	68	–	1,336	–	2,863
At 31 December 2022	120	232,672	4,041	180,941	104,949	97,693	620,416
31 December 2022							
Cost	12,381	339,470	15,304	304,961	111,488	112,480	896,084
Accumulated amortization and impairment	(12,261)	(106,798)	(11,263)	(124,020)	(6,539)	(14,787)	(275,668)
Net carrying amount	120	232,672	4,041	180,941	104,949	97,693	620,416

The information about the impairment loss of other intangible assets during the years ended 31 December 2022 is disclosed in note 16 to the financial statements.

15. OTHER INTANGIBLE ASSETS (Continued)

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Exclusive distribution rights RMB'000	Total RMB'000
31 December 2021							
Cost at 1 January 2021							
Net of accumulated amortization	723	144,410	7,737	147,803	103,659	–	404,332
Additions	–	–	1,216	–	–	–	1,216
Amortisation provided during the year	(302)	(17,688)	(2,890)	(22,442)	(317)	(2,579)	(46,218)
Acquisition of subsidiaries	106	157,816	475	57,560	9,500	37,430	262,887
Exchange realignment	(17)	(5,616)	(180)	–	(3,007)	–	(8,820)
At 31 December 2021	510	278,922	6,358	182,921	109,835	34,851	613,397
31 December 2021							
Cost	12,507	337,648	13,664	277,961	110,152	37,430	789,362
Accumulated amortization	(11,997)	(58,726)	(7,306)	(95,040)	(317)	(2,579)	(175,965)
Net carrying amount	510	278,922	6,358	182,921	109,835	34,851	613,397

* The brands with indefinite useful lives, consisted of one brand of approximately RMB30,374,000 (2021: RMB32,632,000) that was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc. ("Aaren Business"), a legal entity registered in the USA, with an indefinite useful life in 2016, one brand of approximately RMB66,342,000 (2021: RMB68,020,000) that was acquired from the business combination of Contamac Group with an indefinite.

During the year ended 31 December 2022, the Group determined the impairment of intangible assets with indefinite useful lives using the income approach – relief-from-royalty method and recognised impairment losses of approximately RMB5,272,000. The value in use was determined under this method, cash flow projections of which were based on financial budgets approved by senior management. The discount rate applied to the cash flow projections named Aaren Business was 12.5% (2021: 12%). The growth rate used to extrapolate the cash flows of Aaren Business beyond the five-year period was 2.2% (2021:2%). The discount rate applied to the cash flow projections named Contamac Group was 12% (2021: 12%). The growth rate used to extrapolate the cash flows of Contamac Group beyond the five-year period was 2.2% (2021: 2%).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

15. OTHER INTANGIBLE ASSETS (Continued)

Assumptions were used in the value-in-use calculation of cash-generating units for 31 December 2022. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of the other intangible assets:

- Discount rates – The discount rates used were before tax and reflect specific risks relating to the relevant units.
- Growth rates – The growth rates were based on industry growth forecasts.
- Changes in selling prices and direct costs – These were based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs were consistent with external information sources.

16. GOODWILL

	2022 RMB'000	2021 RMB'000
At the beginning of the year	406,901	385,490
Acquisition of a subsidiary (note 38)	13,660	22,415
Impairment during the year	(9,574)	–
Exchange realignment	212	(1,004)
At the end of the year	411,199	406,901

Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Goodwill acquired through business combinations was allocated to the following cash-generating units for impairment testing:

Cash-generating unit named NIMO Group;
Cash-generating unit named Aaren Business;
Cash-generating unit named Contamac Group;
Cash-generating unit named China Ocean Group[1];
Cash-generating unit named Hangzhou Aijinglun[2];
Cash-generating unit named JUVA MEDICAL Group[3]
Cash-generating unit named Bioxis[3]; and
Cash-generating unit named Xiamen Nanpeng Optical Co., Ltd. (Xiamen Nanpeng)[4]

1 China Ocean Group Limited and its subsidiaries ("China Ocean Group"), including Qingdao Huayuan Fine Biological Product Co., Ltd., Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd.

2 During the year ended 31 December 2020, the Group acquired a total of 55.00% of equity shares of Hangzhou Aijinglun.

3 During the year ended 31 December 2021, the Group acquired a total 63.64% of equity shares of JUVA MEDICAL Group and 65.61% equity shares of Bioxis.

4 During the year ended 31 December 2022, the Group acquired a total 51.00% of equity shares of Xiamen Nanpeng.

Cash-generating unit named NIMO Group

The recoverable amount of the cash-generating unit named NIMO Group was 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 was 16% (2021: 12%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2021: 2.3%).

Cash-generating unit named Aaren Business

The recoverable amount of the cash-generating unit named Aaren Business was 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 was 14% (2021: 12%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.2% (2021: 2%).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Aaren Business (Continued)

During the year ended 31 December 2022, in view of the termination of the distribution agreement between Aaren and the former domestic exclusive distributor in China and the proposed re-integration of the domestic sales channels of the Aaren-branded IOL products, the management of the Company believed that there were indications of impairment on the Aaren business, and an impairment test was conducted. According to the results of the impairment test, the total impairment loss on the goodwill, property, plant and equipment and other intangible assets of the Aaren business amounted to approximately RMB46,071,000 which consisted of the impairment loss on goodwill amounted to RMB9,574,000, impairment loss of property, plant and equipment amounted to RMB6,936,000 and impairment loss on other intangible assets amounted to RMB29,561,000.

Cash-generating unit named Contamac Group

The recoverable amount of the cash-generating unit named Contamac Group was 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 was 13% (2021: 12%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2021: 2%).

Cash-generating unit named China Ocean Group

The recoverable amount of the cash-generating unit named China Ocean Group was 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 was 14% (2021: 14%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2021: 2.3%).

Cash-generating unit named Hangzhou Aijinglun

The recoverable amount of the cash-generating unit named Hangzhou Aijinglun was 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 was 16% (2021: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2021: 2.3%).

Cash-generating unit named JUVA MEDICAL Group

The recoverable amount of the cash-generating unit named JUVA MEDICAL Group was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 21% (2021: 21%). The growth rate used to extrapolate the cash flows beyond the seven-year period was 2.3% (2021: 2.3%).

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Bioxis

The recoverable amount of the cash-generating unit named Bioxis was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 23% (2021: 17%). The growth rate used to extrapolate the cash flows beyond the seven-year period was 2% (2021: 2%).

Cash-generating unit named Xiamen Nanpeng

The recoverable amount of the cash-generating unit named Xiamen Nanpeng was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 27%. The growth rate used to extrapolate the cash flows beyond the seven-year period was 2.3%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2022 RMB'000	2021 RMB'000
NIMO Group	266,026	266,026
Hangzhou Aijinglun	53,349	53,349
China Ocean Group	32,115	32,115
Contamac Group	23,634	24,232
Bioxis	19,730	19,730
Xiamen Nanpeng	13,660	–
JUVA MEDICAL Group	2,685	2,685
Aaren Business	–	8,764
	411,199	406,901

NOTES TO FINANCIAL STATEMENTS

31 December 2022

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Xiamen Nanpeng (Continued)

Assumptions were used in the value-in-use calculation of cash-generating units for 31 December 2022. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of goodwill:

- Discount rates – The discount rates used were before tax and reflect specific risks relating to the relevant units.

- Growth rates – The growth rates were based on industry growth forecasts.

- Changes in selling prices and direct costs – These were based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs were consistent with external information sources.

17. INVESTMENT IN A JOINT VENTURE

	2022 RMB'000	2021 RMB'000
Share of net assets	–	47,964

As of 31 December 2021, the aggregate carrying amount of the Group's investment was RMB47,964,000 in Changxing Tongrui Investment Partnership Enterprise (Limited Partnership) ("Changxing Tongrui") on which the Group has joint control with two third parties.

As of 31 December 2022, as the target investment project held by Changxing Tongrui was completed, the Group received all cash distribution from Changxing Tongrui amounted to RMB51,168,000, which consisted of net investment income in the amount of RMB5,304,000 and a refund of the corresponding original principal investment amount contributed by the Group of RMB45,864,000. There was no remaining investment portfolio as of 31 December 2022. Accordingly, share of Changxing Tongrui's profit of RMB3,204,000 was recognised in profit or loss during the year ended 31 December 2022 (2021: RMB2,100,000).

As at 31 December 2022 and 2021, there were no trade receivable and payable balance with the joint venture.

The following table illustrates the financial information of the Group's joint venture that is not individually material, Changxing Tongrui:

	2022 RMB'000	2021 RMB'000
Share of the joint venture's profit for year	3,204	2,100
Share of the joint venture's total comprehensive income for the year	3,204	2,100
Aggregate carrying amount of the Group's investment in the joint venture	–	47,964

18. INVESTMENT IN AN ASSOCIATE

	2022 RMB'000	2021 RMB'000
Share of net assets	2,783	2,549
Loan to an associate	245	899
	3,028	3,448

The loan to the associate was unsecured, interest free with no fixed term of repayment. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associate. There was no recent history of default and past due amounts for loans to the associate. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

The Group's trade receivable with the associate are disclosed in note 22 to the financial statements. As at 31 December 2022 and 2021, there was no trade payable balance with the associate.

The following table illustrates the financial information of the Group's associate that is not individually material, Lifeline Medical Devices Private Limited ("Lifeline"):

	2022 RMB'000	2021 RMB'000
Share of the associate's profit for the year	301	93
Share of the associate's total comprehensive income for the year	301	93
Aggregate carrying amount of the Group's investment in the associate	3,028	3,448

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Union Medical Healthcare Limited	38,885	50,286
Raily Aesthetic Medicine International Holdings Ltd.	7,012	12,060
Aesthetic Medical International Holdings Group Limited	2,246	5,547
	48,143	67,893
Unlisted equity investments		
Shenwu No.1 Investment Product	268,156	290,329
Eirion Therapeutics, Inc.	167,150	–
Shanghai Semecell Technology Co., Ltd.	76,129	80,000
Jiangsu Meifengli Medical Technology Co., Ltd.	52,800	12,000
ArcScan, Inc.	39,218	46,347
Ornovi, Inc.	6,965	–
Genzhishiguang Technology (Shanghai) Co., Ltd	5,000	–
Shanghai Resthetic Biotechnology Co., Ltd.	4,851	10,000
Recros Medica, Inc.("Recros Medica")	–	51,006
Shanghai Lunsheng Information Technology Co., Ltd.	–	8,360
Jiangsu Meisikang Medical Technology Co., Ltd.	–	8,000
	620,269	506,042
	668,412	573,935

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

During the year ended 31 December 2022, the Group disposed its investment in Shanghai Lunsheng Information Technology Co., Ltd. The fair value on the date of disposal was approximately RMB8,360,000 and the accumulated gain recognised in other comprehensive income of approximately RMB760,000 was transferred to retained earnings.

During the year ended 31 December 2022, the Group disposed of a portion of its investment in Union Medical Healthcare Limited. The fair value on the date of disposal was approximately RMB708,000 and the accumulated gain recognised in other comprehensive income of approximately RMB437,000 was transferred to retained earnings.

In December 2021, the Group disposal a portion of its investment in Shenwu No.1 Investment Product. The fair value on the date of disposal was approximately RMB147,387,000 and the accumulated loss recognised in other comprehensive income of approximately RMB2,613,000 was transferred to retained earnings.

During the year ended 31 December 2021, the Group disposed of a portion of its investment in Union Medical Healthcare Limited. The fair value on the date of disposal was approximately RMB135,905,000 and the accumulated gain recognised in other comprehensive income of approximately RMB90,866,000 was transferred to retained earnings.

20. OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments for property, plant and equipment	63,830	6,831
Prepayments for potential acquisitions	–	97,437
Other non-current assets*	25,238	26,664
	89,068	130,932

* Long-term receivables from the companies controlled by the non-controlling interests of JUVA MEDICAL Group arising before acquisition. The controlling shareholder of the Group, Mr. Jiang Wei, is still proactively taking efforts to collect the receivables and promised to pay off the part which has not been collected back as of 31 December 2024.

21. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	134,479	129,310
Work in progress	80,728	49,123
Finished goods	167,746	134,466
Merchandises	113,296	45,006
	496,249	357,905
Less: Provision for inventories	11,010	3,140
	485,239	354,765

None of the Group's inventories was pledged during the years ended 31 December 2022 and 2021.

22. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Bills receivable	6,749	4,702
Trade receivables	420,390	397,237
Impairment	(38,864)	(26,733)
	388,275	375,206

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to twelve months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade and bills receivables were amounts due from the Group's associate of approximately RMB1,960,000 (2021: RMB2,179,000), which were repayable on credit terms similar to those offered to the major customers of the Group. As at 31 December 2022 and 2021, there was not any trade and receivable due from the Group's joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

22. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of trade and bills 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 year	380,116	370,085
1 to 2 years	8,159	5,010
2 to 3 years	–	111
	388,275	375,206

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	26,733	33,409
Impairment losses/(reversal of impairment losses) recognised, net	14,795	(2,302)
Amount written off as uncollectible	(319)	(3,699)
Disposal of a subsidiary	(2,920)	–
Exchange realignment	575	(675)
	38,864	26,733

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing 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.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 46 to the financial statements.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	58,636	55,656
Input value added tax to be deducted	34,054	–
Deposits and other receivables	13,323	14,490
Compensation receivable derived from the relocation of aborted plant	2,000	7,000
Impairment allowance	(3,162)	(2,309)
	104,851	74,837

The movements in provision for impairment allowance of deposits and other receivables are as follows:

	2022 RMB'000	2021 RMB'000
At 1 January	2,309	3,193
Impairment losses/(reversal of impairment losses) recognised, net	721	(880)
Exchange realignment	132	(4)
	3,162	2,309

Included in the above provision for impairment allowance of deposits and other receivables was no provision for individually fully impaired other receivables as at 31 December 2022 (2021: Nil).

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for as at 31 December 2022 and 2021 is disclosed in note 46 to the financial statements.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Other unlisted investments, at fair value	–	6,376

The above investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above unlisted investment as at 31 December 2021 was convertible bond issued by Recros Medica, a unlisted company in USA. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The fair value of the unlisted investment dropped to zero as at 31 December 2022.

25. ASSETS CLASSIFIED AS HELD FOR SALE

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income	9,159	–

The Group entered into an equity transfer agreement with third parties to dispose all of its investment in Jiangsu Meisikang Medical Technology Co., Ltd. As the transaction is expected to be completed within 6 months from 31 December 2022, the equity investment was reclassified as held for sale from equity investments designated at fair value through other comprehensive income.

26. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances and pledged deposits	2,544,592	2,901,402
Time deposits with original maturity of more than three months when acquired	(1,982,518)	(1,616,895)
	562,074	1,284,507
Less: Pledged time deposit:		
Guarantee deposits	2,456	614
Other pledged deposits	421	–
Cash and cash equivalents	559,197	1,283,893

At the end of the reporting period, nearly 85% (2021: 91%) of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under the Mainland China's prevailing rules and regulations over foreign exchange, 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. Short term time deposits are made for varying periods between three months and one year, depending on the immediate cash requirements of the Group. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

27. TRADE PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	54,533	46,264

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	36,752	38,726
3 months to 1 year	15,966	1,062
Over 1 year	1,815	6,476
	54,533	46,264

These trade payables were normally settled within 90 days, which represented credit terms similar to those offered by the joint venture to its major customers.

The trade payables were non-interest-bearing and were normally settled on terms of 30 to 90 days.

28. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Current:		
Payroll and welfare payable	103,334	78,698
Payables related to:		
Government grants received	50,864	60,907
Deposits received	31,575	28,923
Purchases of property, plant and equipment	20,680	22,447
Acquisition of a subsidiary and contingent consideration	3,711	–
Others	31,805	40,450
Accrued expenses	94,465	79,277
Contract liabilities – short-term advances received from customers	32,648	46,509
Other taxes payable	27,428	16,521
Loan from non-controlling interests of a subsidiary	–	23,597
Dividends payable to non-controlling shareholders of a subsidiary	1,200	–
	397,710	397,329
Non-current:		
Payables for acquisition of the subsidiaries and contingent consideration	4,500	8,110

Notes:

Except for the payables for acquisition of the subsidiaries and contingent consideration, the above balances were non-interest-bearing and repayable on demand.

EUR500,000 (equivalent to approximately RMB3,711,000) will be paid to the original shareholders of Bioxis provided that the EBITA of Bioxis for the financial year ended on 31 December 2022 is positive.

RMB4,500,000 will be paid to the original shareholders of Hangzhou Aijinglun, provided that Hangzhou Aijinglun obtains the registration certificate from the relevant authorities for certain new products under development within five years from the date of acquisition.

(a) Details of contract liabilities are as follows:

	2022 RMB'000	2021 RMB'000
Short-term advances received from customers		
Sale of goods	32,648	46,509

NOTES TO FINANCIAL STATEMENTS

31 December 2022

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2022			31 December 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 14(b))	4.24-5.80	2023	21,359	4.24-5.80	2022	17,107
Bank loans pledged (a)	3.51	2023	5,314	2.36-4.35	2022	25,184
Current portion of						
long term other loans						
guaranteed (c)	2.25	2023	1,486	–	–	–
long term other						
loans unsecured (b)	–	2023	219	–	2022	130
Current portion of						
long term bank						
loans unsecured (d)	2.85	2023	6,000	–	–	–
			34,378			42,421
Non-current						
Lease						
liabilities (note 14(b))	4.24-5.80	2024-2029	39,900	4.24-5.80	2023-2028	29,608
Bank loans						
unsecured (d)	2.85	2024	35,745	–	–	–
guaranteed (c)	0.73	2023-2026	5,354	0.73	2023-2026	4,914
Other loans						
unsecured (b)	–	2024	97	–	2023	282
guaranteed (c)	2.25	2023-2026	2,784	2.25	2023-2026	4,689
			83,880			39,493
			118,258			81,914

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	11,314	25,184
In the second year	39,270	2,056
In the third to fifth years, inclusive	1,829	2,858
	52,413	30,098
Other borrowings repayable:		
Within one year or on demand	23,064	17,237
In the second year	18,957	11,692
In the third to fifth years, inclusive	19,061	17,094
Beyond five year	4,763	5,793
	65,845	51,816
	118,258	81,914

Notes:

(a) The pledged bank loans represent the loans in USD obtained by NIMO to settle accounts payables with interest rate of 3.51% in 2022. NIMO entered into credit facilities with China Merchants Bank and Bank of China which permit the company to borrow up to RMB65,000,000. On 31 December 2022, NIMO used the credit facilities to obtain a loan of USD750,000 to pay for the goods. On 31 December 2021, NIMO used the credit facilities to obtain a loan of USD3,575,520 to pay for the goods.

(b) The unsecured other loan represents an interest-free government loan obtained by ODC Industries.

(c) The guaranteed bank and others loan represent the loans obtained by Bioxis guaranteed by the government.

(d) The unsecured bank loans represent the loans obtained by the Company with interest rate of 2.85%.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

2022

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2022	6,142	133,634	8,743	9,391	157,910
Deferred tax arising from acquisition of a subsidiary (note 38)	–	25,748	–	–	25,748
Disposal of a subsidiary (note 39)	–	(1,437)	–	–	(1,437)
Deferred tax charged/(credited) to profit or loss	393	(21,982)	–	–	(21,589)
Deferred tax charged to other comprehensive income	–	–	–	1,888	1,888
Exchange realignment	(130)	442	676	–	988
Gross deferred tax liabilities at 31 December 2022	6,405	136,405	9,419	11,279	163,508

2021

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2021	4,213	89,111	8,958	–	102,282
Deferred tax arising from acquisition of subsidiaries	–	62,627	–	–	62,627
Deferred tax charged/(credited) to profit or loss	2,120	(16,064)	–	–	(13,944)
Deferred tax charged to other comprehensive income	–	–	–	9,391	9,391
Exchange realignment	(191)	(2,040)	(215)	–	(2,446)
Gross deferred tax liabilities at 31 December 2021	6,142	133,634	8,743	9,391	157,910

30. DEFERRED TAX (Continued)

Deferred tax assets

2022

	Lease liabilities RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Accruals RMB'000	Impairment of receivables and provision for inventories RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible losses RMB'000	Total RMB'000
At 1 January 2022	325	–	10,214	10,288	1,740	9,180	17,609	49,356
Deferred tax arising from acquisition of a subsidiary (note 38)	–	–	2,069	–	–	–	–	2,069
Deferred tax credited/ (charged) to profit or loss	(172)	–	(2,254)	890	(915)	1,165	1,419	133
Deferred tax charged to other comprehensive income	–	6,753	–	–	–	–	–	6,753
Exchange differences	–	–	9	(13)	–	–	1,016	1,012
Gross deferred tax assets at 31 December 2022	153	6,753	10,038	11,165	825	10,345	20,044	59,323

2021

	Lease liabilities RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Accruals RMB'000	Impairment of receivables and provision for inventories RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible losses RMB'000	Total RMB'000
At 1 January 2021	171	918	7,245	7,154	532	6,869	3,297	26,186
Deferred tax arising from acquisition of subsidiaries	–	–	–	5,139	–	2,264	15,814	23,217
Deferred tax credited/ (charged) to profit or loss	154	–	2,970	(1,991)	1,208	47	(1,305)	1,083
Deferred tax charged to other comprehensive income	–	(918)	–	–	–	–	–	(918)
Exchange differences	–	–	(1)	(14)	–	–	(197)	(212)
Gross deferred tax assets at 31 December 2021	325	–	10,214	10,288	1,740	9,180	17,609	49,356

30. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

The Group has tax losses of approximately RMB193,281,000 (2021: RMB127,497,000) arising in Mainland China that will expire in one to ten years for offsetting against future taxable profits. The Group has tax losses arising in Hong Kong, UK and USA of approximately RMB7,146,000 (2021: RMB6,653,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary, Contamac. In the opinion of the Directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in Contamac in the U.K. for which deferred tax liabilities have not been recognised amounted to approximately RMB103,728,000 at 31 December 2022 (2021: RMB68,788,000).

31. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants		
At 1 January	9,402	3,544
Additions	3,750	9,600
Released during the year	(7,652)	(3,742)
At 31 December	5,500	9,402

32. PROVISION

	Warranties RMB'000	Litigation RMB'000	Total RMB'000
At 1 January	585	1,180	1,765
Addition	208	–	208
Exchange realignment	–	34	34
Amounts utilised during the year	–	(1,214)	(1,214)
At 31 December	793	–	793
At 1 January	–	–	–
Acquisition of a subsidiary (note 38)	160	1,968	2,128
Addition	425	–	425
Exchange realignment	–	(67)	(67)
Amounts utilised during the year	–	(721)	(721)
At 31 December	585	1,180	1,765

The provision was recognised in respect of anticipated liability claims in respect of products sold by EndyMed in the period from one year to three years, based on the Group's past experience with respect to the repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Provision of RMB1,180,000 at 31 December 2021 was recognised for the ongoing litigation of Bioxis. The claim was finalised in 2022 and there is no provision of ongoing litigation in 2022.

33. OTHER NON-CURRENT LIABILITIES

	2022 RMB'000	2021 RMB'000
Share redemption option granted to non-controlling shareholders of a subsidiary	220,560	186,118

The share redemption option granted to non-controlling shareholders of JUVA MEDICAL Group acquired by the Group during the year of 2022, amounting to RMB220,560,000, represent liabilities of the Group to acquire the non-controlling interests owned by the non-controlling shareholders as at 31 December 2022 (2021: RMB186,118,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

34. SHARE CAPITAL

	2022 RMB'000	2021 RMB'000
Issued and fully paid:174,130,100 (2021: 175,822,100) ordinary shares of RMB1.00 each	174,130	175,822

A summary of the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 31 December 2020 and 1 January 2021	177,206,600	177,207
Cancellation of repurchased H Shares (note 1)	(1,384,500)	(1,385)
At 31 December 2021 and 1 January 2022	175,822,100	175,822
Cancellation of repurchased H Shares (note 2)	(1,692,100)	(1,692)
At 31 December 2022	174,130,000	174,130

Note 1:

During the year ended 31 December 2021, the Company repurchased 800,000 H Shares as treasury shares, which accounted for approximately 0.4529% of the Company's total share capital, at a total consideration of approximately HK$53,702,000 (equivalent to approximately RMB44,908,000). On 19 March 2021 and 14 July 2021, 1,384,500 H Shares were cancelled (584,500 H Shares were repurchased in 2020).

Note 2:

During the year ended 31 December 2022, the Company repurchased 4,551,100 H Shares as treasury shares, which accounted for approximately 2.5885% of the Company's total share capital, at a total consideration of approximately HK$174,546,000 (equivalent to approximately RMB147,672,000). 1,692,100 H Shares were cancelled on 7 July 2022. The remaining 2,859,000 H Shares, at a total consideration of approximately HK$84,393,000 (equivalent to approximately RMB74,042,000) were accounted as treasury shares as at 31 December 2022. On 14 February 2023, the Company completed the cancellation of 2,859,000 H Shares repurchased.

35. SHARE OPTION SCHEME

(a) 2021 A-share restricted stock share option plan

The Company operates a A-share restricted stock share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible core employees of the Group.

The Company held the meetings of the Board of Directors and Board of Supervisors on 29 December 2021 and 11 March 2022 separately, which passed the motion and the adjustment on the matters related to the first grant of the 2021 A-share Restricted Stock share option Plan (the "First Grant"). After the amendment, the number of employees eligible for the First Grant was adjusted from 206 to 204, the number of restricted shares granted for the First Grant was adjusted from 1,450,000 shares to 1,440,000 shares, the number of reserved shares was adjusted from 350,000 shares to 360,000 shares, and the total number of restricted stock grants under the Scheme remained unchanged at 1,800,000 shares. The First Grant date was 11 March, 2022. 1,440,000 restricted shares were granted for the first time to 204 incentive recipients at a grant price of RMB95.00 per share. The Scheme does not give holders the right to receive dividends or vote at general meetings.

The Company distributed a cash dividend of RMB0.70 (including tax) per share on 2 August 2022, and the grant price of the restricted stock at the First Grant and the reserved part of the restricted stock is adjusted from RMB95.00 per share to RMB94.30 per share because the aforementioned annual distribution of equity has been implemented.

The Company granted 360,000 reserved restricted shares to 93 incentive recipients at a grant price of RMB94.30 per share on 16 November 2022 (the "Second Grant").

NOTES TO FINANCIAL STATEMENTS

31 December 2022

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The restricted stock granted for the first time and the second time under the Scheme will be acquired and registered in instalments according to the following vesting ratio after the incentive recipient satisfies the corresponding vesting conditions:

Vesting arrangements	Vesting period	The ratio of vested interests of the total number of benefits granted
The first vesting period for the First/Second grant of restricted stock	From the first trading day after 12 months from the date of the First/Second grant to the last trading day within 24 months from the date of the first/second grant	50%
The second vesting period for the First/Second grant of restricted stock	From the first trading day after 24 months from the date of the First/Second grant to the last trading day within 36 months from the date of the first/second grant	50%

After satisfying the vesting conditions, employees have the right to purchase shares according to the exercisable right price, and if the vesting conditions of the Scheme are met during the vesting period, the incentive recipients can apply for share vesting and the share can be listed and circulated.

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The following share options were outstanding under the Scheme during 2022:

	Weighted average exercise price RMB per share	Number of options '000
At 1 January 2022		–
Granted during the year	94.30	1,800
At 31 December 2022		1,800

No options expired in 2022 and no options were exercised.

The exercise price and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

Number of options '000	Exercise price* RMB per share	Exercise period
720	94.30	2023/3/13-2024/3/8
720	94.30	2024/3/11-2025/3/7
180	94.30	2024/11/16-2025/11/15
180	94.30	2025/11/18-2025/11/14
1,800		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The exercise price of the First Grant has been adjusted from RMB95.00 per share to RMB94.30 per share based on dividends.

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The fair value of the share options granted during the year was RMB39,974,000, of which the Group recognised a share option expense of RMB20,982,000 during the year ended 31 December 2022 (2021: Nil). The fair value of the share options are as follows:

Grant Period	Vesting arrangements	The fair value of the share option RMB per share
First Grant	The first vesting period	20.33
First Grant	The second vesting period	26.96
Second Grant	The first vesting period	13.36
Second Grant	The second vesting period	19.55

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022 First Grant	2022 Second Grant
Dividend yield (%)	0.64%	0.64%
Expected volatility (%)	42.13%/43.59%	42.08%/43.77%
Historical volatility (%)	15.30%/18.36%	20.35%/18.38%
Risk-free interest rate (%)	2.18%/2.30%	2.29%/2.46%
Expected life of options (year)	1.5/2.5	1.5/2.5
Weighted average share price (RMB per share)	95.49	82.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

At the end of the reporting period, the Company had 1,800,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 1,800,000 additional ordinary shares of the Company and additional share capital of RMB1,800,000 and additional equity premium account of RMB167,940,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 1,800,000 share options outstanding under the Scheme, which represented approximately 1.31% of the Company's A-shares at that date.

(b) JUVA MEDICAL Group share option plan

In accordance with the relevant resolution of the shareholders' meeting of JUVA MEDICAL Group, some employees of JUVA MEDICAL Group were allowed to participate in an employee share option plan. Under the arrangement, the relevant employees can subscribe for an interest in a specially established limited partnership. The limited partnership holds shares in JUVA MEDICAL Group.

JUVA MEDICAL Group signed equity incentive agreements with 25 managers in February and August in 2022 separately, granting a total of RMB8,965,000 (7.09% of the number of JUVA MEDICAL Group's shares) through the partnership, with an exercise price of RMB1 per capital contribution share, which will be exercised in three vesting periods from the signing date in 2022 and each vesting period has an duration of one year. The total exercisable ratio in 2022 was 2.34%, the actual exercised ratio was 2.31%, the total exercisable ratio in 2023 was 2.34%, and the exercisable ratio in 2024 was 2.41%.

The fair value of the shares at the grant date paid by the Company for the plan is recognised in profit or loss on a straight-line basis during the service period agreed in the relevant agreement.

The fair value of the share options granted during the year was RMB13,865,000 (RMB2.55 each), of which the Group recognised a share option expense of RMB9,420,000 during the year ended 31 December 2022 (2021: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2022

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the statement of changes in equity.

Pursuant to the relevant laws and regulations in Mainland China, a portion of the profits of the Company was transferred to statutory reserve funds which are restricted as to use.

The amount of the Company's reserves available for distribution as at 31 December 2022, calculated in accordance with PRC rules and regulation, was RMB904,838,000.

37. PARTLY-OWNED SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2022	2021
Percentage of equity interest held by non-controlling interests:		
Hangzhou Aijinglun	25%	45%
NIMO	40%	40%
Henan Simedice Biotechnologies Co. Ltd. ("Henan Simedice")	40%	40%
Contamac Group	21%	21%
Hebei Xinshikang Contact Lens Co., Ltd. ("Hebei XSK")	–	40%
Shanghai Hengtai Vision Technology Co., Ltd. ("Hengtai Vision")	45%	45%
JUVA MEDICAL Group	37%	36%
Xiamen Nanpeng	49%	–
Nanpeng Optics (HK) Co., Ltd. ("Nanpeng HK")	49%	–

37. PARTLY-OWNED SUBSIDIARIES WITH NON-CONTROLLING INTERESTS (Continued)

	2022 RMB'000	2021 RMB'000
Accumulated balances of non-controlling interests:		
Hangzhou Aijinglun	9,843	10,918
NIMO	98,894	107,962
Henan Simedice	4,234	8,922
Contamac Group	82,747	74,701
Hebei XSK	–	27,137
Hengtai Vision	14,102	18,656
JUVA MEDICAL Group	115,802	98,645
Xiamen Nanpeng	56,235	–

	2022 RMB'000	2021 RMB'000
Profit allocated to non-controlling interests:		
Hangzhou Aijinglun	(3,414)	(3,002)
NIMO	2,932	5,162
Henan Simedice	(4,688)	(5,284)
Contamac Group	9,288	8,161
Hebei XSK	656	470
Hengtai Vision	(4,553)	(1,799)
JUVA MEDICAL Group	1,505	(8,543)
Xiamen Nanpeng	2,105	–

NOTES TO FINANCIAL STATEMENTS

31 December 2022

38. BUSINESS COMBINATION

On 1 January 2022, the Group acquired 51% equity interest in Xiamen Nanpeng from third parties. The purchase consideration for the acquisition was RMB70,000,000, among which, RMB35,000,000 was paid in 2021 as prepayment for the acquisition and the rest of RMB35,000,000 was paid on or near the acquisition date.

The fair values of the identifiable assets and liabilities of Xiamen Nanpeng as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	1,258
Other intangible assets	15	102,050
Right-of-use assets	14	2,470
Deferred tax assets	30	2,069
Inventories		4,107
Trade receivables		14,594
Prepayments, other receivables and other assets		12,224
Cash and bank balances		32,064
Trade payables		(5,670)
Other payables and accruals		(19,343)
Bank loans and other borrowings-short term		(5,000)
Tax payable		(2,479)
Bank loans and other borrowings-long term		(2,126)
Deferred tax liabilities	30	(25,748)
Total identifiable net assets at fair value		110,470
Non-controlling interests		(54,130)
		56,340
Goodwill on acquisition	16	13,660
		70,000
Satisfied by:		
Prepayments for the acquisition in 2021		35,000
Cash		35,000

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to approximately RMB14,594,000 and RMB12,224,000 respectively. No impairment allowances were provided for trade receivables and other receivables as at the date of acquisition.

38. BUSINESS COMBINATION (Continued)

An analysis of the cash flows in respect of the acquisition of Xiamen Nanpeng is as follows:

	RMB'000
Cash consideration paid	35,000
Cash and bank balances acquired	(32,064)
Net outflow of cash and cash equivalents included in cash flows from investing activities	2,936

Since the acquisition, Xiamen Nanpeng has contributed RMB130,011,000 to the Group's revenue and a net profit of approximately RMB4,295,000 to the consolidated profit or loss for the year ended 31 December 2022.

39. DISPOSAL OF A SUBSIDIARY

Shanghai Haohai Pharmaceutical Technology Development Co., Ltd. ("Haohai Development"), a subsidiary of the Group, entered into an equity transfer agreement with a third party on 4 July 2022 to dispose its 60% equity interest in Hebei XSK for a total consideration of RMB41,600,000. Accordingly, Hebei XSK ceased to be included in the scope of consolidation of the Group since 1 July 2022.

The relevant financial information of Hebei XSK is listed as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Net assets disposed of:		
Property, plant and equipment	34,379	27,128
Other intangible assets	95	100
Right-of-use assets	3,987	4,022
Other non-current assets	–	38
Cash and bank balances	24,014	31,990
Inventories	4,265	2,367
Trade receivables	9,469	7,650
Prepayments and other receivables	1,032	1,268
Trade payables	(3,829)	(2,403)
Accruals and other payables	(2,492)	(2,834)
Deferred tax liabilities	(1,437)	(1,483)
Non-controlling interests	(27,793)	(27,137)
	41,690	40,706
Loss on disposal of a subsidiary	(90)	
	41,600	
Satisfied by:		
Cash	41,600	

NOTES TO FINANCIAL STATEMENTS

31 December 2022

39. DISPOSAL OF A SUBSIDIARY (Continued)

An analysis of the cash flows in respect of the disposal of Hebei XSK is as follows:

	RMB'000
Cash consideration	41,600
Cash and bank balances disposed of	(24,014)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	17,586

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financial activities

2022

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2022	35,199	46,715
Changes from financing cash flows	17,027	(21,788)
New leases	–	31,983
Interest expense	–	2,315
Increase arising from acquisition of a subsidiary	5,000	2,126
Disposition	–	(847)
Foreign exchange movement	(227)	755
At 31 December 2022	56,999	61,259

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(a) Changes in liabilities arising from financial activities (Continued)

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2021	79,424	28,657
Changes from financing cash flows	(56,676)	(23,962)
New leases	–	22,582
Interest expense	–	1,578
Increase arising from acquisition of a subsidiary	13,307	18,354
Foreign exchange movement	(856)	(494)
At 31 December 2021	35,199	46,715

(b) 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	4,562	4,358
Within financing activities	21,788	23,962
	26,350	28,320

NOTES TO FINANCIAL STATEMENTS

31 December 2022

41. COMMITMENTS

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:		
Plant and machinery	589,308	470,565

42. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2022 RMB'000	2021 RMB'000
Purchases		
Haohai Technology (Changxing) Co., Ltd.	3,790	6,124
Sales		
Lifeline	3,152	2,025

Notes:

(i) During the year, the Group purchased the production accessories of approximately RMB3,790,000 (2021: approximately RMB6,124,000) from Haohai Technology (Changxing) Co., Ltd., a company controlled by the Controlling Shareholders. The Directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to the major customers of the supplier, except that interest was not charged on overdue balances.

(ii) During the year, the Group sold semi buttons of GBP371,000 (approximately RMB3,152,000) (2021: approximately RMB2,025,000) to the associate, Lifeline.

42. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

During the year, the Company rented the rooms in Shanghai with a total building area of 329.77 square metres at an annual rental fee of RMB350,000 (2021: RMB350,000) and the other rooms in Shanghai, China with the same total building area at an annual rental fee of RMB350,000 (2021: RMB350,000) from Shanghai Haohai Chemical Company Limited and Ms. You Jie, respectively.

(c) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Short term employee benefits	11,077	8,790
Pension scheme contributions	573	509
	11,650	9,299

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of purchase from Haohai Technology (Changxing) Co., Ltd. above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2022

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss – Debt investments RMB'000	Financial assets at fair value through other comprehensive income – Equity investments RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	668,412	668,412
Trade and bills receivables	381,526	6,749	–	388,275
Financial assets included in prepayments, other receivables and other assets	12,161	–	–	12,161
Pledged deposits	2,877	–	–	2,877
Cash and bank balances	2,541,715	–	–	2,541,715
	2,938,279	6,749	668,412	3,613,440

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	54,533	–	54,533
Financial liabilities included in other payables and accruals	88,972	4,500	93,472
Other non-current liabilities	–	220,560	220,560
Interest-bearing bank and other borrowings	118,258	–	118,258
	261,763	225,060	486,823

43. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2021

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss Mandatorily designated as such RMB'000	Financial assets at fair value through profit or loss-Debt investments RMB'000	Financial assets at fair value through other comprehensive income-Equity investments RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	–	573,935	573,935
Trade and bills receivables	370,504	–	4,702	–	375,206
Financial assets at fair value through profit or loss	–	6,376	–	–	6,376
Financial assets included in prepayments, other receivables and other assets	19,181	–	–	–	19,181
Pledged deposits	614	–	–	–	614
Cash and bank balances	2,900,788	–	–	–	2,900,788
	3,291,087	6,376	4,702	573,935	3,876,100

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	46,264	–	46,264
Financial liabilities included in other payables and accruals	106,753	8,110	114,863
Other non-current liabilities	–	186,118	186,118
Interest-bearing bank and other borrowings	81,914	–	81,914
	234,931	194,228	429,159

NOTES TO FINANCIAL STATEMENTS

31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The corporate finance team headed by the chief financial officer (the "CFO") is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of the reporting period, the corporate finance team 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 CFO.

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 carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximately to fair values, are as follows:

	Carrying amounts		Fair values	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings (other than lease liabilities)	43,980	9,885	41,874	9,932
Interest-bearing bank and other financial liabilities included in other payables and accruals-contingent consideration	4,500	8,110	4,500	8,110

44. 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.

Liabilities for which fair values are disclosed:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (other than lease liabilities)	–	41,874	–	41,874

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (other than lease liabilities)	–	9,932	–	9,932

NOTES TO FINANCIAL STATEMENTS

31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Trade and bills receivables	–	6,749	–	6,749
Equity investments designated at fair value through other comprehensive income	48,143	268,156	352,113	668,412
	48,143	274,905	352,113	675,161

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	–	6,375	6,375
Trade and bills receivables	–	4,702	–	4,702
Equity investments designated at fair value through other comprehensive income	67,893	290,329	215,713	573,935
	67,893	295,031	222,088	585,012

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other non-current liabilities	–	–	220,560	220,560
Financial liabilities included in other payables and accruals-contingent consideration	–	–	4,500	4,500
	–	–	225,060	225,060

As at 31 December 2021

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other non-current liabilities	–	–	186,118	186,118
Financial liabilities included in other payables and accruals-contingent consideration	–	–	8,110	8,110
	–	–	194,228	194,228

For Level 3 financial assets, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include the market comparison approach etc. The fair value measurement of these financial instruments may involve unobservable inputs such as price to research and development costs ratio, liquidity discount, etc. Fair value change resulting from changes in the unobservable inputs was not significant. The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial assets in Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Unobservable inputs and sensitivity analysis for Level 3 assets

The financial assets measured at fair value held by the Group which were classified in Level 3 primarily correspond to certain unlisted equity securities not quoted in an active market.

For certain unlisted equity securities, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include the market comparison approach, etc., which requires the Group to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to research and development costs ratio, for each comparable company identified. An increase (decrease) in price to research and development costs ratio would result in a higher (lower) fair value. An increase (decrease) in liquidity discount would result in a lower (higher) fair value.

The share redemption option granted to non-controlling shareholders of subsidiaries included in other non-current liabilities of RMB220,560,000 (31 December 2021: RMB186,118,000) was determined using the discounted cash flow model and is under Level 3 fair value measurement. Significant unobservable valuation input for the other non-current liabilities is profit attributable to owners of the parent of JUVA Group in 2023, the price to profit attributable to owners of the parent ratio and the discounted rate. An increase (decrease) in profit attributable to owners of the parent of JUVA Group in 2023 and the price to profit attributable to owners of the parent ratio would result in a higher (lower) fair value. An increase (decrease) in the discounted rate would result in a lower (higher) fair value.

The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in Level 3.

45. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB5,668,000 (2021: RMB9,123,000). The Derecognised Bills had a maturity of one to seven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2022 and 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group's foreign currency risk is not significant. Approximately 82% (2021: 88%) of the Group's sales were denominated in local currencies, which were the same as the units' functional currencies, while approximately 78% (2021: 88%) of the Group's costs were denominated in local currencies, which were the same as the units' functional currencies. The Group would reserve some foreign currencies to meet the requirement of payments, which resulted in an insignificant foreign currency risk for the Group. The Group's interest rate risk is not significant, which is due to the fact that the non-current portion of interest-bearing bank and other borrowings is subject to a fixed interest rate. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised 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.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of the reporting period, the Group had certain concentrations of credit risk as 5.75% (2021: 4.33%) and 16.68% (2021: 14.26%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2022

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2022 and 31 December 2021. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	381,526	381,526
Financial assets included in prepayments, other receivables and other assets	10,161	–	10,161
	10,161	381,526	391,687

As at 31 December 2021

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	370,504	370,504
Financial assets included in prepayments, other receivables and other assets	12,181	–	12,181
	12,181	370,504	382,685

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2022 (Continued)

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2022 is set out below:

As at 31 December 2022

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	4%	59%	100%	100%
Gross carrying amount (RMB'000)	390,959	19,913	2,793	6,725
Expected credit losses (RMB'000)	17,592	11,754	2,793	6,725

As at 31 December 2021

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	4%	43%	95%	100%
Gross carrying amount (RMB'000)	380,268	8,730	2,406	5,833
Expected credit losses (RMB'000)	14,884	3,720	2,296	5,833

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2022 (Continued)

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, information based on the provision matrix is set out below:

As at 31 December 2022

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	6%	9%	50%	100%
Gross carrying amount (RMB'000)	6,028	4,082	1,539	1,674
Loss allowance provision (RMB'000)	340	382	766	1,674

As at 31 December 2021

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	1%	20%	50%	100%
Gross carrying amount (RMB'000)	10,755	1,685	294	1,756
Loss allowance provision (RMB'000)	69	337	147	1,756

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 as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2022

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	47,987	6,546	–	–	–	54,533
Financial liabilities included in other payables and accruals	84,700	3,711	–	4,500	–	92,911
Lease liabilities	–	6,980	28,646	30,379	5,215	71,220
Other non-current liability	–	–	–	272,700	–	272,700
Interest-bearing bank and other borrowings (other than lease liabilities)	–	6,068	–	46,181	–	52,249
	132,687	23,305	28,646	353,760	5,215	543,613

31 December 2021

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	36,703	9,561	–	–	–	46,264
Financial liabilities included in other payables and accruals	106,753	–	–	8,110	–	114,863
Lease liabilities	–	24,740	3,409	11,008	–	39,157
Other non-current liability	–	–	–	272,700	–	272,700
Interest-bearing bank and other borrowings (other than lease liabilities)	–	4,576	12,531	25,558	6,681	49,346
	143,456	38,877	15,940	317,376	6,681	522,330

46. 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 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 shareholders, return capital to 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 years ended 31 December 2022 and 31 December 2021.

The Group monitors capital using a debt to assets ratio, which is debt divided by the total assets. Debt includes total current liabilities and total non-current liabilities.

During the year, the Group's strategy was to maintain the debt to assets ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable debt to assets ratio to support its business. The debt to assets ratios at the end of the reporting periods are as follows:

	2022 RMB'000	2021 RMB'000
Total current liabilities	511,275	487,272
Total non-current liabilities	478,741	402,798
Debt	990,016	890,070
Total assets	6,892,399	6,950,356
Debt to assets ratio	14.4%	12.8%

47. EVENTS AFTER THE REPORTING PERIOD

Acquisition of 20% non-controlling interest in NIMO

In January 2023, Haohai Development, a subsidiary of the Company, entered into an equity transfer agreement with Shenzhen Jiusi Investment Partnership (Limited Partnership) ("Jiusi"), CEI Equity Investment Fund Management (Shenzhen) Partnership (Limited Partnership) ("CEI"), Shenzhen Bainatongda Investment Consulting Partnership (Limited Partnership) ("Bainatong") and Zhang Jinsong ("Non-controlling Shareholder"), pursuant to which, Haohai Development agree to acquire 2.4%, 8%, 4% and 5.6% equity interest of NIMO from Jiusi, CEI, Banatong and the Non-controlling Shareholder, respectively, for a total consideration of RMB140,000,000. In February 2023, Haohai Development completed the above-mentioned acquisition.

Repurchase of H shares

From September 2022 to November 2022, the Company repurchased a total of 2,859,000 H Shares at a total consideration of approximately HK$84,224,000 (including transaction fee). On 14 February 2023, the Company completed the cancellation of 2,859,000 H Shares repurchased.

Except for the transactions detailed elsewhere in these financial statements and the events set out in this note above, there was no material subsequent event undertaken by the Group after 31 December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2022

48. 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		
Property, plant and equipment	635,710	491,094
Right-of-use assets	132,181	129,772
Other intangible assets	217	649
Investments in subsidiaries	1,586,955	1,580,138
Investment in a joint venture	–	47,964
Equity investments designated at fair value through other comprehensive income	371,110	209,450
Deferred tax assets	6,939	5,641
Other non-current assets	55,355	1,333
Total non-current assets	2,788,467	2,466,041
CURRENT ASSETS		
Due from subsidiaries	1,671,881	596,802
Inventories	52,492	51,827
Trade and bills receivables	74,759	66,445
Prepayments, other receivables and other assets	(168,584)	19,106
Dividends receivable	130,000	50,000
Assets classified as held for sale	9,159	–
Pledged bank deposits	1,444	216
Cash and bank balances	975,125	1,787,778
Total current assets	2,746,276	2,572,174
CURRENT LIABILITIES		
Due to subsidiaries	1,101,413	519,038
Trade payables	5,103	4,321
Other payables and accruals	74,745	145,518
Interest-bearing bank and other borrowings	12,694	4,089
Total current liabilities	1,193,955	672,966
NET CURRENT ASSETS	1,552,321	1,899,208
TOTAL ASSETS LESS CURRENT LIABILITIES	4,340,788	4,365,249
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	43,662	647
Deferred tax liabilities	11,308	9,151
Deferred income	2,100	4,700
Total non-current liabilities	57,070	14,498
NET ASSETS	4,283,718	4,350,751
EQUITY		
Share capital	174,130	175,822
Treasury shares	(74,042)	–
Reserves	4,183,630	4,174,929
TOTAL EQUITY	4,283,718	4,350,751

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2021	3,248,866	(5,201)	88,923	747,725	4,080,313
Profit for the year	–	–	–	197,256	197,256
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	57,057	–	–	57,057
Total comprehensive income for the year	–	57,057	–	197,256	254,313
Retirement of H Shares	(71,786)	–	–	–	(71,786)
Dividends declared	–	–	–	(87,911)	(87,911)
As at 31 December 2021 and 1 January 2022	3,177,080	51,856	88,923	857,070	4,174,929
Profit for the year	–	–	–	168,899	168,899
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	12,823	–	–	12,823
Total comprehensive income for the year	–	12,823	–	168,899	181,722
Retirement of H Shares	(71,938)	–	–	–	(71,938)
Dividends declared	–	–	–	(121,891)	(121,891)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	(760)	–	760	–
Share-based payments credited to the owner's equity	20,808	–	–	–	20,808
As at 31 December 2022	3,125,950	63,919	88,923	904,838	4,183,630

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2023.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions have the following meanings.

"A Share(s)"	ordinary shares in the share capital of the Company with a par value of RMB1.00 each and listed on the Sci-Tech Innovation Board of the SSE and traded in RMB, including among others, ordinary shares issued under the A Share Offering
"A Share Offering"	the Company's initial public offering of 17.8 million A Shares and listing on the Sci-Tech Innovation Board of the SSE
"A Shareholder(s)"	holder(s) of A Shares
"Articles of Association"	the Articles of Association of the Company, as amended, revised or supplemented from time to time
"Board"	the board of Directors of the Company
"Company" or "Haohai Biological"	Shanghai Haohai Biological Technology Co., Ltd.* (上海昊海生物科技股份有限公司), a joint stock company incorporated in the PRC with limited liability and its H Shares and A shares are listed on the Hong Kong Stock Exchange (Stock Code: 6826) and the Sci-Tech Innovation Board of the SSE (Stock Code: 688366), respectively
"Company Law"	the Company Law of the People's Republic of China, as amended from time to time
"Contamac Group"	Contamac Holdings Limited and its subsidiaries
"Contamac Holdings"	Contamac Holdings limited, established in UK on 13 October 2009. As at the date of this report, the Company indirectly holds 79% of its equity interest
"CSRC"	China Securities Regulatory Commission
"Director(s)"	directors of the Company
"First Grant"	the grant of 1,440,000 Restricted Shares, representing 80% of the total number of Restricted Shares under the Incentive Scheme on 11 March 2022
"Grant Price"	the price of each Restricted Share to be granted to the participants of the Incentive Scheme, which was adjusted from RMB95.00 per A Share to RMB94.30 per A Share 16 November 2022
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

"Hangzhou Aijinglun"	Hangzhou Aijinglun Technology Co., Ltd., (杭州愛晶倫科技有限公司), as at the date of this report, the Company holds 74.7993% of its equity interest
"Haohai Holdings"	Haohai Healthcare Holdings Co., Ltd., a wholly-owned subsidiary of the Company, established in Hong Kong, the PRC on 17 July 2015
"Haohai Development"	Shanghai Haohai Medical Technology Development Co., Ltd. (上海昊海醫藥科技發展有限公司), a wholly-owned subsidiary of the Company
"Hebei XSK"	Hebei Xinshikang Contact Lens Co., Ltd. (河北鑫視康隱形眼鏡有限公司), the Company indirectly held 60% of its equity interest during the period from April 2021 to July 2022
"Henan Universe"	Henan Universe Intraocular Lens Research and Manufacture Company, Ltd (河南宇宙人工晶狀體研製有限公司), a wholly-owned subsidiary of the Company
"Hengtai Vision"	Shanghai Hengtai Vision Technology Co., Ltd. (上海亨泰視覺科技有限公司), as at the date of this report, the Company indirectly holds 55% of its equity interest
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	the overseas-listed foreign share(s) in the share capital of the Company with a par value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in HKD
"H Shareholder(s)"	holder(s) of H Shares
"Incentive Scheme" or "2021 Restricted A Share Incentive Scheme"	the Company's 2021 restricted A Share incentive scheme approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022
"Independent Non-executive Director(s)"	the independent non-executive Director(s) of the Company

DEFINITIONS

"Juva Medical"	OHMK (TianJin) Medical Technology Co. Ltd. (歐華美科(天津)醫學科技有限公司), as at the date of this report, the Company holds 63.64% of its equity interest
"Nanpeng Optics"	Xiamen Nanpeng Optical Company Limited (廈門南鵬光學有限公司), as at the date of this report, the Company indirectly holds 51% of its equity interest
"NIMO"	Shenzhen New Industries Material of Ophthalmology Co., Ltd. (深圳市新產業眼科新技術有限公司), as at the date of this report, the Company holds 80% of its equity interest
"NMPA"	The National Medical Products Administration of the PRC
"PRC", "China" or "People's Republic of China"	the People's Republic of China which, for the purpose of this report only, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
"Qingdao Huayuan"	Qingdao Huayuan Fine Biological Product Co., Ltd. (青島華元精細生物製品有限公司), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2022 to 31 December 2022
"Reserved Grant"	the grant of 360,000 Restricted Shares, representing 20% of the total number of Restricted Shares under the Incentive Scheme on 16 November 2022
"Restricted Share(s)"	A Share(s) to be granted to the Participants by the Company on such conditions and at the Grant Price stipulated under the Incentive Scheme, which are subject to the attribution conditions stipulated under the Incentive Scheme and can only be attributed and transferred after satisfactory with the attribution conditions
"Shanghai Jianhua"	Shanghai Jianhua Fine Biological Products Company Limited (上海建華精細生物製品有限公司), a wholly-owned subsidiary of the Company
"Shanghai Likangrui"	Shanghai Likangrui Biological Engineering Company Limited (上海利康瑞生物工程有限公司), as at the date of this report, the Company holds 70% of its equity interest
"Shanghai Qisheng"	Shanghai Qisheng Biologics Company Limited (上海其勝生物製劑有限公司), a wholly-owned subsidiary of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Share(s)"	A Share(s) and/or H Share(s)
"Shareholder(s)"	A Shareholder(s) and/or H Shareholder(s)
"SSE"	the Shanghai Stock Exchange
"STAR Market Listing Rules"	the Rules Governing the Listing of Securities on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, as amended from time to time
"Supervisor(s)"	the member(s) of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of the Company
"%"	per cent

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this annual report in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

"anti-adhesion"	prevention of fibrous bands formed between tissues and adjacent tissues or organs resulted from injuries during a surgery
"chitosan" (幾丁糖)	a class of polysaccharide without acetyl group or with partial acetyl group, dissolvable in acidic conditions
"clinical trial"	a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs
"EGF"	epidermal growth factor, is a polypeptide growth factor that stimulates epidermal and epithelial growth. It can promote growth of a wide of variety of cells *in vivo* and *in vitro*
"hemostasis"	the arrest of bleeding
"intraocular lens" or "IOL"	an artificial lens implanted in the eyes used to replace natural Lens and to treat cataracts or myopia
"medical chitosan" (醫用幾丁糖)	normally carboxyl-methylated chitosan which can be dissolved in water, regulated by National Medical Products Administration as a Class III medical device
"medical collagen sponge"	spongy material manufactured from bovine tendon by biological purification. It is used to fill operational cavity, wound hemostasis and wound healing
"medical sodium hyaluronate gel" (醫用透明質酸鈉凝膠)	sodium hyaluronate gel solution used for the ophthalmic surgery or anti-adhesive surgery, regulated by National Medical Products Administration as a Class III medical device
"ophthalmic viscoelastic device" or "OVD"	viscoelastic sodium hyaluronate solution used in ophthalmic surgery. It can play the role of cushion to deepen the anterior amber, which makes the operation convenient. It can also protect intraocular tissue and endothelial cell with improved success rate and reduced surgical complications. It is widely used in microsurgeries such as artificial contact lens implantation, penetrating keratoplasty surgery as well as ocular trauma
"Orthokeratology Lens"	a rigid gas permeable contact lenses for myopia control and vision correction function
"Phakic Refractive Lens" or "PRL"	a precise optical component that is surgically implanted into the eyes to achieve refractive correction
"sodium hyaluronate injection" (玻璃酸鈉注射液)	sodium hyaluronate gel solution used for the intra-articular injection, regulated by National Medical Products Administration as a prescription drug
"tissue filling"	a process to inject biomaterials under the skin and fill in the area