



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)

(Stock Code: 1177)



Annual Report
2022

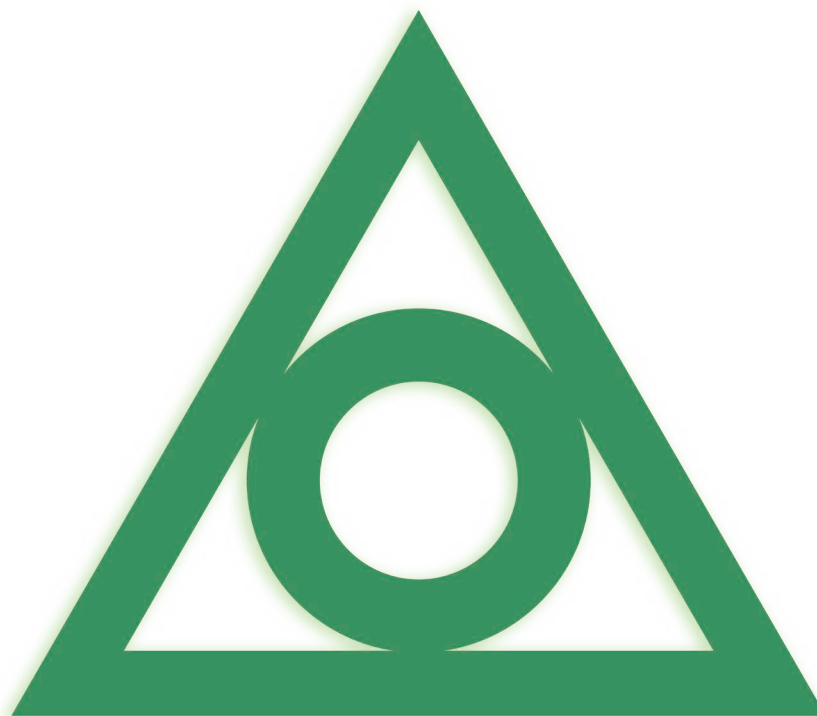


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Corporate Profile



Principal products



Oncology medicines:

- Focus V (Anlotinib Hydrochloride) capsules,
- Annike (Penpulimab mAb) injection,
- Qingkeshu (Abiraterone Acetate) tablets,
- Anyue (Pomalidomide) capsules



Surgery/analgesia medicines:

- Debaian (Flurbiprofen) cataplasms,
- Gaisanchun (Calcitriol) soft capsules



Liver disease medicines:

- Tianqing ganmei (Magnesium Isoglycyrrhizinate) injection,
- Runzhong (Entecavir) dispersible tablets



Cardio-cerebral vascular medicines:

- Yilunping (Irbesartan and Hydrochlorothiazide) tablets,
- Kaina (Beraprost Sodium) tablets



Respiratory system medicines:

- Tianqing suchang (Budesonide) suspension for inhalation,
- Tianyun (Colistimethate Sodium) for injection

Corporate Profile

Sino Biopharmaceutical Limited (the “Company” or “Sino Biopharm”), together with its subsidiaries (the “Group”), is a leading, innovative and research and development (“R&D”) driven pharmaceutical conglomerate in the People’s Republic of China (“China” or “PRC”). Our business encompasses a fully integrated chain in pharmaceutical products which covers an array of R&D platforms, a line-up of intelligent production and a strong sales system. The Group’s products have gained a competitive foothold in various therapeutic categories with promising potentials, comprising a variety of biopharmaceutical and chemical medicines for tumors, liver diseases, respiratory system diseases, surgery/analgesia and others. In order to enhance our sustainable competitiveness, the Group attaches great importance to R&D breakthroughs and is positioned as an industry leader in terms of R&D expenditures and product innovation. The Group also actively establishes and extends co-operations with leading domestic and overseas pharmaceutical institutes and enterprises, to bring about the ecological commercialization of world-frontier R&D results to benefit mankind. To take advantage of the development in technology and policy changes and capitalize on opportunities arising from extension of our principal business, the Group adopts a comprehensive strategic layout of development in the greater healthcare field. Meanwhile, the Group actively utilizes new technologies in big data, artificial intelligence and financial technology to continuously enhance the efficiency of our management, R&D, manufacture and sales.

The medicines which have received Good Manufacturing Practice (“GMP”) certifications issued by the National Medical Products Administration of the PRC (“NMPA”) are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines. The Group also received the GMP certification for health food in capsules from the Department of Health of Jiangsu Province.

The Group’s several principal subsidiaries: Chia Tai Tianqing Pharmaceutical Group Co., Ltd. (“CT Tianqing”), Beijing Tide Pharmaceutical Co., Ltd. (“Beijing Tide”), Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. (“NJCTT”), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. (“Jiangsu CT Fenghai”), Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. (“Jiangsu CT Qingjiang”), CP Pharmaceutical Qingdao Co., Ltd. (“CP Qingdao”), Lianyungang Runzhong Pharmaceutical Co., Ltd. (“LYG Runzhong”) and Shanghai Tongyong Pharmaceutical Co., Ltd. (“Shanghai Tongyong”) have been designated “High and New Technology Enterprises”. In addition, NJCTT, Jiangsu CT Qingjiang and Jiangsu CT Fenghai have been designated “Engineering Technological Research Centre for treating tumors and cardio-cerebral phytochemistry medicines of Jiangsu Province”, “Engineering Technological Research Centre for orthopedic medicines” and “Engineering Technological Research Centre for parenteral nutritious medicines” by the Science and Technology Committee of Jiangsu Province, respectively.

Named by the Ministry of Human Resources and Social Security of the PRC as a “Postdoctoral Research and Development Institute”, the research center of CT Tianqing is also the only “New Hepatitis Medicine Research Center” in the country.

Beijing Tide obtained the renewed GMP certification for foreign pharmaceutical company from the Public Welfare and Health Ministry of Japan in December 2012. Japanese pharmaceutical enterprises can assign the manufacturing of aseptic pharmaceutical products (products that are under research and products already launched to the domestic market within Japan) to Beijing Tide for export to Japan.

Corporate Profile

Constituent stock of Hang Seng Composite Industry Index

The Company was selected as a constituent stock of Hang Seng Composite Industry Index – Consumer Goods and Hang Seng Composite SmallCap Index with effect from 8 March, 2010.

Constituent of the MSCI Global Standard Indices' MSCI China Index

The Company became a constituent of the MSCI Global Standard Indices' MSCI China Index with effect from the close of trading on 31 May, 2013.

First enterprise passed the Consistency Evaluation

In December 2017, Qingzhong (Tenofovir Disoproxil Fumarate) tablet became the first generic drug in the PRC that had completed the bioequivalence study according to the “Consistency of Quality and Efficacy Evaluation for Generic Drugs” (“Consistency Evaluation”) standard. The Group was the first enterprise that passed the Consistency Evaluation.

2010
Mar

2013
May

2017
Dec

2011
Sep

2016, 2017
and 2018

2018
Jan

First certificate of new edition GMP

In September 2011, CT Tianqing received the first certificate of new edition GMP (Certificate No. CN20110001) issued by the State Food and Drug Administration of the PRC for its small volume (injection) dosage.

Asia Fab 50 Companies

The Company was included in Forbes Asia's “Asia Fab 50 Companies” for three consecutive years in 2016, 2017 and 2018.

Tuotuo (Rosuvastatin Calcium) tablet

In January 2018, Tuotuo (Rosuvastatin Calcium) tablet became the only drug that was approved in the Consistency Evaluation among a whole variety of drugs within Jiangsu Province and was the first of the same kind of drugs in the PRC.

Corporate Profile

Focus V (Anlotinib Hydrochloride) capsule

In May 2018, a new Chemicals Category 1 drug of antitumor – Focus V (Anlotinib Hydrochloride) capsule obtained the approval for drug registration granted by the NMPA.



Hang Seng China Enterprises Index

The Company was selected as a constituent stock of the Hang Seng China Enterprises Index with effect from 9 December, 2019.



Top 50 Companies for four consecutive years from 2019 to 2022

The Company was included in American Magazine Pharm Exec's Top 50 Companies for four consecutive years from 2019 to 2022.



Constituent stock of the Hang Seng Index

The Company was selected as a constituent stock of the Hang Seng Index with effect from 10 September, 2018.



Hang Seng Connect Biotech 50 Index

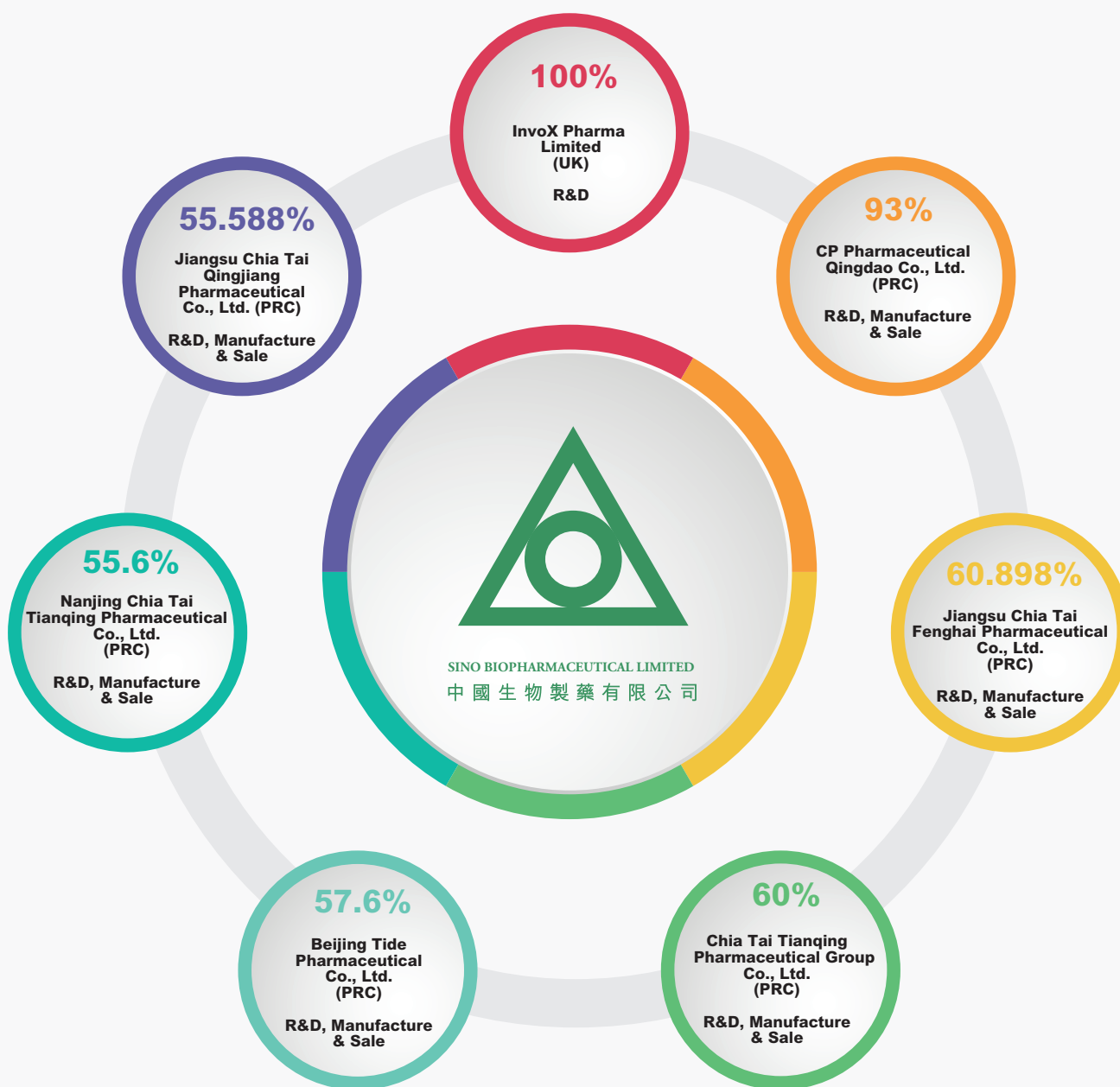
The Company was selected as a constituent stock of Hang Seng Connect Biotech 50 Index on 23 March, 2020.

The Group's website: <http://www.sinobiopharm.com>

Corporate Profile

PRINCIPAL SUBSIDIARIES OF THE GROUP

Fig.1.1



Financial Summary

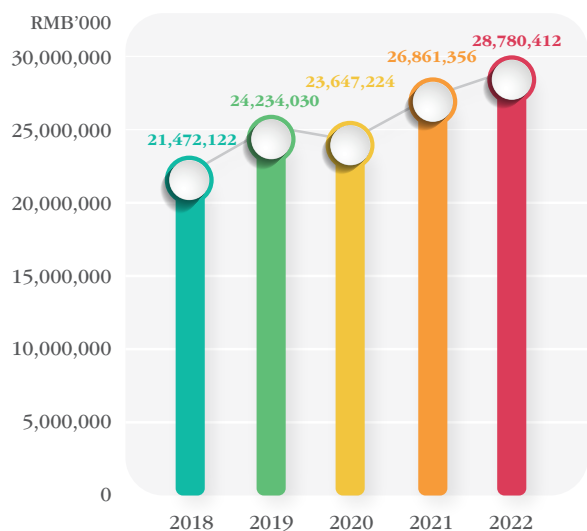
A summary of the published results and assets, liabilities, net assets and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)	(Restated)
REVENUE	28,780,412	26,861,356	23,647,224	24,234,030	21,472,122
Cost of sales	(5,795,510)	(5,332,095)	(5,182,320)	(4,926,268)	(4,291,133)
Gross profit	22,984,902	21,529,261	18,464,904	19,307,762	17,180,989
Other income	768,055	807,013	793,205	857,156	877,557
Other (losses)/gains, net	(258,733)	251,694	469,054	(79,456)	(147,949)
Selling and distribution costs	(10,359,310)	(10,518,393)	(8,972,635)	(9,319,541)	(8,277,054)
Administrative expenses	(2,204,697)	(2,185,234)	(2,655,926)	(2,477,418)	(2,252,313)
Other expenses	(4,559,579)	(4,633,841)	(2,758,957)	(2,479,346)	(2,261,656)
<i>Including: Research and development costs</i>	(4,253,154)	(3,677,259)	(2,626,709)	(2,398,712)	(2,124,040)
Finance costs	(439,058)	(308,617)	(323,368)	(229,950)	(151,476)
Share of profits and losses of associates and a joint venture	(152,976)	13,630,790	(3,233)	111,385	(63,902)
PROFIT BEFORE TAX	5,778,604	18,572,673	5,013,044	5,690,592	4,904,196
Income tax expenses	(775,986)	(1,957,880)	(672,377)	(902,747)	(748,725)
PROFIT FOR THE YEAR	5,002,618	16,614,793	4,340,667	4,787,845	4,155,471
Attributable to:					
Owners of the parent	2,543,570	14,608,412	2,771,086	2,761,542	2,390,096
Non-controlling interests	2,459,048	2,006,381	1,569,581	2,026,303	1,765,375
	5,002,618	16,614,793	4,340,667	4,787,845	4,155,471
TOTAL ASSETS	64,064,284	60,543,337	47,210,438	37,514,192	29,031,350
TOTAL LIABILITIES	(26,120,736)	(22,814,314)	(24,790,880)	(16,953,010)	(11,252,131)
NET ASSETS	37,943,548	37,729,023	22,419,558	20,561,182	17,779,219
NON-CONTROLLING INTERESTS	(8,196,513)	(7,437,907)	(5,672,398)	(5,611,937)	(4,757,776)

Financial Summary

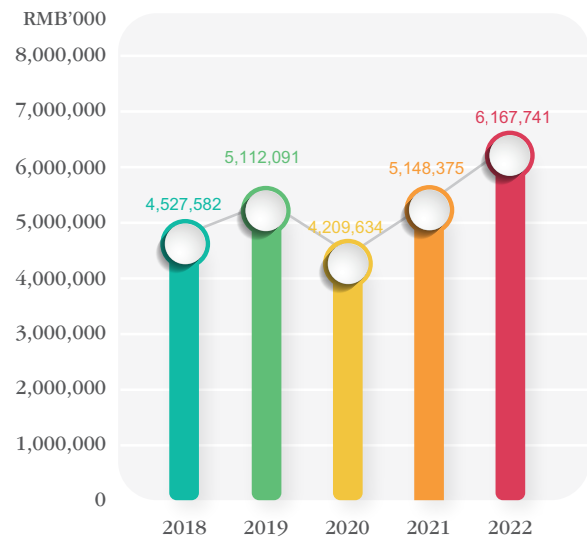
SALES GROWTH

Fig.1.2



GROWTH OF PROFIT*

Fig.1.3



* Operating profit = gross profit – selling and distribution costs – administrative expenses – research and development costs

SALES NETWORK

Fig.1.4

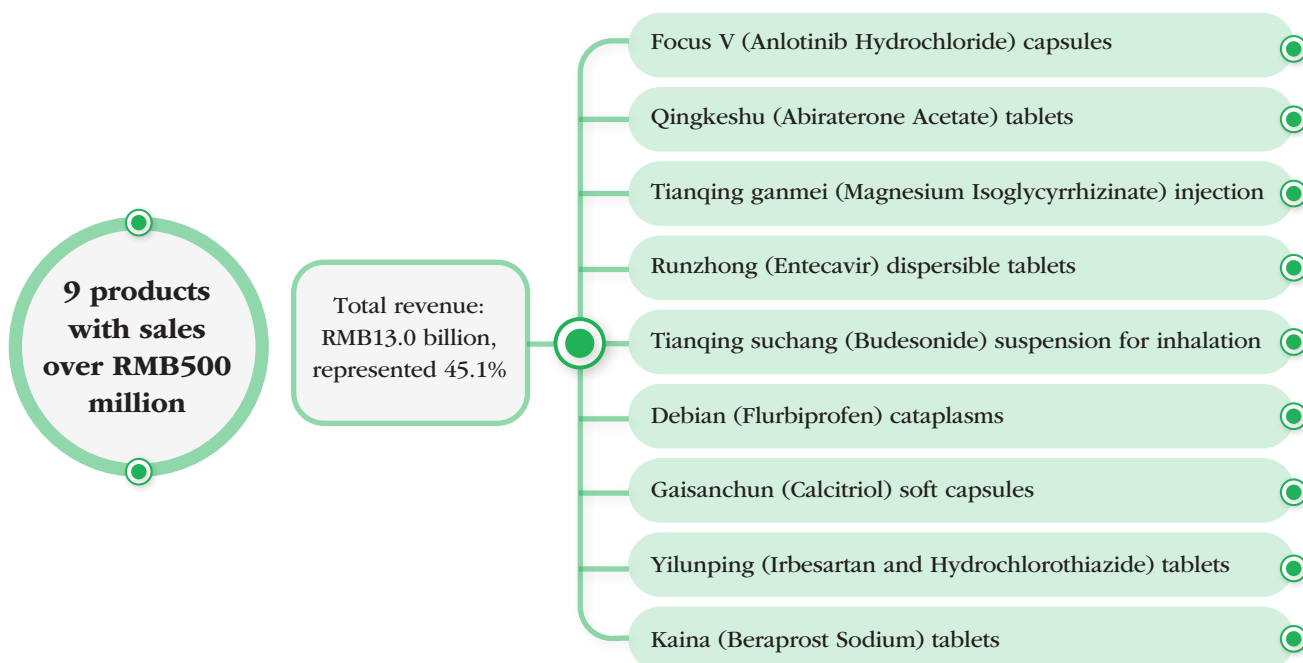


- Sales networks are distributed over the whole country; Over 14,000 professional sales staff
- Cover over 90% hospitals.
- R&D expenditures was over 15% of revenue.

Financial Summary

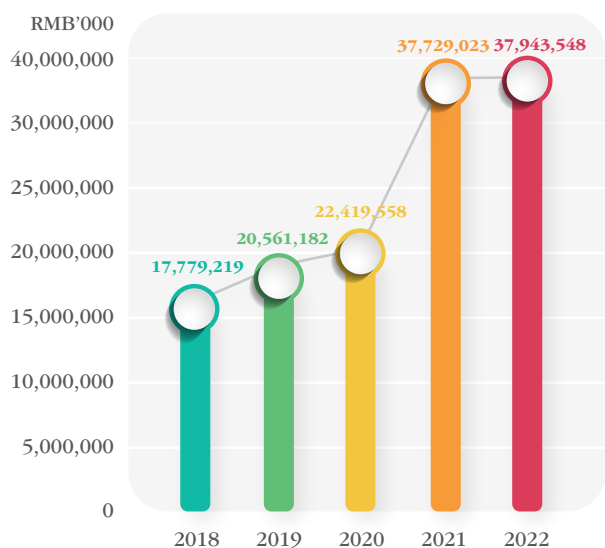
BLOCKBUSTER PRODUCTS

Fig.1.5



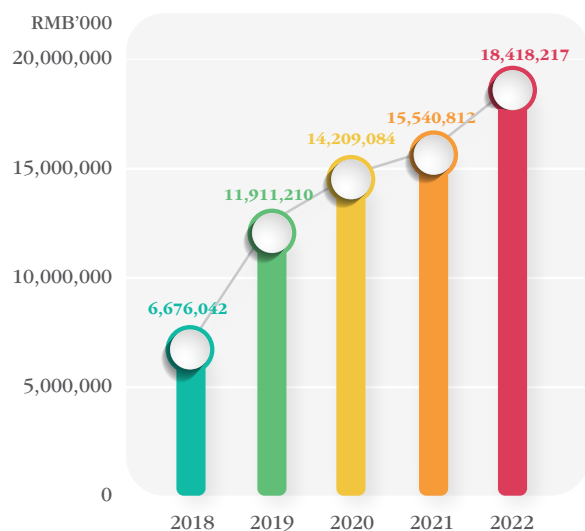
NET ASSETS VALUE

Fig.1.6



CASH AND BANK BALANCES*

Fig.1.7

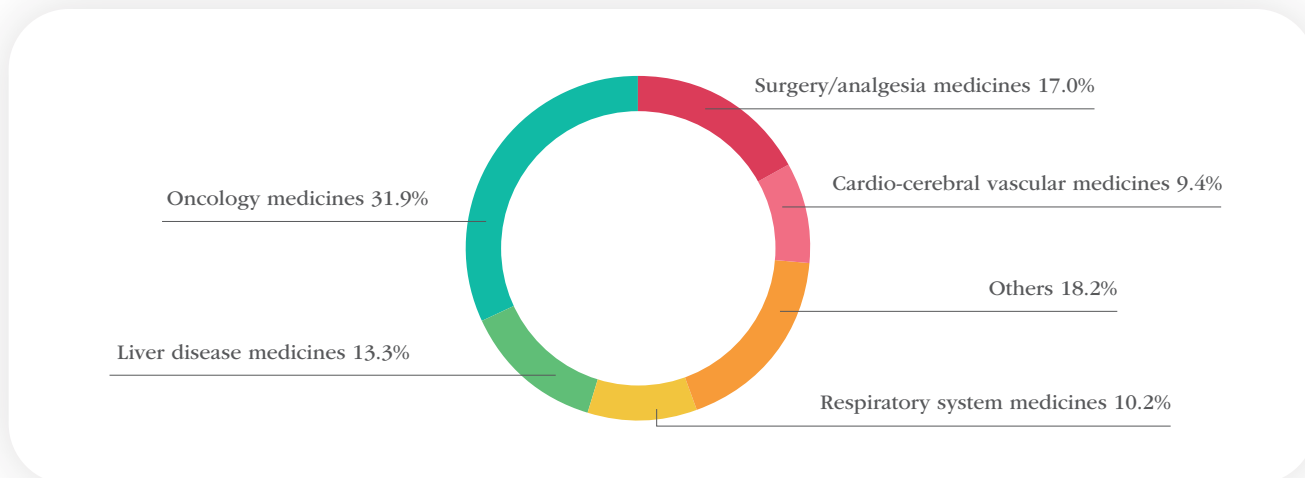


* Including non-current bank deposit

Financial Summary

REVENUE BY THERAPEUTIC CATEGORIES (2022)

Fig.1.8



R&D STRENGTH – MAJOR INNOVATIVE PRODUCTS TO BE LAUNCHED IN THE NEXT 3 YEARS

FIG.1.9

	Name	Therapeutic Area	Development Stage
1	Limaprost	Surgery/analgesic	Approved
2	Ensitrelvir (3CL protease inhibitor)	Respiratory	NDA/BLA
3	Ryzneuta (LA G-CSF)	Oncology	NDA/BLA
4	TQB2450 (Anti PD-L1)	Oncology	NDA/BLA
5	TQ-B3101 (ROS1 inhibitor)	Oncology	NDA/BLA
6	TQ-B3139 (ALK inhibitor)	Oncology	NDA/BLA
7	PL-5 (Antimicrobial peptide)	Surgery/analgesic	Phase III
8	TQB3454 (IDH1 inhibitor)	Oncology	Phase III
9	TQB3616 (CDK4/6 inhibitor)	Oncology	Phase III
10	TQ-B3525 (P13K inhibitor)	Oncology	Phase II
11	TQ05105 (JAK2 inhibitor)	Oncology	Phase II

Chairwoman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to report the results of the Group for the year ended 31 December, 2022.

Chairwoman's Statement

Industry Overview

During the year under review, despite the resurgence of the pandemic, the complex and volatile international situation, and many other risks and challenges, China managed to coordinate pandemic prevention and control measures with economic and social development, and achieved steady macroeconomic growth. According to the preliminary data from the National Bureau of Statistics, the annual gross domestic product (GDP) reached RMB121 trillion in 2022, a 3% year-on-year increase.

As a result of the continuing impact of the pandemic, the total operating sales of China's above-scale pharmaceutical manufacturing industry in 2022 was RMB2,911.14 billion, down 1.6% year-on-year, according to data from the National Bureau of Statistics. In addition, due to the increase in production, warehousing, logistics and other costs caused by the pandemic, the operating costs of China's above scale pharmaceutical manufacturing companies rose by 7.8% year-on-year to RMB1,698.46 billion. Total profit reached RMB428.87 billion, a year-on-year decline of 31.8%.

In 2022, with the explosive spread of the more contagious Omicron variant, pandemic prevention measures were further tightened and the affected area continued to expand, spreading gradually from the Yangtze River Delta urban cluster to other provinces and cities across the country. More than 150 prefecture-level cities were partially or completely locked down, severely affecting the production and distribution of medicines and the diagnosis and treatment activities of doctors and patients, resulting in a significant decline in the volume of diagnosis and treatment and the expenditure on medicines.

Since the establishment of the National Healthcare Security Administration in 2018, the continuous and deepening reform of the medical insurance system has promoted the high-quality development of medical insurance in China. In 2022, there was an increase in financial subsidies for medical insurance and a rise in the fund level of residents' medical insurance plans. The per capita financial subsidy has been raised by RMB30 to no less than RMB610 per person per year. The residents' medical insurance benefits were further enhanced. The reimbursement rate of hospitalization fee policy stood at around 70%, and outpatient services focused on strengthening the protection for chronic diseases and special diseases.



Chairwoman's Statement

The 20th National Congress of the Communist Party of China clearly pointed out that China must further deepen the reform of the medical and health service system and promote the coordinated development and governance of medical insurance, medical treatment, and medicine. In 2022, the National Healthcare Security Administration introduced for the first time the “simple contract renewal” rules for exclusive drugs on the National Medical Reimbursement Drug List, which clarifies the management regulations for the contract renewal and expansion of indications for the drugs on the list, allows a reasonable premium for innovative products to a certain extent, which can encourage pharmaceutical companies to develop differentiated and innovative products. During the reporting period, a total of 111 new drugs were added to the list, significantly higher than in 2021. Among them, 24 major domestically produced innovative drugs were included in national medical insurance negotiations, and 20 drugs concluded the negotiations. The medical insurance system continues to encourage innovation and support the inclusion of drugs in key areas into the list.

Centralized drug procurement has become another routine task of the National Healthcare Security Administration. In 2022, the seventh batch of national centralized drug procurement was completed, and the average price of the 327 products to be selected was reduced by 48%. The price reduction continued to shrink and pressure of centralized procurement began to ease. Sino Biopharm won 9 out of 11 product tenders, making it one of the listed pharmaceutical companies with the largest number of selected products. The majority of the winning products were newly launched products. The surge in sales following the centralized drug procurement is expected to complement the reduction in product prices. All of the Group's generic drugs with annual revenue exceeding RMB500 million (excluding exclusive products) were included in the scope of centralized drug procurement.

BUSINESS REVIEW

Oncology

- Focus V (Anlotinib Hydrochloride Capsules) has been approved for five indications: third-line non-small cell lung cancer, third-line small cell lung cancer, soft tissue sarcoma, medullary thyroid cancer and differentiated thyroid cancer. The Phase III clinical trials of Anlotinib in combination with TQB2450 (Anti-PD-L1) for the treatment of first-line small cell lung cancer has completed interim analysis and met the pre-specified endpoint. The marketing application has been submitted to the Center for Drug Evaluation (“CDE”) of NMPA. In addition, 12 new indications for Anlotinib have also entered Phase III clinical trials, including the combination of Anlotinib with Penpulimab monoclonal antibody, Anlotinib with TQB2450 (Anti-PD-L1), Anlotinib with chemotherapy, and other treatment options, for which marketing applications are expected to be submitted progressively in the next one to two years.
- Annike (Penpulimab monoclonal antibody) injection was approved in January 2023 for the treatment of first-line locally advanced or metastatic squamous non-small cell lung cancer with chemotherapy. To date, the product has been approved for two indications: third-line classic Hodgkin's lymphoma and first-line squamous non-small cell lung cancer. In addition, it has one indication (third-line nasopharyngeal carcinoma) under marketing review.

Chairwoman's Statement

- For the R&D pipeline, as of the end of the reporting period, the Group had a total of 40 innovative drug candidates in the oncology field in the process of clinical trial application or above, of which 4 were at the marketing application stage, 4 were in Phase III clinical trials, 7 were in Phase II clinical trials, 23 were in Phase I clinical trials and 2 were at the clinical trial application stage. In addition, the Group has 15 biosimilar or generic drug candidates in the oncology field in the process of clinical trial application or above, including 8 at the marketing application stage, 3 in Phase III clinical trials, 1 in Phase I clinical trials, and 3 in Bioequivalence ("BE") trials. The Group expects 8 innovative drugs and 11 biosimilars or generic drugs in the oncology field to be approved for marketing in the next three years (2023-2025).
 - F-627 (Efbemalenograstim alpha, long-acting granulocyte colony-stimulating factor) is currently in the marketing application stage. F-627 is a third-generation recombinant long-acting granulocyte colony-stimulating factor (G-CSF). The Fc fusion protein forms a dimer without the need for polyethylene glycol (PEG) modification, thus avoiding the immune response caused by PEG and providing a safety advantage over the mainstream second-generation products currently on the market. F-627 is currently the only G-CSF drug on the market that has conducted simultaneous research head-to-head with both short-acting and long-acting G-CSF in large sample sizes. Phase III clinical trials have been completed with marketing applications submitted in China and the United States. The Group expects that the marketing application will be approved in China in 2023. With its strong oncology sales team, Sino Biopharm is confident in a smooth launch and rapid market penetration of the product.
 - TQB2450 (Anti-PD-L1), currently in the marketing application stage, is an innovative fully humanized anti-PD-L1 monoclonal antibody with a novel sequence independently developed by Sino Biopharm. Several head-to-head clinical trials of TQB2450 have been initiated in China, including the Phase III clinical trials of TQB2450 combined with Anlotinib in treating first-line non-small cell lung cancer versus Keytruda used alone. In 2022, TQB2450 was included in the "Breakthrough Therapy Designation" list by the CDE of the NMPA. The product is expected to become one of the important complementary products to Anlotinib. By leveraging the large patient base of Anlotinib, the product is expected to grow rapidly.
- ### Liver disease
- In 2022, sales of Tianqing Ganmei (Magnesium Isoglycyrrhizinate) injection increased significantly. The Group made efforts to strengthen the academic promotion of the efficacy and safety advantages of Tianqing Ganmei to doctors in the treatment of chronic viral hepatitis, acute drug-related liver injury and liver function abnormalities. The academic conferences at various levels helped expand doctor coverage and earn higher recognition from experts, and the Group's endeavors to actively explore new patients and new markets also drove the rapid sales growth of Tianqing Ganmei during the reporting period.
 - For the R&D pipeline, as at the end of reporting period, the Group had a total of 8 innovative drug candidates in the field of liver disease in the process of clinical trial application or above, including 1 in Phase III clinical trials, 4 in Phase II clinical trials and 3 in Phase I clinical trials. In addition, the Group had 4 biosimilar or generic drug candidates in the process of clinical trial application or above, including 3 at marketing application stage and 1 in Phase III clinical trial. The Group expects to have 4 biosimilar or generic drugs in the field of liver disease approved for marketing in the next three years (2023-2025).

Chairwoman's Statement

- Lanifibranor (pan-PPAR agonist) is an orally-available small molecule that acts to induce anti-fibrotic, anti-inflammatory and beneficial vascular and metabolic changes in the body by activating all three peroxisome proliferator-activated receptor (PPAR) isoforms for the treatment of nonalcoholic steatohepatitis (NASH). In contrast to other PPAR agonists that target only one or two PPAR isoforms for activation, the product is designed to target all three PPAR isoforms. Its moderate and balanced pan-PPAR binding profile contributes to a favorable tolerability profile. The product is currently undergoing Phase III clinical trials globally, and is the first oral drug for NASH that has entered Phase III clinical trials in China, to address a large clinical unmet need in the China NASH market.
- Ensitrelvir (3CL protease inhibitor) is a novel oral drug for the treatment of COVID-19. Results of clinical trials have shown significant improvement and antiviral efficacy against the five typical symptoms of the Omicron strain of COVID-19. It does not require the use of other drugs as potentiators and has a good safety profile. Its compliance is better in elderly patients with other underlying diseases. A marketing application has been submitted to the CDE of the NMPA. The drug has the potential to become a good oral drug for the treatment of COVID-19.
- TDI01 (a highly selective inhibitor of ROCK2) is a novel targeted and highly selective inhibitor of Rho/Rho-associated coiled-coil protein kinase 2. It is currently in development in Phase II clinical trials for the target indications of pneumoconiosis, pulmonary fibrosis, graft versus host disease as well as COVID-19. Among them, the development of the COVID-19 indication is progressing rapidly with Phase II clinical trials in the US and China underway. Phase I clinical trials for the pneumoconiosis indication in the US have been completed and Phase I clinical trials in China have commenced. As there is currently no approved drug for the treatment of pneumoconiosis worldwide, TDI01 is expected to fill this gap and bring benefits to pneumoconiosis patients. The Group believes that TDI01 has the potential to become a major drug and will therefore vigorously pursue its clinical development.

Respiratory system

- Tianqing suchang (Budesonide) suspension for inhalation has been included in the centralized procurement list. The Group responded to the impact of centralized procurement by taking a series of proactive management measures in a timely manner, including strengthening downstream channels, expanding market coverage and conducting secondary development in markets.
- For the R&D pipeline, as at the end of reporting period, the Group had a total of 10 innovative drug candidates in the respiratory system field in the process of clinical trial application or above, including 1 at marketing application stage, 5 in Phase II clinical trials, 4 in Phase I clinical trials. Moreover, the Group has 16 biosimilar or generic drug candidates in the respiratory system field in the process of clinical application or above, including 6 at marketing application stage, 2 in Phase III clinical trials, 1 in Phase I clinical trials, and 7 in Bioequivalence (BE) trials. The Group expects 1 innovative drugs and 8 biosimilars or generic drugs in the respiratory system field will be approved for marketing in the next three years (2023-2025).

Chairwoman's Statement

Surgery/Analgesia

- Debian (Flurbiprofen) cataplasms maintained rapid sales growth in 2022. The Group focused on hospital access and the development of high-potential areas to further expand its market coverage and hospital channels, strengthen downstream development and focus on improving the development and coverage of secondary hospitals and community healthcare facilities. Through flexible adjustment of sales and access strategies, sales of Debian have continued to grow over the past few years.
- For the R&D pipeline, as at the end of reporting period, the Group had a total of 3 innovative drug candidates in the surgery/analgesic field in the process of clinical trial application or above, including 2 in Phase III clinical trials and 1 undergoing the clinical trial application process. In addition, the Group had 10 other biosimilar or generic drug candidates in the surgery/analgesic field in the process of clinical trial application or above, including 4 at marketing application stage, 5 in Phase III clinical trials and 1 in BE trial. The Group expects 2 innovative drugs and 9 biosimilar or generic drugs in the surgery/analgesic area to be approved for marketing in the next three years (2023-2025).
- PL-5, an antimicrobial peptide product that is the first newly designed non-antibiotic antimicrobial drug with a broad antibacterial spectrum. It withstands drug resistance, effectively kills bacteria and has excellent efficacy against local open wound infections, especially against drug-resistant strains, without entering the blood circulatory system, thus offering a high degree of safety. The product has completed a Phase III clinical study in China for the treatment of secondary wound infections, and the Group expects to file a marketing application within this year. When the product is launched, it will be the first antimicrobial peptide product available in China.

Awards

- On 12 July, the 2022 China Medical and Health Industry Symbiosis (MHIS) Conference was unveiled in Huzhou, Zhejiang. The list of "Top 100 China Pharmaceutical Industry List 2021" was selected based on two dimensions: innovation drivers and professional promotion capability. Sino Biopharm won the second place in the list of "Top 100 Chinese Chemical and Medical Enterprises in 2021".
- On 1 November, the 2022 China Health Ecology Organization (CHEO, previously known as CPEO) Conference officially opened in Bo'ao, Hainan, bringing together well-known enterprises from the pharmaceutical, medical care, health services, finance and insurance sectors at home and abroad to discuss the development of the health industry. At the event, Sino Biopharm received the "Top 10 R&D Enterprises Awards in 2022".
- On 9 December, the 2022 Conference on High Quality Development of Healthcare Industry and the 7th Summit for China Pharmaceutical R&D Innovation (PDI) opened in Chongqing. The "2021 China Pharmaceutical R&D Strength Rankings" was announced at the event. Chia Tai Tianqing ("CT Tianqing"), a subsidiary of Sino Biopharm, ranked second on the "Top 100 Enterprises in China – Comprehensive Strength in Medicine R&D" list, second on the "Top 100 Enterprises in China – Strength in Chemical Pharmaceutical R&D" list, and sixth on the "Top 50 Enterprises – Strength in Biopharm R&D" list.

Chairwoman's Statement

FINANCIAL REVIEW

During the year, the Group recorded revenue of approximately RMB28,780.41 million, an increase of approximately 7.1% over last year. Profit attributable to the owners of the parent was approximately RMB2,543.57 million, a decrease of approximately 82.6% over last year. Earnings per share attributable to the owners of the parent were approximately RMB13.66 cents, a decrease of approximately 82.4% over last year. Excluding the share of profits and losses of associates and a joint venture (net of related tax and non-controlling interests), one-off adjustments for the impairment and fair value changes of certain assets and liabilities (net of related tax and non-controlling interests), fair value losses of current equity investments, share-based payments, loss on extinguishment of partial convertible bond, fair value gain of convertible bond embedded derivative component, effective interest expenses, exchange gain and fair value losses of derivative financial instruments in relation to foreign currency forward contracts of the convertible bond debt component, adjusted non-HKFRS profit attributable to the owners of the parent was approximately RMB2,986.33 million, an increase of approximately 16.4% over last year. Sales of new products accounted for approximately 43.5% of the Group's total revenue for the year, while it was approximately 38.9% for the last year. The Group's liquidity remains strong. With cash and bank balances classified under current assets of approximately RMB12,066.22 million, bank deposit classified under non-current assets of approximately RMB6,352 million, and the wealth management products of approximately RMB4,543.24 million in aggregate, the Group's total fund reserve was approximately RMB22,961.46 million at the year end.

PROSPECTS

As COVID-19 has gradually eased, daily business and life have returned to normal and regular medical services have continued to recover. The development of the pharmaceutical industry is likely to pick up rapidly. The Group has closely followed the development of the country, society and industry, and adjusted its development strategy in a timely manner. It has actively conducted organizational integration, optimized the internal organizational structure of the Group, and accelerated construction of business teams across different channels, in order to grow its business rapidly and deliver results in a stable manner.

During the reporting period, the government successively issued important guidelines such as the "14th Five-Year Plan for Bioeconomy" and "Key Tasks for Deepening the Reform of the Medical and Healthcare System in 2022", which emphasized that the pharmaceutical industry is an important pillar for building a healthy China and ensuring people's well-being, as well as a strategic emerging industry that China will focus on developing. The documents also listed some key efforts, namely, to accelerate technological breakthroughs in product innovation and industrialization, improve the pharmaceutical innovation support system, and create new advantages for competing globally.

Sino Biopharm regards innovation and transformation as integral to its strategic development, and is focused on four main therapeutic areas: oncology, hepatitis, respiratory, and surgery/analgesia. It has been mapping out innovative drug projects with best-in-class (BIC) and first-in-class (FIC) potential, and is driving innovative development through its dual engines: internal research and development, and commercial expansion. At present, the Group's innovation and transformation have entered the harvest stage. In the next three years, more than 10 innovative drug products will be launched, and over 40 innovative drugs in the pipeline may be launched by 2030, further promoting the high-quality development of the Group, realizing the revenue target of HK\$100 billion by 2030, and becoming a leading innovative pharmaceutical group in the world.

Chairwoman's Statement

Generic drugs are the cornerstone of the Group's stability. As of the date of this report, all of the Group's generic drug products, each with annual revenue of more than RMB500 million (excluding exclusive products), have been included in the scope of centralized drug procurement. The stock of generic drugs that has not been included in the scope of centralized drug procurement has been cleared, hence, eliminating its risk exposure in centralized drug procurement. The Group will continue to deploy special generic drugs that have broad market prospects and are highly competitive, and through efficient and stable production maintain steady revenue growth from generic drugs.

Under the four main strategies of “organizational integration, comprehensive innovation, internationalization, and digitalization”, the Group will further consolidate resources, improve operational efficiency, accelerate and facilitate cooperation at home and abroad, and promote global innovation and development.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our shareholders for their trust, support and understanding, as well as to all staff for their dedication and diligence.

Management Discussion and Analysis

The Group continues to focus on developing specialized medicines where its strengths lie so as to build up its brand in specialist therapeutic areas. The major therapeutic areas of the Group include oncology medicines, liver disease medicines, respiratory system medicines, surgery/analgesia medicines, cardio-cerebral vascular medicines and others.

ONCOLOGY MEDICINES

For the year ended 31 December, 2022, the sales of oncology medicines amounted to approximately RMB9,189.63 million, representing approximately 31.9% of the Group's revenue, an increase of approximately 14.3% over last year.

LIVER DISEASE MEDICINES

For the year ended 31 December, 2022, the sales of liver disease medicines amounted to approximately RMB3,840.11 million, representing approximately 13.3% of the Group's revenue, an increase of approximately 15.4% over last year.

RESPIRATORY SYSTEM MEDICINES

For the year ended 31 December, 2022, the sales of respiratory medicines amounted to approximately RMB2,922.26 million, representing approximately 10.2% of the Group's revenue, a decrease of approximately 6.5% over last year.

SURGERY/ANALGESIA MEDICINES

For the year ended 31 December, 2022, the sales of surgery/analgesia medicines amounted to approximately RMB4,881.77 million, representing approximately 17.0% of the Group's revenue, an increase of approximately 2.8% over last year.

CARDIO-CEREBRAL VASCULAR MEDICINES

For the year ended 31 December, 2022, the sales of cardio-cerebral vascular medicines amounted to approximately RMB2,697.50 million, representing approximately 9.4% of the Group's revenue, an increase of approximately 7.8% over last year.

OTHERS

For the year ended 31 December, 2022, the sales of others amounted to approximately RMB5,249.14 million, representing approximately 18.2% of the Group's revenue, an increase of approximately 2.5% over last year.

ADJUSTED NON-HKFRS PROFIT ATTRIBUTABLE TO THE OWNERS OF THE PARENT

Addition information is provided below to reconcile profit attributable to the owners of the parent and adjusted non-HKFRS profit attributable to the owners of the parent. The reconciling items principally adjust for the impact of share of profits and losses of associates and a joint venture (net of related tax and non-controlling interests), one-off adjustments for the impairment and fair value changes of certain assets and liabilities (net of related tax and non-controlling interests), fair value losses of current equity investments, share-based payments, loss on extinguishment of partial convertible bond, fair value gain of convertible bond embedded derivative component, effective interest expenses, exchange gain and fair value losses of derivative financial instruments in relation to foreign currency forward contracts of the convertible bond debt component. To better reflect the financial performance of the Group, the Group has adopted the presentation of fair value losses/(gains) of current equity investments and convertible bond embedded derivative component which is widely adopted in the industry in which the Group is operating. In addition, the impact of the exchange gain and fair value losses of derivative financial instruments in relation to foreign currency forward contracts of the convertible bond debt component, and loss on extinguishment of partial convertible bond were also adjusted. Adjusted non-HKFRS profit attributable to the owners of the parent for the year increased by approximately 16.4% over last year.

Management Discussion and Analysis

	For the year ended 31 December,		Change
	2022 RMB'000	2021 RMB'000	
Profit attributable to the owners of the parent	2,543,570	14,608,412	-82.6%
Share of profits and losses of associates and a joint venture (net of related tax and non-controlling interests)	119,711	(12,435,455)	
One-off adjustments for the impairment and fair value changes of certain assets and liabilities (net of related tax and non-controlling interests)	220,516	858,566	
Fair value losses of current equity investments, net	198,067	15,748	
Share-based payments	29,723	-	
Loss on extinguishment of partial convertible bond	9,591	-	
Fair value gain of convertible bond embedded derivative component	(75,696)	(241,072)	
Convertible bond debt component of:			
– Effective interest expenses	81,872	109,275	
– Exchange gain	(248,137)	(350,714)	
– Fair value losses of derivative financial instruments in relation to foreign currency forward contracts	107,109	-	
Adjusted non-HKFRS profit attributable to the owners of the parent	2,986,326	2,564,760	+16.4%
Basic earnings per share			
Adjusted non-HKFRS profit attributable to the owners of the parent used in the basic earnings per share calculation	2,986,326	2,564,760	+16.4%
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (Shares)	18,622,248,991	18,768,649,757	
Basic earnings per share, based on adjusted non-HKFRS profit attributable to the owners of the parent (RMB cents)	16.04	13.67	+17.3%

To supplement the consolidated results of the Group prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), adjusted non-HKFRS profit attributable to the owners of the parent is presented in this report as an additional non-HKFRS financial measure to provide supplementary information for better assessment of the performance of the Group’s core operations by excluding impacts of certain non-cash items and the contribution of associates and a joint venture. Adjusted non-HKFRS profit attributable to the owners of the parent is to be considered in addition to, and not as a substitute for, measures of the Group’s financial performance prepared in accordance with HKFRS.

Management Discussion and Analysis

INVESTMENT IN ASSOCIATES AND A JOINT VENTURE

Sinovac Life Sciences Co., Ltd. (“Sinovac”), a company which is mainly engaged in the R&D, production and sales of human vaccines and in which the Group holds 15.03% equity interests, its COVID-19 vaccine CoronaVac has been approved for use in 62 countries, regions and international organizations, of which 15 countries, regions and international organisations allowed the use of it for minors vaccination. With a global supply of more than 2.9 billion doses, CoronaVac has become a true “global public goods”. Sinovac is a supporting unit of BRICS Vaccine R&D Centre in China and Beijing Preventive Vaccine for Humans Engineering Technology Research Centre. Sinovac will continue to build up its R&D and industrialization capabilities and focus on the development of innovative vaccines and their related products. However, as the market environment continues to change, the sales volume of its COVID-19 vaccine decreased and its profit was lower compared with last year. The profits and losses of associates and a joint venture attributable to the Group turned to losses of approximately RMB152.98 million during the year. After deducting related taxes and non-controlling interests of approximately RMB33.27 million, the actual losses attributed to associates and a joint venture totaled approximately RMB119.71 million. As at 31 December, 2022, the carrying amount of the investment in Sinovac was approximately RMB11,992.17 million, accounting for approximately 18.7% of the Group’s total assets.

EQUITY INVESTMENTS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December, 2022, the Group had the non-current equity investments designated at fair value through other comprehensive income (including certain listed and unlisted equity investments) of approximately RMB1,574.81 million (31 December, 2021: approximately RMB1,988.24 million) and current equity investments designated at fair value through profit or loss (including certain listed shares investments) of approximately RMB312.21 million (31 December, 2021: approximately RMB405.21 million).

In addition, as at 31 December, 2022, the Group had the non-current financial assets at fair value through profit or loss of approximately RMB4,104.62 million (31 December, 2021: RMB3,942.85 million) and the current financial assets at fair value through profit or loss, including certain wealth management products of approximately RMB4,543.24 million (31 December, 2021: approximately RMB4,250.53 million), including the wealth management products of Industrial and Commercial Bank of China (approximately RMB703.35 million), Bank of Communications (approximately RMB513.60 million), Bank of China (approximately RMB491.46 million), China Construction Bank (approximately RMB459.15 million), Guotai Junan (approximately RMB285.22 million), Shanghai Pudong Development Bank (approximately RMB282.90 million), China Minsheng Banking Corp. (approximately RMB281.30 million), China Galaxy Securities (approximately RMB275.43 million), CITIC Securities (approximately RMB252.88 million) and other banks. The wealth management products mainly consisted of principal-guaranteed products with floating return and relatively lower risk of default. All principal and interests will be paid together on the maturity date. The board (“Board”) of directors (the “Directors”) of the Company believes that the investment in wealth management products and trust funds can strengthen the financial position of the Group and bring the fruitful contribution to the profit of the Group. As at 31 December, 2022, the above mentioned wealth management products (approximately RMB4,543.24 million), representing approximately 7.1% of the total assets of the Group.

Each of the transactions of acquisition or disposal of wealth management products was entered into with third party who was not a connected person (as defined in the Rules (“Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) of the Company, and did not constitute a notifiable transaction under Chapter 14 of the Listing Rules as all the applicable percentage ratios were less than 5%, calculated either on a standalone basis or by aggregation of the transactions with the same counterparty pursuant to the Rule 14.22 of the Listing Rules.

Management Discussion and Analysis

For the year ended 31 December, 2022, the Group recorded fair value loss (net) of the current equity investments and financial assets of approximately RMB198.07 million. The Board believes that the investment in equity investments and financial assets can diversify the investment portfolio of the Group and achieve a better return to the Group in future.

R&D

The Group has continued to focus its R&D efforts on new medicines in four therapeutic areas, namely oncology, liver disease, respiratory system and the surgery/analgesia. As of the end of the reporting period, the Group has 103 products under development, including 53 oncology products, 12 liver disease products, 26 respiratory system products, and 12 surgery/analgesia products, involving a total of 58 Category I innovative products.

Over the years, the Group has been placing high importance on R&D, and bringing innovation, collaboration and imitation together to raise R&D standards and efficiency. Regarding R&D as the lifeblood of the Group's development, the Group continues to devote into more resources. For the year ended 31 December, 2022, total R&D expenditure amounted to approximately RMB4,454.18 million in total, accounted for approximately 15.5% of the Group's revenue, most of which was charged to the statement of profit or loss. During the year, expenditure on innovative drugs and biological drugs accounted for more than 74% of the R&D expenditure, an increase in amount of approximately 19% compared with last year. Expenditure on the therapeutic area of oncology accounted for approximately 75% of the R&D expenditure, an increase in amount of approximately 15% over last year.

The Group also emphasizes the protection of intellectual property rights. It encourages its member enterprises to apply for patent applications as a means to enhance the Group's core competitiveness. During the year, the Group filed 1,006 new patent applications and received 280 authorized patent notices. As of the reporting date, the Group has accumulated 4,203 effective patents and patent applications, and has obtained 1,554 patent invention authorizations.

INVESTOR RELATIONS

The Group is committed to maintaining high corporate governance standards to ensure its long-term sustainable development. During the year, the Group overcame the impact of restricted offline activities due to the pandemic, and has been proactive in approaching local and overseas investors through diversified channels to maintain close and good relations and ensure adequate two-way communication. While to ensure investors had a thorough understanding of its latest business development and strategies, the Group was able to exchange views with the investment community, listening to and gaining valuable insights from them that led to elevated corporate governance standards.

In the past year, the Group continued to proactively publish the latest information on its business development for investors. The Group held investor presentations in late March and late August to provide in-depth explanations of its 2021 annual results, 2022 interim results and latest business updates, which were enthusiastically received. Among them, the investor presentation held in late August was combined with Investor Day for the first time and attracted nearly 310 participants, including analysts and investment managers. The Group also issued timely press releases relating to its financial results to keep retail investors well-informed about its latest business status and prospects via media coverage. Apart from the press releases on its results, the Group also dispatched additional information, highlighted by the Company's share buyback and share purchases pursuant to restricted share award scheme through media channels, hoping to strengthen the confidence of shareholders and investors by maintaining a high level of transparency.

Management Discussion and Analysis

In addition, during the year the Group participated in many investment summits and roadshows hosted by large investment banks and securities companies, including the Bank of America, Citi, J.P. Morgan, Morgan Stanley, UBS, Goldman Sachs, CICC, CITIC, CSC Financial, HTSC, Haitong and China Industrial Securities, in a bid to help investors understand the Group's business development and competitive advantages.

As always, the Group has published its annual reports, interim reports, disclosures and circulars on both its corporate website and the website of the Hong Kong Exchanges and Clearing Limited. In addition, it issues voluntary announcements to inform shareholders and investors about its latest business endeavors so as to maintain transparency and market interest.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary sources of funds were cash derived from operating activities, issuance of convertible bonds and bank borrowings. As at 31 December, 2022, the Group's cash and bank balances classified under current assets were approximately RMB12,066.22 million (31 December, 2021: approximately RMB10,568.81 million). Bank deposit classified under non-current assets were approximately RMB6,352 million (31 December, 2021: approximately RMB4,972 million).

CAPITAL STRUCTURE

As at 31 December, 2022, the Group had short term loans of approximately RMB6,217.15 million (31 December, 2021: approximately RMB6,520.57 million) and had long term loans of approximately RMB3,933.86 million (31 December, 2021: approximately RMB413.34 million). Debt component of the convertible bonds amounted to approximately RMB3,446.26 million as at 31 December, 2022 (31 December, 2021: RMB4,799.19 million). In addition, total lease liabilities (classified under current and non-current liabilities) amounted to approximately RMB384.69 million as at 31 December, 2022 (31 December, 2021: RMB384.42 million).

CHARGE ON ASSETS

As at 31 December, 2022, the Group had charge on assets of approximately RMB2,113.50 million (31 December, 2021: approximately RMB854.28 million), excluding the amount of bills receivable discounted at banks of Nil (31 December, 2021: approximately RMB5.93 million).

CONTINGENT LIABILITIES

As at 31 December, 2022, the Group and the Company had no contingent liabilities (31 December, 2021: Nil).

ASSETS AND GEARING RATIO

As at 31 December, 2022, the total assets of the Group amounted to approximately RMB64,064.28 million (31 December, 2021: approximately RMB60,543.34 million) whereas the total liabilities amounted to approximately RMB26,120.74 million (31 December, 2021: approximately RMB22,814.31 million). The gearing ratio (total liabilities over total assets) was approximately 40.8% (31 December, 2021: approximately 37.7%). The Group was in a net cash position of approximately RMB4,436.25 million (31 December, 2021: approximately RMB3,423.30 million), being the aggregate of cash and bank balances classified under current assets and bank deposit classified under non-current assets less the aggregate of short term loans, long terms loans, debt component of the convertible bonds and total lease liabilities.

Management Discussion and Analysis

EMPLOYEE AND REMUNERATION POLICIES

The Group had 26,272 employees as at 31 December, 2022 and remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as employee share incentive schemes. Total staff cost (including Directors' remuneration and equity-settled share-based payments) in selling and distribution costs and administrative expenses for the year was approximately RMB4,750.93 million (2021: approximately RMB4,567.98 million).

The Group adopted a Share Option Scheme on 28 May, 2013 (the "2013 Share Option Scheme") and a Share Award Scheme on 5 January, 2018 (the "2018 Share Award Scheme"), both of which are to provide incentive to retain and encourage the selected participants for the continual operation and development of the Group. No option in respect of the shares of the Company ("Shares") had ever been granted under the 2013 Share Option Scheme up to 31 December, 2022. During the year ended 31 December, 2022, 8,577,623 Shares had been granted to a total of 10 selected participants under the 2018 Share Award Scheme, and as of 31 December, 2022, 345,797,877 Shares were held on trust by the trustee responsible for administering the 2018 Share Award Scheme.

On 31 March, 2022, the Board approved a share purchase plan pursuant to which the Company would, subject to market conditions, (i) buy back Shares from the open market (the "Share Buy-back") and (ii) under the 2018 Share Award Scheme, instruct the trustee to purchase Shares from the open market (the "Incentive Share Purchase"), for an aggregate consideration of not exceeding HK\$1 billion (the "Share Purchase Amount") over the following one year. Up to 31 December, 2022, approximately HK\$916.64 million of the Share Purchase Amount has been utilised for the Share Buy-back and the Incentive Share Purchase under this plan.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars, Euro and HK dollars. The Group has hedged part of the Euro risk in financial liabilities by entering into foreign exchange forward contracts and will continue to closely monitor the net foreign exchange exposure to reduce the impact of foreign exchange fluctuations.

ENVIRONMENTAL, SOCIETY AND GOVERNANCE ("ESG")

Sino Biopharm is committed to promoting the harmonious development of enterprises, society and the environment through high standards of ESG management. During the year, the Board was the Group's top decision-making and responsible body, under which an ESG Committee has been established and authorized to supervise important issues of the Group in relation to ESG, which include offering advice to the Board pertaining to ESG risk, opportunity, policy, action, etc. The ESG management system with "Board-Group Management-Member Companies" as the core units has operated effectively, allowing the Group to continuously improve internal supervision of ESG risks; ensure the implementation of the Board's ESG strategies and requirements; review ESG-related risks and opportunities according to the macro environment and business change in a timely manner; and regularly review the progress of ESG's annual work and information disclosure. During the reporting year, the Group continued to enhance the implementation and optimization of its ESG system in member companies, which have established their own ESG working committee, to fully undertake the ESG planning and requirements of the Board and the Group under the guidance of "Sino Biopharm ESG Task Management Measures".

Management Discussion and Analysis

In 2022, the Group continued to strengthen its ESG philosophy and culture, and clarified the Group's ESG vision, which is to effectively practice the Group's operational values of "benefit the country, benefit the general public and benefit the enterprise" through high-quality ESG management, respond to the United Nations' Sustainable Development Goals, support the Healthy China initiative, promote the health and well-being of more patients, and treat more diseases. The Group also carefully coped with risks, seized opportunities, promoted the harmonious development of enterprises, employees, society and environment, ensured the implementation of its corporate mission, provided strong support for sustainable development, and created long-term value for itself and business partners. In addition, the Group has formulated an ESG governance strategy with "CARE" as its core, with Cure (treatment of diseases), Accessible (access to health care), Relationship (a win-win relationship), and Environmental (environmentally friendly) as the four-core areas of the Group's ESG management.

In 2022, under the guidance of its ESG philosophy and strategy, the Group took into full account the concerns of all key stakeholders and commenced the systematic management of important ESG issues such as innovation and R&D, product quality and safety, access to health care, business ethics, talent development, climate change management, and anti-corruption. Substantial progress has been made in this regard, including but not limited to ensuring the effective operation of a full-lifecycle quality control system. Also, the Group and member companies have had no material quality violation and product recall issues during the year. Moreover, it has continued to build an environmentally friendly enterprise, and many key member companies have been honored with the "Green Factory" title at either the national or

provincial level. In addition, the Group has actively responded to the dual-carbon goals of the country and launched the "Sino Biopharm Carbon Neutrality Planning Project", which has completed carbon footprint verification on key member companies and the Group is expected to release its carbon neutrality path planning and implementation schemes in mid-2023. Still other accomplishments by the Group include fulfilling its responsibilities as a core enterprise in the industry chain and collaborating with partners to build responsible supply chains; creating a diverse, inclusive, harmonious and energetic workplace environment; and formulating talent development plans and building an all-round talent cultivation mechanism. The Group has also been named "2022 Aon China Best ESG Employer" and "2022 HRA China Best Employer" during the year.

While constantly raising its ESG governance standard, the Group has continued to uphold the value of "benefit the country, benefit the general public and benefit the enterprise" and believes that giving back to the society is one of the most important missions. During the reporting period, the Group devoted itself to anti-epidemic work, rural revitalization, donation for education, disaster relief and charity, and actively contributing to the construction of a harmonious society.

The Group believes that high ESG governance standards are important as they provide the foundation for promoting quality development and creating long-term values for the Group and its partners from various sectors. Details of the Group's ESG governance in 2022 will be presented in the ESG report to be published later.

Corporate Governance Report

Sino Biopharmaceutical Limited is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all shareholders and enhances corporate value and accountability.

For the year ended 31 December, 2022, the Company has applied the principles of and complied with all the Code Provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), except for the deviation from Code Provisions F.2.2 and C.1.6 in relation to attendance of the annual general meeting of the Company (the “**AGM**”) by the chairwoman of the board of directors (the “**Board**”) and Independent Non-executive Directors (“**INED(s)**”) of the Company. The chairwoman of the Board and two INEDs participated in the AGM held on 6 June, 2022 by electronic means, although they were not counted towards the quorum of the meeting due to restrictions of the then effective articles of association of the Company (the “**Articles**”) on holding general meetings as hybrid or electronic meetings. The other two INEDs were unable to attend the AGM due to their other business engagements.

This report describes our corporate governance code and explains the application of the CG Code and any deviation from the CG Code, if any. For information relating to the Company’s environmental and social performance, please refer to the Company’s 2022 Environmental, Social and Governance Report separately posted on the websites of the Company and The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

A. BOARD OF DIRECTORS

THE BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with particular attention paid to the financial performance and sustainable development of the Group.

Adhering to its principle of “Benefiting the country, Benefiting the people, and Benefiting the enterprise”, the Company has always focused on innovation and provision of services to patients, committed to becoming a global leader in pharmaceuticals. These principle and vision are the basic principles and directions for governing the daily work of employees at all levels of the Company, running through every part of the Company’s business. Always acting with integrity and leading by example, the Board keeps promoting the construction and improvement of a core values, cultural ethos, and actions oriented, multidimensional cultural system, to foster a corporate atmosphere of integrity, foresight, innovation, commitment, efficiency, and collaboration. This cultural system is to enhance the innovativeness and sense of belonging and responsibility of employees, facilitating the achievement of the Company’s strategic development objectives.

The Company has a rigorous and ongoing strategic planning process to identify and assess the risks and opportunities that it might face and to develop a planned course of action to generate sustainable long-term value for its shareholders. Details of the implementation of the Company’s strategic initiatives and priorities in 2022 are available in the “Chairwoman’s Statement” and “Management Discussion and Analysis” sections of this annual report.

Corporate Governance Report

The Board has determined that certain matters such as strategic planning, significant transactions and annual budget should be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board has delegated its responsibilities to senior management to deal with day-to-day operations and reviewed those arrangements on a periodic basis. Management then reports back to the Board and obtains prior approval before making decisions for key matters or entering into any material commitments on behalf of the Company. The Board has conducted regular review on the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time performing them.

To maximise the efficiency of the Board and to encourage active participation and contribution by Board members, the Board has established an Executive Board Committee (the "EBC"), the Audit Committee (the "AC"), the Remuneration Committee (the "RC"), the Nomination Committee (the "NC"), and the Environmental, Social and Governance Committee (the "ESGC") with specific terms of reference, which are on terms no less exacting than those set out in the CG Code, to assist in the execution of their duties. The written terms of reference of the committees are reviewed and amended, if necessary, from time to time on the committees' structure, duties and memberships, and those of each of the AC, the RC and the NC have been posted on the websites of the Company and the Stock Exchange.

The Company Secretary shall, where appropriate and necessary, attend all meetings of the Board/committees to advise on corporate governance, and statutory compliance matters. All directors have access to the Company Secretary who is responsible for the Company's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Securities and Futures Ordinance, Companies Ordinance and other applicable laws, rules and regulations.

All directors are given opportunities to include matters to be discussed in the agenda of the Board/committees meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are also convened when they are considered necessary. Directors are encouraged to participate actively either in person or through electronic means of communications. Notices of regular Board/committees meetings were given at least 14 days before the date of meeting. For all other Board/committees meetings, reasonable notices were given.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least 3 days before the date of the scheduled meeting. Where queries are raised by directors, response should be given as promptly and fully as possible within a reasonable time.

Minutes of the Board/committees meetings are recorded in details for the matters considered by the participants of such meetings and the decisions reached, including concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or Secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Corporate Governance Report

Directors are provided with complete and adequate explanation and information on a timely basis to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities. The directors, in order to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company. Sufficient time are allowed for discussion of key issues in Board meetings and directors with different views are encouraged to voice their concerns to ensure that the necessary checks and balances consistent with sound corporate governance practices are in place.

If a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a physical Board meeting and the interested director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. INEDs who have no interests in the transaction shall be present at that Board meeting.

BOARD COMPOSITION

As at 31 December, 2022, the Board consisted of a total of seven executive directors, including the Chairwoman and the Chief Executive Officer ("CEO"), and five INEDs.

Position	Name
Chairwoman	: Ms. Tse, Theresa Y Y
Executive directors	: Mr. Tse Ping
	: Ms. Cheng Cheung Ling
	: Mr. Tse, Eric S Y (CEO)
	: Mr. Tse Hsin
	: Mr. Tian Zhoushan
	: Ms. Li Mingqin
INEDs	: Mr. Lu Zhengfei
	: Mr. Li Dakui
	: Ms. Lu Hong
	: Mr. Zhang Lu Fu
	: Dr. Li Kwok Tung Donald

The attributes, skills and expertise among the Board members have a balanced mix of core competencies in areas such as pharmaceutical, accounting and finance, business and management and marketing strategies.

INEDs constituting more than one-third of the total number of the Board members have contributed valuable independent views and judgement for the Board's deliberation and decisions. Such independent views and judgement carry weight in the Board's decision-making process. The presence and participation of the INEDs enables the Board to maintain high standard of compliance in financial and other statutory reporting, and provide adequate checks and balances to safeguard the interests of the Company and its shareholders. The INEDs are highly skilled professionals with a broad range of expertise and experience in the fields of accounting and finance, business, and medicine, and they meet the requirements of independence under the Listing Rules. The Board has received from each of them a confirmation of independence as required by the Listing Rules. For the year ended 31 December, 2022, the Board is of the view that adequate independent views and input were available to the Board, based on the results of an annual review conducted by the Board.

Corporate Governance Report

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and actively participating in committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of results.

CORPORATE GOVERNANCE FUNCTIONS

The Board shall be responsible for the following functions:

- developing and reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring training and continuous professional development of directors and senior management;
- reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;
- reviewing the Company's compliance with the CG Code, including disclosure in the Corporate Governance Report;
- developing and reviewing the code of conduct and compliance manual, if any, applicable to employees and directors;
- doing any such things to enable the Board committees to discharge their duties and functions;
- conforming to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation; and
- considering and making recommendations on any other corporate governance issues.

Corporate Governance Report

CHAIRWOMAN AND CHIEF EXECUTIVE

The CG Code Provision C.2.1 stipulates that the roles of Chairwoman and chief executive should be separate and should not be performed by the same individual. Ms. Tse, Theresa Y Y served as the Chairwoman throughout the year under review, and Mr. Tse, Eric S Y took over the position of CEO after Mr. Li Yi resigned as the CEO since 28 July, 2022.

The Chairwoman is responsible for overseeing the operations of the Board and formulating overall strategies and policies of the Company, and focuses on international business development and capital market operations of the Company. The Chairwoman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

The CEO is responsible for managing the Group's business and operations, and focuses on operations improvement, organizational optimization and efficiency enhancement of all subsidiaries of the Group.

The relationship of each of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y with other members of the Board is provided in the Directors and Senior Management Profile section on pages 54 to 59 of this annual report.

APPOINTMENT, RE-ELECTION AND REMOVAL

The Company has formal and proper procedure for consideration of the appointment of new directors to the Board and the resignation of any director.

The Executive Directors have not been appointed for a specific term while each of the INEDs has been appointed for a term of two years. All Directors shall be subject to retirement by rotation and re-election at the AGM in accordance with the Articles, the laws of the Cayman Islands and the Listing Rules so far as the same may be applicable. The Articles provide that (i) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (ii) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself/herself for re-election. The retiring directors shall be those who have been longest in office since their last re-election or appointment.

The name and biographical details of the directors who will offer themselves for re-election at the forthcoming AGM are set out in a circular accompanying the notice of meeting, which will be despatched together with the annual report, to assist shareholders in making an informed decision on their elections. None of the INEDs who are proposed for re-election at the AGM have served the Company for more than nine years.

Corporate Governance Report

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors

Newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her responsibilities and obligations under the Listing Rules and other relevant regulatory requirements.

Pursuant to CG Code Provision C.1.4, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year under review, all directors, being nine Executive Directors, namely Ms. Tse, Theresa Y Y, Mr. Tse Ping, Ms. Cheng Cheung Ling, Mr. Tse, Eric S Y, Mr. Tse Hsin, Mr. Tian Zhoushan, Ms. Li Mingqin, Mr. Li Yi and Mr. Wang Shanchun, and five INEDs, namely Mr. Lu Zhengfei, Mr. Li Dakui, Ms. Lu Hong, Mr. Zhang Lu Fu and Dr. Li Kwok Tung Donald, have participated in continuous professional development by reading relevant materials on the topics related to regulatory updates and corporate governance and obtained monthly updates on the financial performance and financial position of the Company.

Company Secretary

The Company Secretary is responsible for facilitating the Board process, as well as communications among the Board members, shareholders and management. Mr. Chan Oi Nin Derek serves as the Company Secretary. He is a full-time employee of the Company and possesses the professional qualifications as required under Rule 3.28 of the Listing Rules. Mr. Chan, aged 55, has over 20 years of work experience in the fields of accounting, auditing and company secretary and before joining the Company, was the company secretary of another company listed on the Stock Exchange. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants, and received a Bachelor of Science degree from the Chinese University of Hong Kong in 1989 and an MBA degree from Monash University in 1995. He has taken no less than 15 hours of relevant professional training during the year under review to update his knowledge and skills in compliance with Rule 3.29 of the Listing Rules.

COMMITTEES

The AC was established on 19 September, 2000. The EBC and the RC were established in October, 2005, and the NC and the ESGC was set up on 30 March, 2012 and 31 August, 2021, respectively.

Executive Board Committee

During the year ended 31 December, 2022, the EBC consisted of Ms. Tse, Theresa Y Y as chairwoman and Mr. Tse Ping, Ms. Cheng Cheung Ling, Mr. Tse, Eric S Y, and Mr. Tse Hsin as members.

The EBC meets as and when required to oversee the day-to-day management of the Group.

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restrictions.

Corporate Governance Report

Remuneration Committee

Mr. Zhang Lu Fu served as the chairman and Mr. Lu Zhengfei and Ms. Lu Hong served as members of the committee.

The principal functions of the RC include:

- recommending to the Board on the policies and structure of the remuneration of directors of the Company and senior management of the Group;
- recommending to the Board on the remuneration packages of individual executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing the compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring that no director or any of his/her associates are involved in deciding his/her own remuneration.

The RC held one meeting during the year to discuss and review the basis of the remuneration policies and packages of the directors of the Company and senior management of the Group. Emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions.

Information relating to the remuneration of each director for the year under review is set out in note 9 to the financial statements of this annual report.

Audit Committee

The AC consisted of Mr. Lu Zhengfei as chairman, and Mr. Li Dakui, Ms. Lu Hong, and Dr. Li Kwok Tung Donald as members. The members together have sufficient accounting and financial management expertise and legal and business experience to discharge their duties.

The major duties and responsibilities of the AC are set out clearly in its terms of reference, which include:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditors;
- discussing with external auditors the independence and reporting obligations of auditors and the nature and scope of audit before the audit commences;
- monitoring the integrity of financial statements and reviewing the interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;

Corporate Governance Report

- considering any findings of major investigations for internal control matters as delegated by the Board or on its own initiative and management's response;
- reviewing external auditors' management letter or any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response, and ensuring that the Board will provide a timely response to the issues raised; and
- discussing with management to ensure that management has reviewed if there is adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

The AC performed the following work during the year under review:

- met with management and external auditors to review and discuss the financial statements for the year ended 31 December, 2022;
- reviewed with management the unaudited financial statements for the six months ended 30 June, 2022;
- met with external auditors to review the external auditors' plan for statutory audit and engagement letter;
- recommended to the Board, for the approval by shareholders, of the re-appointment of auditors;
- reviewed the findings and recommendations of the internal audit department on the operations and performance of the Group;
- reviewed the risk management and internal control systems of the Group and the effectiveness of the Group's internal audit function; and
- discussed with management to ensure that the Board had conducted an annual review such that there was adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions.

Corporate Governance Report

Nomination Committee

The NC consisted of Ms. Tse, Theresa Y Y as chairwoman and Mr. Tse Ping, Mr. Lu Zhengfei, Ms. Lu Hong, Mr. Zhang Lu Fu, and Dr. Li Kwok Tung Donald as members.

The NC has set out in its terms of reference the major duties and responsibilities as follows:

- formulating a formal and transparent procedure for developing nomination policies for approval by the Board, which shall take into consideration factors such as skills, knowledge, experiences, length of service, description of the role and capabilities required for a particular appointment;
- reviewing the structure, size and composition (including the mix of skills, knowledge, experience and length of service and diversity needed) of the Board at least annually; and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- making recommendation to the Board on formulation of the board diversity policy and reviewing the policy from time to time to ensure its continued effectiveness;
- establishing guidelines for the recruitment of the chief executive and senior management and identifying leadership needs of and succession planning for the Company in relation to both directors and other senior executives;
- identifying individuals suitably qualified to become board members or make recommendations to the Board on the selection of individuals nominated for directorship. Academic and professional qualifications, business experience, expertise and knowledge as well as other requirements under the Listing Rules will be assessed to determine whether the nomination is suitable;
- assessing the independence of the INEDs and reviewing the INEDs' annual confirmations on their independence;
- making recommendations to the Board on the re-appointment of any INED at the conclusion of his/her specified term of office; and
- making recommendations to the Board on matters relating to any actual or potential conflict of interests of directors (including prohibition of voting by the interested director).

During the year under review, no physical meeting of the NC was held. However, by way of exchanging correspondence and reviewing the relevant documents, the NC had (i) reviewed the structure, size and composition of the Board as well as the effectiveness of the implementation of the Company's board diversity policy, (ii) assessed the independence of all INEDs and reviewed the annual confirmation of independence provided by the INEDs, and (iii) reviewed the profiles and contributions of the retiring directors and made recommendation to the Board regarding re-election of directors.

Corporate Governance Report

Environmental, Social and Governance Committee

The ESGC consists of Ms. Cheng Cheung Ling as chairwoman and Ms. Li Mingqin and Dr. Li Kwok Tung Donald as members.

The major duties and responsibilities of the ESGC are set out in its terms of reference, which include:

- proposing and recommending to the Board on the Company's ESG and sustainability objectives, strategies, priorities, initiatives, goals and targets;
- overseeing, reviewing and evaluating actions taken by the Group in furtherance of the ESG and sustainability priorities, goals and targets, including coordinating with the business units and operating subsidiaries of the Company and ensuring that their operations and practices adhere to the relevant priorities and goals;
- reviewing and reporting to the Board on ESG and sustainability risks and opportunities, and monitoring, evaluating and reviewing emerging ESG and sustainability-related issues, trends and best practices that could impact the business operations and performance of the Group;
- considering the impact of the Company's ESG and sustainability on its stakeholders, including employees, shareholders, local communities and the environment; and
- reviewing and advising the Board on the Company's public communication, disclosure and publications (including the ESG Report) regarding its ESG and sustainability performance.

During the year under review, the ESGC guided and oversaw the work of the ESG Work Management Committee to continuously improve the Company's ESG risk response and internal management systems and organize the implementation of the Board's ESG strategies and requirements. The Company has formulated the "CARE" ESG governance strategy, with "Cure, Accessibility of drugs, Relationship, and Environmental friendliness" as its four core directions, promoting the organic integration of ESG visions and development strategies of the Company on an ongoing basis. Moreover, the Company has established the "Ten Specific ESG Measures for the Year" including ESG report publication, climate-change risk management, digital platform construction and community investment. With the various ESG tasks effectively implemented, the overall ESG management standard and performance of the Company improve steadily.

BOARD DIVERSITY POLICY

The board diversity policy of the Company sets out the approach for achieving diversity of the Board, including but not limited to the appropriate balance of skills, experience and diversity of perspectives that are required to support the attainment of the Company's strategic objectives and the sustainable development of the Company. Board diversity is regarded by the Company as an essential component for wider and more comprehensive corporate governance framework.

Corporate Governance Report

The NC of the Company may make recommendations to the Board for identifying the necessary criteria when considering appointment of new directors of the Company. Selection of appropriate candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the anticipated merit and contribution that the selected candidate will bring to the Board.

The NC has reviewed annually the Company's diversity profile including the gender distribution of directors and other measurable objectives to ensure the continued effectiveness of the board diversity policy of the Company. The current composition of the Board is characterized by a balanced mix of gender (8 males and 4 females), age (ranging from in his 20s to in their 70s) and professional experience, and succession for directors in particular the chairman and the chief executive has also been carried out as planned. The NC shall make recommendation to the Board on adjustments for the board diversity policy if necessary to ensure the policy best suits the needs of the Company. For details of the Group's workforce diversity, please refer to the 2022 Environmental, Social and Governance Report of the Company.

BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board held five meetings in 2022. Details of the attendance of individual director at the Board meetings, committee meetings and general meeting during the year under review are set out below:

Directors	Number of meeting(s) attended/held			Annual General Meeting
	The Board	Audit Committee	Remuneration Committee	
Executive Directors				
Ms. Tse, Theresa Y Y	5/5	N/A	N/A	0/1
Mr. Tse Ping	5/5	N/A	N/A	0/1
Ms. Cheng Cheung Ling	5/5	N/A	N/A	1/1
Mr. Tse, Eric S Y	5/5	N/A	N/A	0/1
Mr. Tse Hsin	5/5	N/A	N/A	0/1
Mr. Tian Zhoushan	3/5	N/A	N/A	0/1
Ms. Li Mingqin	5/5	N/A	N/A	0/1
Mr. Li Yi (resigned on 28 July, 2022)	2/2	N/A	N/A	0/1
Mr. Wang Shanchun (resigned on 2 November, 2022)	0/4	N/A	N/A	0/1
Independent Non-executive Directors				
Mr. Lu Zhengfei	5/5	2/2	1/1	0/1
Mr. Li Dakui	4/5	2/2	N/A	0/1
Ms. Lu Hong	4/5	2/2	1/1	0/1
Mr. Zhang Lu Fu	5/5	2/2	1/1	1/1
Dr. Li Kwok Tung Donald	4/5	1/2	N/A	0/1
Number of meeting(s)	5	2	1	1

Corporate Governance Report

SECURITIES TRANSACTIONS BY DIRECTORS AND OFFICERS

The Company has adopted a code of conduct regarding securities transactions by directors and senior management/employees (the “Code”) on terms no less exacting than the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry of all directors, it was confirmed that for the year under review, all directors complied with the required standard set out in the Model Code and the Code regarding securities transactions by directors adopted by the Company.

Management/employees as defined in the Code who because of their employment possess any inside information at any time are prohibited from dealing in securities of the Company to the same extent as directors.

INSURANCE COVER FOR DIRECTORS’ LIABILITIES

The Company has arranged directors’ and officers’ liability insurance for all directors and senior officers against legal liability arising from their performance of duties. The insurance coverage is reviewed on an annual basis.

REMUNERATION OF SENIOR MANAGEMENT

There were 5 employees classified as senior management for the year ended 31 December, 2022. The details of the remuneration of senior management were disclosed as below:

	Amount of remuneration for the year			Total number
	RMB1,000,001 – RMB1,500,000	RMB1,500,001 – RMB2,000,000	Above RMB2,000,000	
Number of senior management	1	1	3	5

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and the Group, with supporting assumptions or qualifications as necessary. The directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Company’s position and prospects when the Company extends financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

Corporate Governance Report

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the Group's assets.

An internal audit department has been established to review major operational and financial systems of the Group on a continuing basis and it aims to cover all significant functions within the Group in each financial year. The scope of the internal audit department's review and the audit programmes have been approved by the Audit Committee. The department reports directly to the Audit Committee and the Chairwoman of the Board, and submits regular reports for their review in accordance with the approved programmes. For the year ended 31 December, 2022, the directors had conducted an annual review of the effectiveness of the Group's systems of risk management and internal control covering all material functions, including finance, operations, and compliance. Based on the results of the review, the directors considered that such systems were effective and adequate.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business unit with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval by the directors are required for unbudgeted expenditures prior to commitment.

The Board had also conducted a review of and was satisfied with the findings on the adequacy of resources, qualifications and experience, training programmes and budget of staff of the Group's accounting and financial reporting functions for the year under review.

INTEGRITY AND GOOD FAITH

The Company is committed to strict compliance with the relevant laws and regulations of China. It continuously enhances its compliance performance and business ethics management through the formulation and implementation of strict business ethics regulations and internal monitoring procedures.

The Company has formulated and implemented the "Anti-commercial Bribery Regulations", pursuant to which all employees of the Group as well as business partners who have business dealings with the Group are required to perform their duties with integrity and good faith, and any acts of commercial bribery are strictly prohibited. The Group has clearly defined the range and scope of prohibited behaviour and commercial bribery, and prohibits its employees from using financial or other means to bribe any entities or individuals in order to seek business opportunities or competitive advantages. The Group has also formulated detailed anti-corruption measures and controls in areas such as product sales, invoicing, personnel employment, and communication with third parties. For employees who violate the anti-corruption rules and regulations, the Group will make appropriate punitive actions against them or even transfer those suspected of violating the law to the public security authorities depending on the circumstances.

Corporate Governance Report

The whistle-blowing process is expressly provided for in the anti-bribery regulations of the Group. If any violation of the regulations is found, it should be reported to the department responsible for compliance in time and the relevant supporting materials should be provided. The Group has established a sound internal investigation mechanism to conduct comprehensive investigation into the reported violations or any compliance risks discovered in regular audit assessments, and the Group shall take corresponding punitive and control measures and rectify the internal control loopholes found in the investigation in a timely manner, in order to continuously enhance the Group's anti-corruption management standard. The legitimate rights of the whistleblowers are under reasonable protection by the anti-bribery regulations.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors is set out as follows:

	Fee paid/ payable for the year (RMB'000)
Services rendered	
Audit services	6,000
Non-audit services	40

C. RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, results announcements, other announcements and circulars made through the Company's and Stock Exchange's websites.

The Company has established a comprehensive communication policy with shareholders to ensure that shareholders are provided with timely access to the balanced and understandable information about the Company. The policy has been reviewed annually by the Board to ensure its effectiveness. Based on the results of the review, the process of which included collating feedback from various stakeholders such as shareholders, investors and analysts, the Board considered that the policy was effective and adequate. A copy of the policy is available on the Company's website for public reference.

AGM or other general meetings of the Company provide a useful forum for shareholders to exchange views with the Board. The Chairwoman of the Board as well as the chairmen of the AC and/or RC, or in their absence, members of the committees or senior management of the Company shall be available to answer shareholders' questions. The chairman of the independent board committee shall also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

Corporate Governance Report

During the year under review, at the 2022 AGM, directors were present at the meeting and answered questions raised by shareholders. A representative from the external auditors, Messrs. Ernst & Young, also attended the 2022 AGM and was available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditors' report. All resolutions at the 2022 AGM were passed by way of poll and the notice of the AGM was sent to shareholders at least 20 clear business days before the meeting.

SHAREHOLDERS' RIGHT

Convening Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

Pursuant to article 58 of the Articles, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business or resolution specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

Pursuant to article 88 of the Articles, no person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company provided that the minimum length of the period, during which such notice(s) are given, shall be at least 7 days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

Accordingly, if a shareholder of the Company wishes to nominate a person to stand for election as a director, the following documents must be validly served on the Company, namely: –

- a notice of intention to propose a resolution; and
- a notice signed by the nominated candidate of his willingness to be elected together with the candidate's information required to be disclosed under Rule 13.51(2) of the Listing Rules and the candidate's written consent to the publication of his personal data together with the certified true copies of identification card or passport, residential address proof and education certificates.

Corporate Governance Report

CONSTITUTIONAL DOCUMENTS

During the year, the Company amended its Articles, the details of which were set out in the announcement dated 25 April, 2022 and the circular dated 29 April, 2022 of the Company. The amendments to the Articles were approved by shareholders at the annual general meeting of the Company held on 6 June, 2022. The latest version of the Articles is available for inspection on websites of the Company and the Stock Exchange.

DIVIDEND POLICY

The Company adopts a dividend policy of providing shareholders with stable and sustainable dividends. The dividend payment will be based on the Company's financial performance and cash flows, future capital requirements, general economic and business conditions, etc. Whilst the Company does not intend to set any pre-determined dividend distribution ratio in order to allow for financial flexibility, the Company endeavors to strike a proper balance between shareholders' interests and prudent capital management and aims to deliver sustainable dividends that are in line with earnings improvement and long-term growth of the Company.

ENQUIRIES TO THE BOARD

Enquiries may be put forward to the Board through the Company's head office at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company regularly releases latest corporate news of the Group on its website at www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

Report of Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December, 2022 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 67 to 162.

The payment for interim dividend of HK\$0.06 per ordinary share of the Company ("Share") or approximately HK\$1,108,964,000 (equivalent to approximately RMB951,133,000) in total was made during 2022.

The directors recommend the payment of a final dividend of HK\$0.06 per Share in respect of the year ended 31 December, 2022 to shareholders on Monday, 17 July, 2023.

The proposal for the distribution of the final dividend above is subject to the consideration and approval of the shareholders at the forthcoming annual general meeting of the Company ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:-

- (a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 12 June, 2023 to Thursday, 15 June, 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the attendance and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Friday, 9 June, 2023.
- (b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Friday, 23 June, 2023 to Wednesday, 28 June, 2023, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong by 4:30 p.m. on Wednesday, 21 June, 2023.

Report of Directors

BUSINESS REVIEW

A review of the business of the Group and analysis of the Group's performance during the year, including a description of the principal risks and uncertainties facing the Group and financial key performance indicators, is provided in the Chairwoman's Statement and Management Discussion and Analysis sections on pages 11 to 25 of this annual report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities, net assets and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000 (Restated)	2018 RMB'000 (Restated)
REVENUE	28,780,412	26,861,356	23,647,224	24,234,030	21,472,122
Cost of sales	(5,795,510)	(5,332,095)	(5,182,320)	(4,926,268)	(4,291,133)
Gross profit	22,984,902	21,529,261	18,464,904	19,307,762	17,180,989
Other income	768,055	807,013	793,205	857,156	877,557
Other (losses)/gains, net	(258,733)	251,694	469,054	(79,456)	(147,949)
Selling and distribution costs	(10,359,310)	(10,518,393)	(8,972,635)	(9,319,541)	(8,277,054)
Administrative expenses	(2,204,697)	(2,185,234)	(2,655,926)	(2,477,418)	(2,252,313)
Other operating expenses	(4,559,579)	(4,633,841)	(2,758,957)	(2,479,346)	(2,261,656)
<i>Including: Research and development costs</i>	(4,253,154)	(3,677,259)	(2,626,709)	(2,398,712)	(2,124,040)
Finance costs	(439,058)	(308,617)	(323,368)	(229,950)	(151,476)
Share of profits and losses of associates and a joint venture	(152,976)	13,630,790	(3,233)	111,385	(63,902)
PROFIT BEFORE TAX	5,778,604	18,572,673	5,013,044	5,690,592	4,904,196
Income tax expenses	(775,986)	(1,957,880)	(672,377)	(902,747)	(748,725)
PROFIT FOR THE YEAR	5,002,618	16,614,793	4,340,667	4,787,845	4,155,471
Attributable to:					
Owners of the parent	2,543,570	14,608,412	2,771,086	2,761,542	2,390,096
Non-controlling interests	2,459,048	2,006,381	1,569,581	2,026,303	1,765,375
	5,002,618	16,614,793	4,340,667	4,787,845	4,155,471
TOTAL ASSETS	64,064,284	60,543,337	47,210,438	37,514,192	29,031,350
TOTAL LIABILITIES	(26,120,736)	(22,814,314)	(24,790,880)	(16,953,010)	(11,252,131)
NET ASSETS	37,943,548	37,729,023	22,419,558	20,561,182	17,779,219
NON-CONTROLLING INTERESTS	(8,196,513)	(7,437,907)	(5,672,398)	(5,611,937)	(4,757,776)

Report of Directors

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital and share options (if any) during the year, together with the reasons therefor, are set out in notes 33 and 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association ("Articles") or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December, 2022, the Company bought back a total of 22,727,000 Shares on The Stock Exchange of Hong Kong Limited ("Stock Exchange") at an aggregate consideration of approximately HK\$99.56 million before expenses. The bought back Shares were subsequently cancelled. Further details are set out as follows:

Month	Number of Shares bought back	Purchase consideration per Share		Consideration paid HK\$
		Highest HK\$	Lowest HK\$	
February	5,500,000	5.21	5.21	28,655,000
April	11,000,000	4.31	4.14	46,613,000
May	4,900,000	3.90	3.88	19,109,020
September	1,327,000	3.93	3.87	5,183,490

Pursuant to the rules of the share award scheme adopted by the Company on 5 January, 2018 (the "2018 Share Award Scheme"), the trustee of 2018 Share Award Scheme purchased on the Stock Exchange a total of 228,945,000 Shares at a total consideration of approximately HK\$930,794,000 during 2022.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in notes 35 and 45 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of Directors

DISTRIBUTABLE RESERVES

At 31 December, 2022, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, and after taking into account for the proposed final dividend of approximately 980,519,000 (2021: approximately 623,338,000), amounted to approximately 6,766,746,000 (2021: approximately RMB7,208,698,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group strives to implement its environment friendly policies through efficient use of resources and active adoption of measures to reduce environmental impacts. An environment, health and safety management system has been established to conduct environmental impact assessment of new production facilities at the major subsidiaries of the Company. During the production process, the Group has implemented procedures on energy conservation, emission reduction, waste water and solid waste disposal for environmental protection. The Group has also encouraged its staff to be environment friendly by consuming electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Through such policies and compliance with applicable environmental laws and regulations, the Group continues to improve its environmental performance to achieve sustainable development.

Please refer to the Company's 2022 Environmental, Social and Governance Report separately posted on the websites of the Company and the Stock Exchange for further details of the Company's environmental and social performance.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that stakeholder interests play a key role in its sustainable business operation and has maintained effective communications with its key stakeholders, including customers, suppliers and employees to strengthen relationships and co-operations for the long-term development of the Group.

The customers of the Group comprise distributors and hospitals. The Group actively promotes and obtains feedback on its products by organizing seminars and new product launching conferences. After-sale services are provided through telephone consultation and complaint handling. The Group is devoted to the provision of quality products and services to promote long-term co-operation with its customers so as to increase market share and improve market competitiveness.

Report of Directors

The Group adopts a scientific approach in managing its suppliers through a standardized supplier management system with improved procurement tender mechanism. Annual evaluation on suppliers is conducted to ensure that services and products procured meet the requirements of the Group.

Employees are considered as the most important and valuable assets of the Group. The objective of the Group's human resources management is to reward and recognize employees by providing competitive remuneration packages and implementing a sound performance evaluation system, and to promote career development and progression within the Group by providing adequate training and opportunities. A healthy, safe and happy working environment is also provided through the safety management system, cultural and sports activities and health examinations.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group operates its business through its subsidiaries in the PRC and accordingly, relevant laws and regulations in the PRC applicable for the research, development, manufacturing, sales and distribution of pharmaceutical products, including but not limited to the laws and regulations on quality, safety, production, environmental protection, intellectual property and labour, shall be complied with. In addition, as a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, the Company is governed by the Companies Act of the Cayman Islands, as well as the Listing Rules and the Securities and Futures Ordinance.

During the year ended 31 December, 2022, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business and operations.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ms. Tse, Theresa Y Y
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse, Eric S Y
Mr. Tse Hsin
Mr. Tian Zhoushan
Ms. Li Mingqin
Mr. Li Yi (resigned on 28 July, 2022)
Mr. Wang Shanchun (resigned on 2 November, 2022)

Independent non-executive directors:

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu
Dr. Li Kwok Tung Donald

In accordance with Article 87 of the Articles, Ms. Cheng Cheung Ling, Ms. Lu Hong, Mr. Zhang Lu Fu, and Dr. Li Kwok Tung Donald will retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Report of Directors

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to the independence guidelines under the Listing Rules and the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 54 to 59 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 39 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

At 31 December, 2022, the interests and short positions of each Director and chief executive 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company

Name of Director	Notes	Capacity/Nature of interest	Number of shares held, capacity and nature of interest			Approximate percentage of the Company's issued share capital
			Directly beneficially owned	Through controlled corporations	Total	
Ms. Tse, Theresa Y Y	(1)	Beneficial owner	-	2,279,254,761	2,279,254,761	12.11%
Mr. Tse Ping	(2)	Beneficial owner	161,618,000	1,459,785,124	1,621,403,124	8.62%
Ms. Cheng Cheung Ling	(3)	Beneficial owner	205,034,750	675,000,000	880,034,750	4.68%
Mr. Tse, Eric S Y	(4)	Beneficial owner	-	4,050,000,000	4,050,000,000	21.53%
Mr. Tse Hsin		Beneficial owner	174,247,000	-	174,247,000	0.93%
Dr. Li Kwok Tung Donald		Beneficial owner	71,000	-	71,000	0.00%

Report of Directors

Notes:

- (1) Ms. Tse, Theresa Y Y held 2,279,254,761 Shares through France Investment (China 1) Group Limited, 91.33% of the issued share capital of which is owned by Ms. Tse, Theresa Y Y.
- (2) Mr. Tse Ping held 1,459,785,124 Shares through Validated Profits Limited, the entire issued share capital of which is owned by Mr. Tse Ping.
- (3) Ms. Cheng Cheung Ling held 675,000,000 Shares through Chia Tai Bainian Holdings Limited, the entire issued share capital of which is owned by Ms. Cheng Cheung Ling.
- (4) Mr. Tse, Eric S Y held 2,362,500,000 Shares and 1,687,500,000 Shares through Thousand Eagles Limited and Remarkable Industries Limited, respectively. The entire issued share capital of each of the companies is owned by Mr. Tse, Eric S Y.

Long position in shares of associated corporations of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Approximate percentage of shareholding
Mr. Tse Hsin	CT Tianqing	Beneficial owner	229,250	0.18%
	NJCTT	Beneficial owner	26,583	0.53%

Saved as disclosed above, as at 31 December, 2022, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

PERSONS WHO HAVE AN INTEREST AND/OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2022, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under to Section 336 of the SFO were as follows:

Report of Directors

Long positions in shares and/or underlying shares

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Thousand Eagles Limited	(1)	Beneficial owner	2,362,500,000	12.56%
France Investment (China 1) Group Limited	(2)	Beneficial owner	2,279,254,761	12.11%
Remarkable Industries Limited	(1)	Beneficial owner	1,687,500,000	8.97%
Validated Profits Limited	(3)	Beneficial owner	1,459,785,124	7.76%

Notes:

- (1) Each of Thousand Eagles Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse, Eric S Y.
- (2) France Investment (China 1) Group Limited is an investment holding company owned as to 91.33% by Ms. Tse, Theresa Y Y.
- (3) Validated Profits Limited is an investment holding company wholly-owned by Mr. Tse Ping.

Save as disclosed above, as at 31 December, 2022, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed under the heading "Directors' and Chief Executives' interests and short positions in share, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights through any other body corporate.

CONTINUING CONNECTED TRANSACTIONS

The related party transactions as set out in note 39 to the financial statements are fully-exempt from annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules.

Report of Directors

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, the Directors are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules as at 31 December, 2022.

On 1 December, 2021, the Company as borrower entered into a facility agreement (the “2021 Facility Agreement”) with certain financial institutions for the grant of senior term loan and revolving credit facilities in an aggregate amount of USD1,000,000,000. Pursuant to the terms of the 2021 Facility Agreement, the Company has undertaken, among others, to ensure that certain shareholdings in the Company and control on the Board of the Company will be retained by Mr. Tse Ping, Ms. Cheng Cheung Ling, Ms. Tse, Theresa Y Y, and Mr. Tse, Eric S Y, all being Directors and/or substantial shareholders of the Company, and their respective family members. Details of these performance covenants were disclosed in the announcement of the Company dated 1 December, 2021.

CONVERTIBLE BONDS

On 17 February, 2020, the Company completed the issuance and listing of EUR750,000,000 zero coupon convertible bonds due 2025 (“Convertible Bonds”) by way of debt issues to professional investors only. The net proceeds from the Convertible Bonds were used by the Group for research and development expenditure, construction of manufacturing facilities, sales and marketing and general corporate purposes.

During 2022, Convertible Bonds having an aggregate principal amount of EUR222,768,000 were repurchased and cancelled by the Company in accordance with the terms and conditions of the Convertible Bonds, with principal amount of EUR489,732,000 of the Convertible Bonds remained outstanding at the year end. Following the payments of dividends by the Company during years 2021 and 2022, the conversion price of the Conversion Bonds was further adjusted successively from HK\$12.56 to HK\$12.41 per Share under the terms and conditions of the Convertible Bonds during the year. The maximum number of Shares issuable by the Company upon conversion of all the outstanding Convertible Bonds amounted to 339,888,214 Shares as at 31 December, 2022 while no conversion had ever been made up to that date.

Subsequent to the year end, upon request of the holders of the Convertible Bonds pursuant to the terms and conditions of the Convertible Bonds, the Company redeemed a principal amount of EUR487,582,000 in aggregate of the Convertible Bonds on 17 February, 2023. Following the cancellation of the redeemed Convertible Bonds, the outstanding principal amount of the Convertible Bonds was reduced to EUR2,150,000.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Details of the share option scheme and share award scheme adopted by the Company are set out in note 34 to the financial statements.

No share options had been granted to any participant under the share option scheme since its adoption up to the date of this report.

Report of Directors

The Company granted 8,577,623 restricted Shares in aggregate to a total of 10 Selected Participants at nil consideration Scheme on 13 June, 2022 under the 2018 Share Award Scheme. The restricted Shares vested immediately on the date of grant. The closing price of the Share immediately before the date of grant was HK\$4.23 per Share. Among the restricted Shares granted, 6,342,623 Shares were granted to Mr. Li Yi who was then an executive Director of the Company (and was one of the five highest paid individuals of the Company in 2022) and 2,235,000 Shares to employees of the Company. The grant of Restricted Shares to Mr. Li Yi constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. However, the grant of such Restricted Shares to Mr. Li Yi was made as a part of his remuneration package pursuant to the employment agreement entered into by the Company with Mr. Li Yi and accordingly, was exempt from reporting, announcement and independent shareholders' approval requirements under Rules 14A.73(6) and 14A.95 of the Listing Rules. Saved as disclosed above, no Shares have been awarded to any other Selected Participants pursuant to the 2018 Share Award Scheme since its adoption.

As at 31 December, 2022, 345,797,877 Shares were held on trust by the trustee responsible for administering the 2018 Share Award Scheme.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2022.

UNDERTAKING

Mr. Tse Ping has executed a deed of undertaking (the "Undertaking") in favour of the Company on 9 September, 2003 which has become effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange.

Pursuant to the Undertaking, Mr. Tse has undertaken to the Company that, conditional upon the commencement of trading in the Shares on the Main Board, for so long as (i) Mr. Tse, together with his associates, shall remain beneficially interested, directly or indirectly, in Shares with at least 30 per cent. of the voting rights of the Company (from time to time), and (ii) the Shares shall remain traded on the Main Board, neither Mr. Tse nor any of Mr. Tse's Companies (excluding for this purpose the Group) will, within the Territory (as defined below), carry on, become engaged or otherwise become interested (saved through Mr. Tse's interest in the Company) directly or indirectly in, any business which falls within the Restricted Business (as defined below); and

For the purpose of the Undertaking:-

"Mr. Tse's Company(ies)" refers to any of the companies or other entities of which more than 50 per cent. of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse or regarding which companies or entities Mr. Tse is entitled to control the board of directors or management body of similar nature;

Report of Directors

“Restricted Business” refers to:–

- (i) the R&D, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin diseases, modernized Chinese medicines, chemical medicines and modern health-care products for the medical treatment of hepatitis and angiopathy of cardio-cerebral; and
- (ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory diseases.

“Territory” refers to the PRC (including Hong Kong).

The Undertaking does not apply to the followings:–

- (i) the holding of shares or other securities issued by the Company or any of its subsidiaries from time to time;
- (ii) the holding of shares or other securities in any company which carries on, or is engaged or interested directly or indirectly in, any business which falls within the Restricted Business in the Territory, provided that such securities are listed on a stock exchange with regular trading and the total securities held by Mr. Tse and/or his associates do not amount to more than 20 per cent. of the issued shares or other securities of the company in question; and
- (iii) the investment by Mr. Tse and/or Mr. Tse’s Company in a business in the Territory which falls within the Restricted Business if the opportunity to invest in such business had been offered to and was either rejected by the Company or accepted in part by the Company on the basis of the investment in the balance being taken up by Mr. Tse or Mr. Tse’s company, in either case in accordance with paragraph below.

In the event that Mr. Tse or any Mr. Tse’s Company has identified an opportunity to invest (whether by way of the establishment of a new enterprise or the acquisition of existing interests in, or the injection of new capital into, an existing enterprise) in a business in the Territory which falls within the Restricted Business or any pharmaceutical related business in the Territory in which the Group is principally engaged from time to time (excluding any business in which Xian C.P. Pharmaceutical Co., Ltd. and/or Hainan Tigerlily Pharmaceutical Co., Ltd is/are engaged as at the date of the Undertaking) (the “Proposed Business”), Mr. Tse will undertake that he will procure that the said opportunity be first offered to the Company and that all relevant information relating to the Proposed Business in the possession of Mr. Tse and/or any Mr. Tse’s Company shall be provided to the Company. The independent non-executive Directors shall have the right on behalf of the Company to determine whether the Group should:–

- (i) reject the said opportunity in its entirety; or
- (ii) accept the said opportunity in full and proceed with the participation in the Proposed Business; or
- (iii) accept the said opportunity in part only on condition that, subject to compliance with any applicable requirements of the Listing Rules, Mr. Tse (including through a Mr. Tse’s Company) takes up the balance of the investment upon terms approved by the independent non-executive Directors.

Report of Directors

EMOLUMENT POLICY

Including the Directors, the Group had 26,272 employees as at 31 December, 2022. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as employee share incentive schemes.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company has taken into consideration of their expertise and job specifications.

DONATION

During the year ended 31 December, 2022, the donation of the Group amounted to approximately RMB66.65 million.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

Tse, Theresa Y Y
Chairwoman

Hong Kong
31 March, 2023

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Ms. Tse, Theresa Y Y (謝其潤女士), aged 30, is the chairwoman of the Board, an executive director, and the chairwoman of the executive board committee and the nomination committee of the Company. Ms. Tse is also a director of CT Tianqing and the vice chairwoman of Beijing Tide. Ms. Tse was a member of the first and second board of directors of Beijing Chia Tai Charity Foundation. She holds a Bachelor Degree of Science in Economics from the Wharton School of University of Pennsylvania. As a new generation business leader, Ms. Tse was recognised as one of the “Most Outstanding Business Women in China” by Forbes China online for four consecutive years from 2018 to 2021.

Ms. Tse is the daughter of Mr. Tse Ping and Ms. Cheng Cheung Ling, executive directors of the Company, the sister of Mr. Tse, Eric S Y, an executive director and a substantial shareholder of the Company, and a niece of Mr. Tse Hsin, an executive director of the Company.

Mr. Tse Ping (謝炳先生), aged 71, is the founding chairman of the Company and now serves as the senior vice chairman of the Board, an executive director, and a member of the executive board committee and nomination committee of the Company. Mr. Tse has more than 30 years of extensive experience of investment and management in the pharmaceutical industry in China. Mr. Tse is currently a director of CT Tianqing, Beijing Tide, NJCTT, Jiangsu CT Fenghai, Jiangsu CT Qingjiang, and CP Qingdao, and the chairman of Chia Tai Pharmaceutical Investment (Beijing) Co., Ltd. He is also a senior vice chairman of Chia Tai Group, the chairman of CP Pharmaceutical Group, and a director of Shanghai Fortune World Development Co., Ltd., Tianjin Chiatai Feed Tech Co., Ltd., SYN Energy Technology Co., Ltd., and Chia Tai Oversea Chinese Realty Development Co., Ltd.

Soon after the adoption of the open-up and reform policy by China, Mr. Tse started to develop his investment and business in China. He has been engaged in the pharmaceutical industry since 1991, having made equity investments in a dozen or so enterprises, and is one of the most successful overseas investors in the PRC pharmaceutical industry. Led by Mr. Tse, CP Pharmaceutical Group has developed to a large integrated life and healthcare enterprise, and its Hong Kong listed flagship Sino Biopharmaceutical Limited is a constituent of the Heng Seng Index, owning a number of national key high-technology enterprises. Adhering to the concept of technology innovation and building upon R&D system based on originality as well as imitation, the Group strives to develop international level, high-end biological drugs and innovative drugs and to achieve breakthroughs in different areas including medical services, medical equipment, and mergers and acquisitions, and becomes an innovation driven life and healthcare enterprise with its business encompassing the entire industry chain which spans from R&D to manufacture and sales of pharmaceutical products. Since incorporation, the Company continues to break its own record in terms of revenue and net profit, and was ranked one of the “Asia Fab 50 Companies” by Forbes Asia for three consecutive years from 2016 to 2018 and was included in American Magazine Pharm Exec’s “Top 50 Companies” for four consecutive years from 2019 to 2022.

Directors and Senior Management Profile

As a recognition for his efforts in promoting the development of the pharmaceutical industry in China, Mr. Tse was awarded a number of honours, including the prize of “World Outstanding Chinese” and an honorary Doctor Degree by the University of West Alabama, United States of America in January, 2008, and the “2007/2008 Asian Knowledge Management Association academician” granted by the Asian Knowledge Management Association in December, 2008.

Mr. Tse was a member of the Ninth, Tenth and Eleventh National Committee of the Chinese People’s Political Consultative Conference. He is currently an executive vice chairman of the China Overseas Chinese Entrepreneurs Association and a distinguished professor of University for Peace, UPEACE.

Mr. Tse is the father of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y, executive directors and substantial shareholders of the Company, and a first cousin of Mr. Tse Hsin, an executive director of the Company.

Ms. Cheng Cheung Ling (鄭翔玲女士), is one of the founders of the Company, and is currently the vice chairwoman of the Board, an executive director, a member of the executive board committee, and the chairwoman of the environmental, social and governance committee of the Company and the chairwoman of CP Qingdao. Ms. Cheng was born in 1964, graduated from the Guanghua School of Management of Peking University and obtained a Master Degree in Business Administration. She is also a clinician. Having extensive experience in and a discerning vision for management and investment in the pharmaceutical industry, she has made significant contribution to the business development of the Company in China and has also spared no effort in promoting innovation, R&D capabilities and international collaboration in the industry. When Ms. Cheng was at the helm of Beijing Tide, she advocated for innovations in R&D, production, sales, management, etc. and led Beijing Tide to step up its efforts in developing international collaboration, aiming at promoting rapid development of cutting-edge technologies for pharmaceutical industry in China. Riding on internationalization and innovation, Beijing Tide has achieved tremendous growth and become a leading company for the development, production and sales of targeted drugs in China under her leadership.

Over the years, Ms. Cheng is committed to facilitating communication and trade between the Mainland and Hong Kong, and has done remarkable work for the purposes of promoting national cohesion and attracting investments in the Mainland from Hong Kong. She is a devoted charity supporter, actively participating in and caring for community philanthropy. The distinguished community services provided by Ms. Cheng are well recognized by various domestic and overseas organisations. She has not only been appointed as a Justice of the Peace and awarded the Silver Bauhinia Star by the Government of Hong Kong SAR but also awarded by a number of organizations honours such as the 3rd session of “Sanqin Philanthropy Award (三秦慈善獎)” of Shanxi Province, “Bearer of Red Flag March 8 (三八紅旗手) of Shanxi Province”, the 4th session of “Jinghua Award (京華獎)” of Beijing, the 11th session of “Qindao Award (島琴獎)” of Qingdao City, and one of the “Top 10 Persons in Pharmaceutical Industry for 2022”. Public offices held by Ms. Cheng include the chairwoman of the Friendship Association of the Chinese People’s Political Consultative Conference (Hong Kong Provincial Committee), the chairwoman of the foundation of the Friendship Association of the Chinese People’s Political Consultative Conference (Hong Kong Provincial Committee), the president of the council of Hong Kong Belt & Road General Chamber of Commerce, a member of the Eighth, Ninth, Tenth, Eleventh, Twelfth and Thirteenth Standing Committees of the Shaanxi Province Chinese People’s Political Consultative Conference, a vice director of the Twelfth and Thirteenth Subcommittees of Hong Kong, Macao and Taiwan Compatriots and Overseas Chinese of the Shaanxi Province Chinese People’s Political Consultative Conference, the president of the General Association of Shaanxi Entrepreneurs, an executive vice chairwoman of the Beijing Overseas Chinese Chamber of Commerce, and a vice president of Beijing Federation of Industry & Commerce, etc.

She is the mother of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y, executive directors and substantial shareholders of the Company.

Directors and Senior Management Profile

Mr. Tse, Eric S Y (謝承潤先生), aged 27, is an executive director, a member of the executive board committee and the Chief Executive Officer of the Company. He is the chairman of CT Tianqing, the chairman of Beijing Tide and a director of NJCTT. He holds a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania and a master degree in Management and Global Leadership from Schwarzman College, Tsinghua University. Before joining the Company in June, 2018, Mr. Tse, Eric S Y served as the chief executive officer of Liepin North America, a reputable human resources company. Mr. Tse, Eric S Y founded the Penn Wharton China Summit during his time at university, and established the China Summit Foundation at the end of 2016. Currently, he is a member of the Beijing Municipal Committee of the Chinese People's Political Consultative Conference, a member of All-China Youth Federation, a vice president of Shanxi Province Youth Federation, a member of the Digital Economy Committee of APEC China Business Council, a presidium member of the Global Shapers of World Economic Forum, the vice director of the Technology Innovation Committee of Hong Kong Belt & Road General Chamber of Commerce, an executive vice president of Jiangsu Overseas Chinese Chamber of Commerce, a member of the Election Committee of the Seventh Legislative Council of the Hong Kong Special Administrative Region, a vice president of the Youth Federation of Hong Kong Political Consultative Conference, and a member of Y.Elites Association. He was awarded the “Top Ten Outstanding Chinese American Youth” in 2018 (the list of which was jointly selected by the All-America Chinese Youth Federation, the American Chinese Public Diplomacy Association, and the English “Los Angeles Post”) and recognized as one of the “Top Ten Outstanding Young Persons” of the 13th session of Lianyungang Municipal Award and an advanced person of the “Outstanding Contribution in Manufacture for Jiangsu Award”.

Mr. Tse, Eric S Y is the son of Mr. Tse Ping and Ms. Cheng Cheung Ling, executive directors of the Company, the brother of Ms. Tse, Theresa Y Y, an executive director and a substantial shareholder of the Company, and a nephew of Mr. Tse Hsin, an executive director of the Company.

Mr. Tse Hsin (謝忻先生), aged 53, is an executive director, a member of the executive board committee and a senior vice president of the Company. Mr. Tse Hsin is mainly responsible for mergers and acquisitions and financing activities of the Group. Mr. Tse Hsin graduated from the University of Hong Kong with a Bachelor's Degree (Honors) in Industrial Engineering. He joined the Group in August, 1995 as an assistant to the president of the Company and had served as the general manager of Xian C.P. Pharmaceutical Co., Ltd. Mr. Tse Hsin was a council member of the first council and an executive council member of the second council of Chaozhou Natives Chamber of Commerce Beijing. He was also an executive member of the Right Protection Association for the Medical Treatment Equipment Enterprises of the Shaanxi Province, a vice chairman of the fourth council of the Foreign Invested Enterprises Association of the Shaanxi Province, an executive member of the third committee of the Shaanxi Cancer Fighting Association and a vice chairman of the World Chinese Medicine and Pharmaceutical Professional Joint Committee. He was awarded the “Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province” by the Shaanxi Provincial Government and the “Outstanding entrepreneur who cares about his staff” by the Shaanxi Foreign Invested Enterprises Association. He was a director of CT Tianqing and Beijing Tide, and is currently a director of NJCTT, CP Qingdao, CP Boai Investment Ltd., and Chia Tai Yeheng Biotech (Shanghai) Co., Ltd., the chairman of Chia Tai Shaoyang Orthopedic Hospital, and a supervisor of CT Tianqing.

He is an uncle of Ms. Tse, Theresa Y Y and Mr. Tse, Eric S Y, executive directors and substantial shareholders of the Company, and a first cousin of Mr. Tse Ping, an executive director of the Company.

Directors and Senior Management Profile

Mr. Tian Zhoushan (田舟山先生), aged 59, joined the Group in April, 1997 and is responsible for the business of NJCTT. Mr. Tian is currently the president of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the head of production, the assistant to the president, and the vice president of CT Tianqing, and has over 30 years of experience in the pharmaceutical industry.

Ms. Li Mingqin (李名沁女士), aged 64, is currently a senior vice president of the Company and a director of Beijing Tide, Jiangsu CT Qingjiang, Shanghai Tongyong, Chia Tai Shaoyang Orthopedic Hospital, and CP Boai Investment Ltd., and is principally responsible for the BD (business development) affairs of the Group. Ms. Li graduated from the Faculty of Medicine of Beijing Chinese Medicine University with a Bachelor Degree in medicine. Prior to joining the Company, Ms. Li had worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in teaching of medicines, development of new medicines and medicine management. During the period from 1992 to 1995, Ms. Li had been engaged in post-doctorate research in the Medicine School of University of Colorado, USA and the Medical College of the University of Massachusetts. Ms. Li joined the Group in March, 1997 and has 40 years of experience in the pharmaceutical industry.

Independent Non-executive Directors

Mr. Lu Zhengfei (陸正飛先生), aged 59, is an independent non-executive director of the Company and is the chairman of the audit committee and a member of the remuneration committee and the nomination committee of the Company. He received a P.h.D. Degree in Economics (financial management). Mr. Lu is currently a Distinguished Professor of Chang Jiang Scholars and supervisor of doctoral students of the Guanghua School of Management of Peking University. He had previously held various senior positions in the Department of Accounting of both the Guanghua School of Management of Peking University and the Nanjing University. He is a standing council member of the China Accounting Association and the deputy director of its Financial Management Committee and was also an expert consultant of the China Financial Accounting Standards Board, Ministry of Finance. Mr. Lu is the editor of several accounting and finance journals and has issued various publications. He is an independent director of China Cinda Asset Management Co., Ltd. (listed on the Stock Exchange), Xinjiang Tianshan Cement Company Limited (listed on the Shenzhen Stock Exchange), and China International Capital Corporation Limited (listed on both the Stock Exchange and the Shanghai Stock Exchange), respectively, and an independent supervisor of PICC Property and Casualty Company Limited (listed on the Stock Exchange).

Mr. Li Dakui (李大魁先生), aged 79, is an independent non-executive director and a member of the audit committee of the Company. He graduated from the Faculty of Pharmacy of Beijing Medical University (now known as the School of Pharmaceutical Sciences of Beijing University) in 1965, and obtained a Master Degree in Pharmaceutics from Peking Union Medical College (“PUMC”) in 1982. He had been the chief pharmacist of PUMC Hospital (retired in 2013) and the director of Pharmacy Department of PUMC Hospital for years. Mr. Li was a vice president of the Chinese Pharmaceutical Association, the chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association and the vice chairman of the Chinese Practicing Pharmacist Association. He is currently an advisory member of the Chinese Pharmaceutical Committee.

Directors and Senior Management Profile

Ms. Lu Hong (魯紅女士), aged 53, joined the Company as an independent non-executive director and a member of the audit committee, the remuneration committee and the nomination committee of the Company in April, 2015. Ms. Lu has over 20 years of experience in accounting, financial management, company secretary and domestic and overseas capital operations fields. She is a member of the Chinese Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Lu has extensive knowledge of PRC and international accounting standards and the listing rules and regulations of both Hong Kong and PRC. She was in charge of or involved in the entire process of the listing of multiple corporations in the PRC, Hong Kong, Singapore and the United States of America and quite a number of foreign and domestic investment and financing operations as well as mergers and acquisitions. She is familiar with financial analysis, budgeting, financial management and tax planning. She also has expertise in dealing with complex financing and taxation matters. Ms. Lu is an independent non-executive director of Xingye Alloy Materials Group Limited, which is listed on the Stock Exchange.

Mr. Zhang Lu Fu (張魯夫先生), aged 65, joined the Company as an independent non-executive director and the chairman of the remuneration committee and a member of the nomination committee of the Company in April, 2015. He had worked for multiple sectors of the Chinese government since 1987, including the Hong Kong branch of the Xin Hua News Agency (now known as Liaison Office of the Central People's Government in Hong Kong). After 2000, Mr. Zhang had worked for a number of Hong Kong listed companies and charitable organisations on full-time or part-time bases, successively holding positions such as chief representative for affairs in China, China affairs advisor, secretary-general (China affairs) of foundation, and executive president.

Mr. Zhang has served as the director-general of Friends of Hong Kong Association Ltd since 2008. He was appointed as a member of the Shenzhen Committee of the 4th Chinese People's Political Consultative Conference in 2008 and a council member of the China Overseas Friendship Association in 2013, and served successively as a standing council member of the Shenzhen Overseas Friendship Association and a standing council member of the Guangdong Overseas Friendship Association since 2015. He holds a Master Degree in Philosophy from the Beijing Normal University and was a research associate. He has been hired as a part-time professor of the Hong Kong Academy of Management since 2011. Mr. Zhang is an independent non-executive director of Kingboard Laminates Holdings Limited, which is listed on the Stock Exchange.

Dr. Li Kwok Tung Donald (SBS, CStJ, JP) (李國棟醫生), aged 68, joined the Company as an independent non-executive director and a member of the audit committee and nomination committee of the Company in December, 2020. Dr. Li is a specialist in family medicine in private practice in Hong Kong. He is the immediate past president of the World Organisation of Family Physicians (WONCA) and the past president of the Hong Kong Academy of Medicine as well as a censor of the Hong Kong College of Family Physicians.

Dr. Li graduated with a bachelor of arts degree from Cornell University, USA, in 1975 and followed by his study in medicine, he obtained a bachelor of medicine from the University of Hong Kong in 1980. He is a fellow of The Hong Kong College of General Practitioners, fellow of the Hong Kong Academy of Medicine, honorary fellow of the Hong Kong College of Dental Surgeons, honorary fellow of the Royal Australian College of General Practitioners, honorary fellow of the Hong Kong College of Family Physicians, fellow of the Faculty of Public Health of the Royal College of Physicians of the United Kingdom, honorary fellow of the Academy of Family Physicians of Malaysia, registered Mainland China medical practitioner, fellow of the American College of Physicians, honorary fellow of the Royal College of Physicians of Thailand, fellow of the Academy of Medicine, Singapore, honorary fellow of the Royal College of Physicians of Ireland, and honorary fellow of the Royal College of General Practitioners.

Directors and Senior Management Profile

Dr. Li is an honorary clinical professor in family medicine of the Chinese University of Hong Kong, honorary professor in the Faculty of Medicine of the University of Hong Kong, and the adjunct associate professor of the Faculty of Health Science of Macau University of Science and Technology. He is the chairman of the Action Committee Against Narcotics, the chairman of Elderly Commission, the director of the Hong Kong St. John Ambulance Association, the advisor to the Board & Executive Committee of Hong Kong Sheng Kung Hui Welfare Council, an honorary steward of the Hong Kong Jockey Club, and a senior advisor of Jiahui Health. He is also an honorary adviser of The Hong Kong Award for Young People, an adviser of Our Hong Kong Foundation, the chairman of the Professional Committee on Medical Health of Belt & Road General Chamber of Commerce in Hong Kong, and a member of the steering committee on Primary Healthcare Development of Food and Health Bureau in Hong Kong. Dr. Li is an independent non-executive director of C-MER Eye Care Holdings Limited, UMP Healthcare Holdings Limited, and New Horizon Health Limited, respectively, which are listed on the Stock Exchange.

SENIOR MANAGEMENT

Mr. Sean Chen (陳鵬亘先生), aged 45, is the chief strategic officer of the Group, responsible for developing strategies, scrutinising and prioritizing pipelines, and investment and business development of the Group. Mr. Chen received his M.D. degree from Kaohsiung Medical University and obtained an MBA degree from Institut Européen d'Administration des Affaires. Prior to joining the Group in 2022, Mr. Chen were engaged in the management of strategy, pipelines, and sales and marketing of various large multinational corporations including AstraZeneca, McKinsey, and Novartis, and has twenty years of experience in pharmaceutical industry.

Ms. Li Chunling (李春玲女士), aged 52, the chief financial officer of the Group, in charge of the Group's finance affairs. Ms. Li graduated from Guizhou College of Finance and Accounting, and is a senior accountant and a certified accountant in the PRC. She had worked in audit firms before joining the Group in 1996. Ms. Li has over 26 years of experience in finance and audit.

Mr. Yu Kangxin (俞康信先生), aged 44, is the executive vice president of CT Tianqing, responsible for its sales and marketing systems. Mr. Yu graduated from Anhui University of Chinese Medicine with a Bachelor degree in Chinese medicine, and obtained an EMBA degree from Xi'an Jiaotong University and University of Texas at Arlington. Joined CT Tianqing after graduation in 2001, Mr. Yu has been engaged in and has led the establishment of tumor pharmaceutical sales teams, the integration of channel teams, and the strategic adjustment to direct sales teams of the company.

Mr. Ben Toogood, aged 46, is the CEO of invoX Pharma Limited and head of Globalisation of Sino Biopharm since 2021. Mr. Toogood possesses over 25 years of experience in the pharmaceutical industry, with the past 14 years spent in leadership positions focused on business development and M&A globally with a key focus on integration and operational management. Prior to joining Sino Biopharm, he worked for Novartis, Aspen, and Pharmathen. Mr. Toogood holds Executive MBA degree from the University of Cambridge.

Mr. Jin Song (靳松先生), aged 47, is a vice president, responsible for public affairs and ESG related work. Mr. Jin graduated from China Pharmaceutical University, with a Bachelor degree in pharmaceutical preparations engineering, and holds a master degree in public health administration and international cooperation strategies from Ritsumeikan University, Japan. Before joining the Company in 2021, Mr. Jin was a vice president in a large state-owned enterprise, and had worked in national pharmaceutical regulatory authorities for many years. He has over 20 years of management experience in pharmaceutical industry.

Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors

Ms. Tse, Theresa Y Y (*Chairwoman*)
Mr. Tse Ping (*Senior Vice Chairman*)
Ms. Cheng Cheung Ling (*Vice Chairwoman*)
Mr. Tse, Eric S Y (*Chief Executive Officer*)
Mr. Tse Hsin
Mr. Tian Zhoushan
Ms. Li Mingqin

Independent Non-executive Directors

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Lu Hong
Mr. Zhang Lu Fu
Dr. Li Kwok Tung Donald

Executive Board Committee

Ms. Tse, Theresa Y Y (*Chairwoman*)
Mr. Tse Ping
Ms. Cheng Cheung Ling
Mr. Tse, Eric S Y
Mr. Tse Hsin

AUDIT COMMITTEE

Mr. Lu Zhengfei (*Chairman*)
Mr. Li Dakui
Ms. Lu Hong
Dr. Li Kwok Tung Donald

REMUNERATION COMMITTEE

Mr. Zhang Lu Fu (*Chairman*)
Mr. Lu Zhengfei
Ms. Lu Hong

NOMINATION COMMITTEE

Ms. Tse, Theresa Y Y (*Chairwoman*)
Mr. Tse Ping
Mr. Lu Zhengfei
Ms. Lu Hong
Mr. Zhang Lu Fu
Dr. Li Kwok Tung Donald

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

Ms. Cheng Cheung Ling (*Chairwoman*)
Ms. Li Mingqin
Dr. Li Kwok Tung Donald

COMPANY SECRETARY

Mr. Chan Oi Nin Derek

AUTHORISED REPRESENTATIVES

Mr. Tse Ping
Mr. Chan Oi Nin Derek

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

Corporate Information

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Agricultural Bank of China, Lianyungang Branch
No. 43 North Tong-guan Road, Xinpu
Lianyungang
Jiangsu Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

43-44/F, North Tower of CP Center
Jia 10 Guanghua Road
Chaoyang District
Beijing
PRC

LEGAL ADVISERS

Sidley Austin
39/F, Two International Finance Centre
Central
Hong Kong

Navigator Law Office
Room 1118, Tower 2, Bright China Chang An Building
No.7, Jianguomennei Avenue, Dong Cheng District
Beijing
PRC

AUDITORS

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

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations Limited
Unit 01, 24th Floor, Admiralty Centre I
18 Harcourt Road
Hong Kong

Independent Auditor's Report



To the shareholders of Sino Biopharmaceutical Limited (Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Sino Biopharmaceutical Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 67 to 162, which comprise the consolidated statement of financial position as at 31 December, 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the 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

Fair value measurement for Level 3 investments

The Group made unlisted investments in a wide variety of companies. Those investments are accounted for as financial assets at fair value through profit or loss (“FVTPL”) or designated as financial asset at fair value through other comprehensive income in accordance with HKFRS 9 “Financial Instruments”. As at 31 December, 2022, the fair values of these investments were RMB4,105 million and RMB1,309 million, respectively (2021: RMB3,943 million and RMB1,176 million, respectively). The determination of the fair values of these unlisted investments involves significant judgement and estimates made by management. Therefore, we identified the fair value measurement for Level 3 investments as a key audit matter.

The Group's related disclosures are included in note 2.4 *Summary of Significant Accounting Policies – Investments and other financial assets*, note 3 *Significant Accounting Judgements and Estimates*, note 20 *Equity investments designated at fair value through other comprehensive income*, note 21 *Financial assets at fair value through profit or loss* and note 41 *fair value and fair value hierarchy of financial instruments* to the financial statements.

How our audit addressed the key audit matter

Our procedures in relation to the fair value measurement for Level 3 investments included:

- Obtaining an understanding of the key controls over the fair value measurements and evaluated the design and implementation of these controls;
- Evaluating the objectivity, independence and competence of the external appraisers who assisted the management in assessing the fair value;
- Evaluating the reasonableness in the key inputs in the valuation models by checking to the supporting documents;
- Involving our internal valuation specialists to review the valuation methodologies and inputs adopted by the appraiser in certain Level 3 investments; and
- Evaluating the adequacy of disclosures of Level 3 fair value measurement.

Independent Auditor's Report

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with HKSA's, 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 Siu Fung Terence Ho.

Ernst & Young

Certified Public Accountants
27th Floor, One Taikoo Place
979 King's Road, Quarry Bay,
Hong Kong

31 March, 2023

Consolidated Statement of Profit or Loss

Year ended 31 December, 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	28,780,412	26,861,356
Cost of sales		(5,795,510)	(5,332,095)
Gross profit		22,984,902	21,529,261
Other income	5	768,055	807,013
Other (losses)/gains, net	6	(258,733)	251,694
Selling and distribution costs		(10,359,310)	(10,518,393)
Administrative expenses		(2,204,697)	(2,185,234)
Other expenses		(4,559,579)	(4,633,841)
<i>Including: Research and development costs</i>		(4,253,154)	(3,677,259)
Finance costs	8	(439,058)	(308,617)
Share of profits and losses of associates and a joint venture		(152,976)	13,630,790
PROFIT BEFORE TAX	7	5,778,604	18,572,673
Income tax expense	11	(775,986)	(1,957,880)
PROFIT FOR THE YEAR		5,002,618	16,614,793
Attributable to:			
Owners of the parent		2,543,570	14,608,412
Non-controlling interests		2,459,048	2,006,381
		5,002,618	16,614,793
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		RMB13.66 cents	RMB77.83 cents
Diluted		RMB12.15 cents	RMB73.26 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December, 2022

	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR	5,002,618	16,614,793
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(333,880)	(140,990)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(333,880)	(140,990)
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	(295,177)	298,026
Income tax effect	-	-
	(295,177)	298,026
Share of other comprehensive income of associates and a joint venture	(84,481)	43,925
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	(379,658)	341,951
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(713,538)	200,961
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,289,080	16,815,754
Attributable to:		
Owners of the parent	1,830,032	14,811,893
Non-controlling interests	2,459,048	2,003,861
	4,289,080	16,815,754

Consolidated Statement of Financial Position

31 December, 2022

		31 December 2022	31 December 2021
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	7,759,592	7,154,298
Investment properties	15	720,754	705,626
Right-of-use assets	16a	1,491,591	1,361,764
Goodwill	17	662,611	647,930
Intangible assets	18	1,251,839	1,064,016
Investments in associates and a joint venture	19	13,198,157	14,266,396
Equity investments designated at fair value through other comprehensive income	20	1,574,808	1,988,238
Financial assets at fair value through profit or loss	21	4,104,618	3,942,851
Bank deposit	26	6,352,000	4,972,000
Deferred tax assets	32	505,148	334,865
Prepayments and other asset	25	508,261	602,175
Total non-current assets		38,129,379	37,040,159
CURRENT ASSETS			
Inventories	23	2,328,844	1,937,741
Trade and bills receivables	24	4,638,396	4,220,667
Prepayments, other receivables and other assets	25	1,663,260	1,715,452
Amounts due from related companies	39	382,742	404,767
Equity investments designated at fair value through profit or loss	22	312,207	405,206
Financial assets at fair value through profit or loss	21	4,543,239	4,250,533
Cash and bank balances	26	12,066,217	10,568,812
Total current assets		25,934,905	23,503,178
CURRENT LIABILITIES			
Trade and bills payables	27	1,637,351	1,693,152
Tax payable		107,455	101,167
Other payables and accruals	28	8,153,130	6,728,000
Interest-bearing bank borrowings	29	6,217,153	6,520,565
Amounts due to related companies	39	382,579	237,662
Lease liabilities	16(b)	60,431	64,473
Derivative financial instruments		110,506	–
Convertible bonds – debt component (current)	30	3,446,257	–
Convertible bonds – embedded derivative instrument (current)	30	35,815	–
Total current liabilities		20,150,677	15,345,019
NET CURRENT ASSETS		5,784,228	8,158,159
TOTAL ASSETS LESS CURRENT LIABILITIES		43,913,607	45,198,318

Consolidated Statement of Financial Position

31 December, 2022

	Notes	31 December 2022 RMB'000	31 December 2021 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		43,913,607	45,198,318
NON-CURRENT LIABILITIES			
Convertible bonds – debt component	30	–	4,799,189
Convertible bonds – embedded derivative instrument	30	–	152,797
Deferred government grants	31	749,070	674,450
Interest-bearing bank borrowings	29	3,933,859	413,337
Lease liabilities	16(b)	324,263	319,949
Contingent consideration		131,076	227,983
Deferred tax liabilities	32	831,791	881,590
Total non-current liabilities		5,970,059	7,469,295
Net assets		37,943,548	37,729,023
EQUITY			
Equity attributable to owners of the parent			
Share capital	33	414,899	415,440
Treasury shares	33	(1,432,484)	(689,347)
Reserves	35	30,764,620	30,565,023
		29,747,035	30,291,116
Non-controlling interests		8,196,513	7,437,907
Total equity		37,943,548	37,729,023

Tse, Theresa Y Y
Director

Tse Ping
Director

Consolidated Statement of Changes in Equity

Year ended 31 December, 2022

Note	Attributable to owners of the parent												Total equity RMB'000
	Share capital RMB'000 (Note 33)	Share premium account* RMB'000	Treasury shares RMB'000	Capital reserve* RMB'000	Asset revaluation reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Contributed surplus* RMB'000	Reserve funds* RMB'000 (Note 35)	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January, 2021	415,895	12,668,722	(469,944)	(9,537,944)	28,176	372,782	22,691	3,134,202	(355,848)	10,468,428	16,747,160	5,672,398	22,419,558
Profit for the year	-	-	-	-	-	-	-	-	-	14,608,412	14,608,412	2,006,381	16,614,793
Other comprehensive income for the year:													
Fair value changes of financial assets	-	-	-	-	-	298,026	-	-	-	-	298,026	-	298,026
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(165,906)	-	-	-	165,906	-	-	-
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	(138,470)	-	(138,470)	(2,520)	(140,990)
Exchange differences related to associates and a joint venture	-	-	-	-	-	-	-	-	43,925	-	43,925	-	43,925
Total comprehensive income for the year	-	-	-	-	-	132,120	-	-	(94,545)	14,774,318	14,811,893	2,003,861	16,815,754
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	140,164	140,164
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	34,391	34,391
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(412,907)	(412,907)
Repurchase of shares for cancellation	-	-	(126,776)	-	-	-	-	-	-	-	(126,776)	-	(126,776)
Repurchase of shares under share award scheme	-	-	(206,154)	-	-	-	-	-	-	-	(206,154)	-	(206,154)
Cancellation of treasury shares	(455)	(113,072)	113,527	-	-	-	-	-	-	-	-	-	-
Final 2020 dividend declared	12	-	-	-	-	-	-	-	-	(311,669)	(311,669)	-	(311,669)
Interim 2021 dividend	-	-	-	-	-	-	-	-	-	(623,338)	(623,338)	-	(623,338)
Transfer from retained profits	-	-	-	130,907	-	-	-	1,105,432	-	(1,236,339)	-	-	-
Transfer from reserve fund of a subsidiary	-	-	-	96,424	-	-	-	(96,424)	-	-	-	-	-
At 31 December, 2021	415,440	12,555,650	(689,347)	(9,310,613)	28,176	504,902	22,691	4,143,210	(450,393)	23,071,400	30,291,116	7,437,907	37,729,023

Consolidated Statement of Changes in Equity

Year ended 31 December, 2022

Note	Attributable to owners of the parent													Total equity
	Share capital	Share premium account*	Treasury shares	Capital reserve*	Asset revaluation reserve*	Fair value reserve of financial assets at fair value through other comprehensive income*	Contributed surplus*	Reserve funds*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note 33)							(Note 35)						
At 1 January, 2022	415,440	12,555,650	(689,347)	(9,310,613)	28,176	504,902	22,691	4,143,210	(450,393)	23,071,400	30,291,116	7,437,907	37,729,023	
Profit for the year	-	-	-	-	-	-	-	-	-	2,543,570	2,543,570	2,459,048	5,002,618	
Other comprehensive income for the year:														
Fair value changes of financial assets	-	-	-	-	-	(295,177)	-	-	-	-	(295,177)	-	(295,177)	
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	(136,306)	-	-	-	136,306	-	-	-	
Exchange differences related to foreign operations	-	-	-	-	-	-	-	-	(333,880)	-	(333,880)	-	(333,880)	
Exchange differences related to associates and a joint venture	-	-	-	-	-	(7,894)	-	-	(76,587)	-	(84,481)	-	(84,481)	
Total comprehensive income for the year	-	-	-	-	-	(439,377)	-	-	(410,467)	2,679,876	1,830,032	2,459,048	4,289,080	
Contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	25,820	25,820	(2,870)	22,950	
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,697,572)	(1,697,572)	
Recognition of share-based payments	34	-	29,723	-	-	-	-	-	-	-	29,723	-	29,723	
Repurchase of shares for cancellation	33	-	(81,502)	-	-	-	-	-	-	-	(81,502)	-	(81,502)	
Repurchase of shares under share award scheme	33	-	(786,111)	-	-	-	-	-	-	-	(786,111)	-	(786,111)	
Cancellation of treasury shares	33	(541)	(94,212)	94,753	-	-	-	-	-	-	-	-	-	
Final 2021 dividend declared	12	-	-	-	-	-	-	-	-	(610,910)	(610,910)	-	(610,910)	
Interim 2022 dividend	12	-	-	-	-	-	-	-	-	(951,133)	(951,133)	-	(951,133)	
Transfer from retained profits		-	-	-	-	-	-	1,145,155	-	(1,145,155)	-	-	-	
At 31 December, 2022		414,899	12,461,438	(1,432,484)	(9,310,613)	28,176	65,525	22,691	5,288,365	(860,860)	23,069,898	29,747,035	8,196,513	37,943,548

* These reserve accounts comprise the consolidated reserves of approximately RMB30,764,620,000 (2021: approximately RMB30,565,023,000) 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		5,778,604	18,572,673
Adjustments for:			
Finance costs	8	439,058	308,617
Share of profits and losses of associates and a joint venture		152,976	(13,630,790)
Bank interest income	5	(201,441)	(162,057)
Investment income	5	(299,152)	(395,450)
Dividend income from equity investments at fair value through other comprehensive income	5	(14,193)	(2,383)
Depreciation of property, plant and equipment	14	807,180	779,248
Write-off of property, plant and equipment	14	–	3,748
Depreciation of investment properties	15	39,138	21,225
Depreciation of right-of-use assets	16	98,980	102,166
Amortisation of intangible assets	18	101,686	89,917
Recognition of share-based payments	34	29,723	–
(Gain)/loss on disposal of items of property, plant and equipment, net	6	(3,465)	4,278
Loss on extinguishment of partial convertible bonds	6	9,591	–
Fair value (gains)/losses, net:			
Equity investments designated at fair value through profit or loss	6	198,067	15,748
Financial assets at fair value through profit or loss	6	(44,623)	(17,113)
Financial assets designated at fair value through profit or loss (non-current)	6	295,633	266,746
Gain on convertible bonds-embedded derivative instrument	6	(75,696)	(241,072)
Contingent consideration		(89,667)	12,016
Derivative financial instruments		107,109	–
Impairment of trade and bills receivables	7	3,926	1,621
Impairment of intangible assets	7	19,401	441,098
Impairment of prepayments, deposits and other receivables and amounts due from related companies	7	–	60,000
Impairment of investment in an associate	7	–	154,655
Impairment of goodwill	7	–	47,254
		7,352,835	6,432,145
Increase in inventories		(391,103)	(57,475)
Increase in trade and bills receivables		(421,655)	(1,308,211)
(Decrease)/increase in prepayments, other receivables and other assets		(519,896)	409,488
Increase in amounts due from related companies		(48,408)	(307,041)
Decrease in trade and bills payables		(55,801)	(257,843)
Increase in other payables and accruals		1,021,731	1,014,166
Increase in amounts due to related companies		144,917	101,532
Increase in deferred government grants		74,620	66,249
Cash generated from operations		7,157,240	6,093,010
Profits tax paid		(892,085)	(726,716)
Net cash flows from operating activities		6,265,155	5,366,294

Consolidated Statement of Cash Flows

Year ended 31 December, 2022

	Notes	2022 RMB'000	2021 RMB'000
Net cash flows from operating activities		6,265,155	5,366,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		201,441	162,057
Investment income received		299,151	287,305
Dividends received from investments		14,193	2,383
Dividends received from associates		879,255	4,015,687
Purchases of items of property, plant and equipment		(1,243,325)	(1,714,131)
Purchases of equity investments designated at fair value through other comprehensive income		(182,848)	(64,808)
Proceeds from disposal of an equity investment designated at fair value through other comprehensive income		210,372	229,431
Net cash outflow for acquisition of subsidiaries		–	(798,754)
Increase in wealth management products recorded in financial assets at fair value through profit or loss		(248,083)	(406,364)
Decrease in wealth management products recorded in other receivables		569,500	386,508
Decrease in equity investments designated at fair value through profit or loss		(96,631)	(13,064)
Proceeds from disposal of items of property, plant and equipment		27,892	132,195
Additions to intangible assets		(302,935)	(152,922)
Investments in associates and a joint venture		(58,525)	(159,949)
Loan to an associate		(17,210)	(32,190)
Increase in prepaid land lease payments		(159,352)	(26,931)
Investment in financial assets designated at fair value through profit or loss		(133,298)	(2,006,045)
Payment for contingent liabilities		(8,279)	–
Increase in time deposits with original maturity of more than three months		(3,822,137)	(2,356,385)
Net cash flows used in investing activities		(4,070,819)	(2,515,977)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		9,752,976	1,269,914
Loan from a related party		–	136,130
Repurchase of convertible bonds		(1,672,095)	(260,631)
Repayment of bank loans		(7,031,756)	(2,566,183)
Dividends paid		(1,267,622)	(938,489)
Interest paid		(339,524)	(179,623)
Payment of lease liability	16	(86,134)	(80,708)
Dividends paid to non-controlling shareholders		(1,697,572)	(412,907)
Repurchase of shares		(867,613)	(332,930)
Contribution from non-controlling shareholders		22,950	140,164
Net cash flows used in financing activities		(3,186,390)	(3,225,263)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(992,054)	(374,946)
Cash and cash equivalents at beginning of year		9,599,537	10,624,194
Effect of foreign exchange rate changes, net		47,322	(649,711)
CASH AND CASH EQUIVALENTS AT END OF YEAR		8,654,805	9,599,537
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances, unrestricted	26	6,413,982	6,213,974
Time deposits with original maturity of less than three months when acquired	26	2,240,823	3,385,563
Cash and cash equivalents as stated in the statement of cash flows		8,654,805	9,599,537

Notes to Financial Statements

Year ended 31 December, 2022

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. Upon approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the Main Board on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group continued to be principally engaged in the research and development, production and sale of a series of modernised Chinese medicines and chemical medicines.

Information about subsidiaries

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

Company name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chia Tai Tianqing Pharmaceutical Group Co., Ltd. ("CT Tianqing")	PRC*	RMB890,000,000	–	60	R&D, manufacture and distribution of pharmaceutical products
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT")	PRC*	RMB336,031,726	–	55.6	R&D, manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang")	PRC*	RMB180,000,000	–	55.588	R&D, manufacture and sale of pharmaceutical products
Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("Jiangsu Fenghai")	PRC*	US\$29,607,377	–	60.898	R&D, manufacture and sale of pharmaceutical products
CP Pharmaceutical Qingdao Co., Ltd. ("CP Qingdao")	PRC*	US\$7,560,000	–	93	R&D, manufacture and sale of pharmaceutical products
Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide")	PRC*	RMB500,000,000	–	57.60	R&D, manufacture and sale of pharmaceutical products
InvoX Pharma Limited	United Kingdom	US\$100 Ordinary	100	–	R&D of pharmaceutical products

* These subsidiaries were registered as foreign-owned enterprises under PRC law.

Notes to Financial Statements

Year ended 31 December, 2022

2.1 BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income/profit or loss, financial assets at fair value through profit or loss, contingent consideration liabilities and embedded derivative components of convertible bonds which have been measured at fair value, as further explained in note 2.4. 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.

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 HKFRSs for the first time for the current year's financial statements.

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

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

- (a) Amendments to HKFRS 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 HKFRS 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 HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January, 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 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 HKAS 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 HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 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. Prior to the initial application of the amendments, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January, 2022 and none of them was onerous. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

Year ended 31 December, 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (d) Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group is as follows:
- HKFRS 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 HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture¹</i>
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{2,4}</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9-Comparative Information⁵</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")^{3,6}</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")³</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>

¹ No mandatory effective date yet determined but available for adoption

² Effective for annual periods beginning on or after 1 January, 2023

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

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

⁵ 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 HKFRS 17

⁶ 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. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

The Group is in the process of making an assessment of the impact of these new or revised HKFRSs upon initial application. So far, the Group considers that these standards will not have a significant impact on the Group's financial performance and financial position.

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 interests 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 the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates 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 asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's interests in associates or joint ventures.

If an interests 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, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an interest in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

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Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 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.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities and business under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or business first came under the common control combination, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Fair value measurement

The Group measures its investment properties, 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

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 the prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

or

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

Notes to Financial Statements

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Buildings	4%-6%
Leasehold improvements	5%-20%
Plant and machinery	5%-9%
Motor vehicles	9%-18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents factory buildings, plant and machinery and other assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction, installation and testing 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 20 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the statement of profit or loss during the financial period in which they are incurred.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be finite. 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

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Unpatented technology

Intangible assets relating to unpatented technology which acquired in a business combination have infinite useful lives and are tested for impairment annually either individually or at the CGU 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.

Trademarks

Trademarks with finite useful lives are measured initially at cost and are amortised on the straight-line basis over the respective estimated useful lives of 4 to 30 years. Trademarks 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 lives of trademarks are 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.

Customer relationship

Customer relationship with finite useful lives is measured initially at cost and is amortised on the straight-line basis over the respective estimated useful lives of 4 to 10 years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

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

(a) *Right-of-use assets*

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

Leasehold land	40 to 50 years
Properties	1 to 10 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.

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Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (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 machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of 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.

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

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 HKFRS 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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 HKAS 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 the statement of profit or loss and other comprehensive income. Dividends are recognised as other income in the statement of profit or loss and other comprehensive 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.

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Year ended 31 December, 2022

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 consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of 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 profit or loss are also recognised as other income in the statement of profit or loss and other comprehensive 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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.

- 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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Simplified approach

For trade receivables and other 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 and other 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, 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, amounts due to related companies, interest-bearing bank borrowings, contingent Liabilities and convertible bonds.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing bank 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 the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Notes to Financial Statements

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 the statement of profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Notes to Financial Statements

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

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

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

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of goods

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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).

Employee benefits

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").

The cost of equity-settled transactions with employees for grants after 7 November, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model.

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

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

Notes to Financial Statements

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (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.

Other employee benefits

Pension schemes

The Company and the Group's subsidiaries which operate in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries, which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute 20% to 23% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

There were no forfeited contributions utilised by the Group to reduce existing level of contributions for the years end 31 December, 2021 and 2022.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Dividends

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

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

Foreign currencies

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. The functional currency of the Company is HK dollars, while the functional currency of the entities in Mainland China is RMB. The directors of the Company believe the consolidated financial statements of the Group presented in RMB will provide shareholders with a more accurate reflection of the Group's underlying financial performance and position because the Group's revenues, profits and cash flows are primarily generated in RMB and are expected to remain principally denominated in RMB in the future.

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 currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of 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 the statement of 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

Year ended 31 December, 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain 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 RMB at the weighted average exchange rates for the year.

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 the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on 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 Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi 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 judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries. The Group recognised deferred tax assets to the extent that it is probable that the subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity against which the deductible temporary differences can be utilised. More details are given in Note 32.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty(continued)

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note 17.

Assessment of useful lives of deferred development costs

In assessing the estimated useful lives of deferred development costs, the Group takes into account factors such as the expected life span of the underlying pharmaceutical products based on past experience or from a change in the market demand for the products. The estimation of the useful lives is based on the experience of management.

Fair Value measurement for Level 3 investments

The Group made unlisted investments in a wide variety of companies and those investments are accounted for as financial assets at FVTPL or designated as financial assets at fair value through other comprehensive income. The fair values of those investments are determined using valuation techniques and the Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. Further details are included in Note 41. Should any of the estimates and assumptions changed, it may lead to a material change in the respective fair values of these financial assets.

4. OPERATING SEGMENT INFORMATION

Management considers the business from a product/service perspective. The three reportable segments are as follows:

- (a) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of modernised Chinese medicine products and western medicine products;
- (b) the investment segment is engaged in long term investments; and
- (c) the “others” segment comprises, principally related healthcare and hospital business.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax.

Segment assets exclude deferred tax assets and the investments in associates and a joint venture as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

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Year ended 31 December, 2022

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December, 2022

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	28,231,667	–	548,745	28,780,412
Segment results	6,913,834	(780,468)	77,848	6,211,214
Reconciliation:				
Interest and unallocated gains				352,074
Share of profits and losses of associates and a joint venture				(152,976)
Unallocated expenses				(631,708)
Profit before tax				5,778,604
Income tax expense				(775,986)
Profit for the year				5,002,618
Assets and liabilities				
Segment assets	39,287,554	9,463,228	1,610,196	50,360,978
Reconciliation:				
Investments in associates and a joint venture				13,198,157
Other unallocated assets				505,149
Total assets				64,064,284
Segment liabilities	13,491,829	10,896,508	793,153	25,181,490
Reconciliation:				
Other unallocated liabilities				939,246
Total liabilities				26,120,736
Other segment information:				
Depreciation and amortisation	1,014,082	14,273	18,629	1,046,984
Capital expenditure	1,742,660	8,326	8,938	1,759,924
Other non-cash expenses	19,401	–	44	19,445

Notes to Financial Statements

Year ended 31 December, 2022

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December, 2021

	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	26,230,666	–	630,690	26,861,356
Segment results	5,234,169	(147,282)	103,787	5,190,674
Reconciliation:				
Interest and unallocated gains				243,468
Share of profits and losses of associates and a joint venture				13,630,790
Unallocated expenses				(492,259)
Profit before tax				18,572,673
Income tax expense				(1,957,880)
Profit for the year				16,614,793
Assets and liabilities				
Segment assets	32,524,755	11,773,056	1,644,265	45,942,076
<i>Reconciliation:</i>				
Interests in associates and a joint venture				14,266,396
Other unallocated assets				334,865
Total assets				60,543,337
Segment liabilities	9,698,257	11,312,596	820,704	21,831,557
<i>Reconciliation:</i>				
Other unallocated liabilities				982,757
Total liabilities				22,814,314
Other segment information:				
Depreciation and amortisation	896,000	55,985	40,571	992,556
Capital expenditure	1,486,341	14,867	59,969	1,561,177
Other non-cash expenses	414,484	201,091	86,628	702,203

Notes to Financial Statements

Year ended 31 December, 2022

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China.

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Hong Kong	7,241,145	6,750,616
Mainland China	17,973,761	18,715,509
Other countries/regions	377,899	336,080
	25,592,805	25,802,205

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about a major customer

No information about major customers is presented as no single customer contributed to over 10% or more of the Group's revenue for the years ended 31 December, 2022 and 2021.

Notes to Financial Statements

Year ended 31 December, 2022

5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sale of industrial products	28,231,667	26,230,666
Revenue from other sources	548,745	630,690
	28,780,412	26,861,356

Revenue from contracts with customers

(a) *Disaggregated revenue information*

Year ended 31 December, 2022

Segments	Modernised Chinese medicines and chemical medicines RMB'000	Investment RMB'000	Others RMB'000	Total RMB'000
Types of goods or services				
Sale of industrial products	28,231,667	-	-	28,231,667
Revenue from other sources	-	-	548,745	548,745
	28,231,667	-	548,745	28,780,412
Timing of revenue recognition				
Goods transferred at a point in time				28,231,667
Service transferred overtime				548,745
				28,780,412

Notes to Financial Statements

Year ended 31 December, 2022

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of industrial products	200,649	180,586
Revenue from other sources	37,553	21,636
	238,202	202,222

(b) Performance obligations

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

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 90 days from delivery

Revenue from other sources

The performance obligation is satisfied over time as services are rendered and payment is generally made before services provided or upon monthly settlements.

	2022 RMB'000	2021 RMB'000
Other income		
Bank interest income	201,441	162,057
Dividend income	14,193	2,383
Government grants*	139,971	135,247
Sale of materials	35,012	26,621
Investment income	299,152	395,450
Gross rental income	15,959	5,769
Others	62,327	79,486
	768,055	807,013

Notes to Financial Statements

Year ended 31 December, 2022

5. REVENUE AND OTHER INCOME (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

- * The government grants related to income have been received for setting up research activities in Mainland China. Government grants received for which related expenditure has not yet been undertaken are included in deferred government grants in the statement of financial position.

The government grants related to assets have been received for the investments in long-term assets in production bases. The grants related to assets were recognised in profit or loss over the remaining useful lives of relevant assets.

6. OTHER (LOSSES)/GAINS, NET

	2022 RMB'000	2021 RMB'000
Gain/(loss) on disposal of items of property, plant and equipment	3,465	(4,278)
Foreign exchange gains, net	138,216	292,297
Fair value (losses)/gains, net:		
Equity investments designated at fair value through profit or loss	(198,067)	(15,748)
Financial assets at fair value through profit or loss	44,623	17,113
Financial assets at fair value through profit or loss (Non-current)	(295,633)	(266,746)
Convertible bond embedded derivative component	75,696	241,072
Contingent consideration	89,667	(12,016)
Derivative financial instruments	(107,109)	–
Loss on extinguishment of partial convertible bonds	(9,591)	–
	(258,733)	251,694

Notes to Financial Statements

Year ended 31 December, 2022

7. PROFIT BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		5,795,510	5,332,095
Depreciation of property, plant and equipment	14	807,180	779,248
Depreciation of investment properties	15	39,138	21,225
Depreciation of right-of-use assets	16	98,980	102,166
Amortisation of intangible assets*	18	101,686	89,917
Research and development costs		4,253,154	3,677,259
(Gain)/Loss on disposal of items of property, plant and equipment	6	(3,465)	4,278
Bank interest income	5	(201,441)	(162,057)
Investment income	5	(299,151)	(395,450)
Fair value (gains)/losses, net:	6		
Equity investments designated at fair value through profit or loss		198,067	15,748
Financial assets at fair value through profit or loss		(44,623)	(17,113)
Financial assets at fair value through profit or loss (Non-current)		295,633	266,746
Convertible bond embedded derivative component		(75,696)	(241,072)
Contingent consideration		(89,667)	12,016
Derivative financial instruments		107,109	–
Minimum lease payments under operating leases:			
Lease payments not included in the measurement of lease liabilities		121,027	129,307
Auditors' remuneration		6,000	6,000
Employee benefit expense (including directors' remuneration (note 9)) in selling and distribution costs and administrative expenses:			
Wages and salaries		3,676,006	3,699,273
Pension scheme contributions		1,045,205	868,709
Equity settled share-based payments		29,723	–
		4,750,934	4,567,982
Impairment of trade receivables	24	3,926	1,621
Impairment of investment in an associate		–	154,655
Impairment of financial assets included in prepayments, other receivables and other assets		–	60,000
Impairment of Goodwill		–	47,254
Impairment of intangible assets**	18	19,401	441,098
Foreign exchange gains, net		(138,216)	(292,297)

* The amortisation of intangible assets for the year was included in "Cost of sales", "Administrative expenses" and "Other expenses" on the face of the consolidated statement of profit or loss.

** The impairment of intangible assets was included in "Other expenses" in the consolidated statement of profit or loss.

Notes to Financial Statements

Year ended 31 December, 2022

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	339,461	179,623
Interest on convertible bonds	81,872	109,275
Interest on lease liabilities	17,725	19,719
	439,058	308,617

9. 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	1,669	1,728
Other emoluments:		
Salaries, allowances and benefits in kind	101,931	76,653
Pension scheme contributions	226	181
Discretionary bonuses	101,335	98,094
Employee restricted share award scheme	21,978	–
	225,470	174,928
	227,139	176,656

(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. Lu Zhengfei	340	352
Mr. Li Dakui	340	352
Ms. Lu Hong	309	320
Mr. Zhang Lufu	340	352
Dr. Donald Li	340	352
	1,669	1,728

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

Year ended 31 December, 2022

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

(b) Executive directors and the chief executive

2022

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee restricted share award scheme RMB'000	Pension scheme benefits RMB'000	Total remuneration RMB'000
Executive directors:						
Ms. Tse, Theresa Y Y	-	15,627	24,015	-	15	39,657
Mr. Tse Ping	-	19,727	26,588	-	-	46,315
Ms. Cheng Cheung Ling	-	18,010	17,154	-	15	35,179
Mr. Tse Hsin	-	1,895	4,117	-	15	6,027
Mr. Tian Zhoushan	-	1,760	-	-	111	1,871
Ms. Li Mingqin	-	600	600	-	-	1,200
Mr. Li Yi, David (resigned on 28 July, 2022)	-	28,400	11,707	21,978	9	62,094
Mr. Wang Shanchun (resigned on 2 November, 2022)	-	800	-	-	46	846
Chief executive:						
Mr. Tse, Eric S Y	-	15,112	17,154	-	15	32,281
	-	101,931	101,335	21,978	226	225,470

2021

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee restricted share award scheme RMB'000	Pension scheme benefits RMB'000	Total remuneration RMB'000
Executive directors:						
Ms. Tse, Theresa Y Y	-	11,870	23,242	-	15	35,127
Ms. Cheng Cheung Ling	-	12,949	16,602	-	15	29,566
Mr. Tse, Eric S Y	-	6,475	16,602	-	15	23,092
Mr. Tse Hsin	-	1,834	3,984	-	15	5,833
Mr. Tian Zhoushan	-	1,710	-	-	104	1,814
Ms. Li Mingqin	-	600	600	-	-	1,200
Mr. Li Yi, David	-	17,312	11,331	-	-	28,643
Mr. Wang Shanchun	-	7,716	-	-	17	7,733
Chief executive:						
Mr. Tse Ping	-	16,187	25,733	-	-	41,920
	-	76,653	98,094	-	181	174,928

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

Year ended 31 December, 2022

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

(b) Executive directors and the chief executive (continued)

During the year, Mr. Li Yi, David was granted restricted shares, who was then an executive director, in respect of his service to the Group, under the share award scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair value of such restricted shares, which has been recognised in the statement of profit or loss upon the date of granted, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year represented five (2021: five) directors, details of whose remuneration are set out in note 9 above.

11. INCOME TAX

Taxes on profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2022 RMB'000	2021 RMB'000
Current-Hong Kong	–	–
Current-Mainland China	777,692	740,688
Deferred tax (note 32)	(1,706)	1,217,192
Total tax charge for the year	775,986	1,957,880

The Company incorporated in the Cayman Islands is not subject to income or capital gains tax under the law of the Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

The subsidiaries incorporated in the BVI are not subject to income tax as these subsidiaries do not have a place of business (other than a registered office only) or carry on any business in the BVI.

Hong Kong profits tax has been provided at a rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Belgium profits tax has been provided at a rate of 25% on the estimated assessable profits arising in Belgium during the year.

In the year ended 31 December, 2022, NJCTT, CT Tianqing, Beijing Tide, Jiangsu Fenghai, Jiangsu Qingjiang, Shanghai Tongyong, CP Qingdao, LYG Runzhong and Nanjing Shunxin Pharmaceutical Co., Ltd. were entitled to a corporate income tax rate of 15% because they were qualified as "High and New Technology Enterprises".

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11. INCOME TAX (continued)

Other than the above-mentioned entities, the entities located in Mainland China were subject to corporate income tax at a rate of 25% in 2022.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January, 2008 and applies to earnings after 31 December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by subsidiaries and associates established in Mainland China in respect of earnings generated from 1 January, 2008 with 5% and 10%, respectively.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2022

	Mainland China RMB'000	Hong Kong RMB'000	Others RMB'000	Total RMB'000
Profit before tax	6,920,302	(1,059,697)	(82,001)	5,778,604
Tax at the statutory tax rate	1,730,075	(174,850)	(20,500)	1,534,725
Less: Preferential tax rate reduction	(731,840)	-	-	(731,840)
Income not subject to tax	(1,138)	(53,496)	(22,417)	(77,051)
Expenses not deductible for tax	67,924	222,150	-	290,074
Additional tax deduction for research and development expenses	(481,502)	-	-	(481,502)
Tax losses not recognised	32,841	6,196	33,115	72,152
	616,360	-	(9,802)	606,558
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries				165,119
Effect of withholding tax at 10% on the distributable profits of the Group's PRC associate				4,309
Tax charge at the Group's effective rate				775,986

Notes to Financial Statements

Year ended 31 December, 2022

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

2021

	Mainland China RMB'000	Hong Kong RMB'000	Others RMB'000	Total RMB'000
Profit before tax	5,586,666	13,531,762	(545,755)	18,572,673
Tax at the statutory tax rate	1,404,837	2,232,741	(136,439)	3,501,139
Less: Preferential tax rate reduction	(576,245)	–	–	(576,245)
Income not subject to tax	(11,167)	(2,303,810)	–	(2,314,977)
Expenses not deductible for tax	191,854	71,069	–	262,923
Additional tax deduction for research and development expenses	(354,857)	–	–	(354,857)
Tax losses not recognised	52,221	–	20,623	72,844
	706,643	–	(115,816)	590,827
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries				114,938
Effect of withholding tax at 10% on the distributable profits of the Group's PRC associate				1,252,115
Tax charge at the Group's effective rate				1,957,880

12. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Interim – HK\$0.06 (equivalent to RMB0.05146) (2021: HK\$0.04 (equivalent to RMB0.0332)) per ordinary share	951,133	623,338
Proposed final – HK\$0.06 (equivalent to RMB0.05309) (2021: HK\$0.04 (equivalent to RMB0.0332)) per ordinary share	980,519	623,338
	1,931,652	1,246,676

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

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Year ended 31 December, 2022

13. 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 for the year of approximately RMB2,543,570,000 (2021: approximately RMB14,608,412,000), and the weighted average number of ordinary shares of 18,622,248,991 (2021: 18,768,649,757).

The calculation of the diluted earnings per share amounts for the year ended 31 December, 2022 is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, fair value changes on the embedded derivative components of convertible bonds and the exchange alignment on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of diluted earnings per share for the year ended 31 December, 2022 are based on:

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	2,543,570	14,608,412
Interest on convertible bonds	81,872	109,275
Exchange adjustments	(248,137)	(350,714)
Fair value gain on the derivative component of the convertible bonds	(75,696)	(241,072)
Loss on extinguishment of partial convertible bonds	9,591	–
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds	2,311,200	14,125,901

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Year ended 31 December, 2022

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

	No. of shares 2022	No. of shares 2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	18,622,248,991	18,768,649,757
Effect of dilution-weighted average number of ordinary shares:		
Convertible bonds	394,952,985	514,305,333
	19,017,201,976	19,282,955,090

14. PROPERTY, PLANT AND EQUIPMENT

31 December, 2022

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January, 2022:						
Cost	3,571,121	4,062,847	223,659	1,845,261	1,426,226	11,129,114
Accumulated depreciation	(993,263)	(1,574,571)	(189,532)	(1,217,450)	-	(3,974,816)
Net carrying amount	2,577,858	2,488,276	34,127	627,811	1,426,226	7,154,298
At 1 January, 2022, net of accumulated depreciation	2,577,858	2,488,276	34,127	627,811	1,426,226	7,154,298
Additions	1,139	99,004	31,527	121,137	1,204,182	1,456,989
Depreciation provided during the year	(204,985)	(222,641)	(22,318)	(357,236)	-	(807,180)
Disposals	(471)	(15,060)	(7,075)	(1,821)	-	(24,427)
Transfer from Construction in progress	406,501	356,198	-	63,376	(826,075)	-
Transfer to Investment Property	(30,765)	-	-	-	-	(30,765)
Exchange realignment	9,969	17	555	136	-	10,677
	2,759,246	2,705,794	36,816	453,403	1,804,333	7,759,592
At 31 December, 2022:						
Cost	3,870,556	4,473,478	218,859	1,999,448	1,804,333	12,366,674
Accumulated depreciation	(1,111,310)	(1,767,684)	(182,043)	(1,546,045)	-	(4,607,082)
Net carrying amount	2,759,246	2,705,794	36,816	453,403	1,804,333	7,759,592

Notes to Financial Statements

Year ended 31 December, 2022

14. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December, 2021

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January, 2021:							
Cost	3,655,952	126	3,610,094	232,788	1,703,348	987,825	10,190,133
Accumulated depreciation	(827,406)	-	(1,381,427)	(185,743)	(925,269)	-	(3,319,845)
Net carrying amount	2,828,546	126	2,228,667	47,045	778,079	987,825	6,870,288
At 1 January, 2021, net of accumulated depreciation	2,828,546	126	2,228,667	47,045	778,079	987,825	6,870,288
Additions	58,727	-	153,640	17,265	173,820	1,004,803	1,408,255
Acquisition of subsidiaries (note 36)	-	-	518	-	388	162	1,068
Depreciation provided during the year	(170,314)	-	(256,768)	(26,285)	(325,881)	-	(779,248)
Disposals	(50,950)	(126)	(21,679)	(3,983)	(3,666)	(56,069)	(136,473)
Transfer from Construction in progress	116,425	-	384,001	120	6,202	(506,748)	-
Transfer to Investment Property	(202,841)	-	-	-	-	-	(202,841)
Transfer to Expense	-	-	-	-	-	(3,748)	(3,748)
Exchange realignment	(1,734)	-	(103)	(35)	(1,131)	-	(3,003)
	2,577,859	-	2,488,276	34,127	627,811	1,426,225	7,154,298
At 31 December, 2021:							
Cost	3,571,122	-	4,062,847	223,659	1,845,261	1,426,225	11,129,114
Accumulated depreciation	(993,263)	-	(1,574,571)	(189,532)	(1,217,450)	-	(3,974,816)
Net carrying amount	2,577,859	-	2,488,276	34,127	627,811	1,426,225	7,154,298

As at 31 December, 2022, certain of the Group's buildings with a net carrying amount of approximately RMB250,809,000 (2021: approximately RMB265,344,000) were pledged to secure general banking facilities granted to the Group (note 29).

Notes to Financial Statements

Year ended 31 December, 2022

15. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
At 1 January:		
Cost	897,254	438,189
Accumulated depreciation	(191,628)	(129,630)
Net carrying amount	705,626	308,559
At 1 January, net of accumulated depreciation	705,626	308,559
Transfer from Property, plant and equipment	30,765	202,841
Transfer from Right-of-use assets	-	225,085
Depreciation provided during the year	(39,138)	(21,225)
Effect of foreign exchange rate changes, net	23,501	(9,634)
At 31 December, net of accumulated depreciation	720,754	705,626
At 31 December:		
Cost	1,026,678	897,254
Accumulated depreciation	(305,924)	(191,628)
Net carrying amount	720,754	705,626

The Group's investment properties consist of two commercial property in Hong Kong (2021: two), eight commercial properties in Mainland China (2021: six), 1 industrial property in Mainland China (2021: nil) which are held to earn rentals. The properties are measured initially and subsequently at cost. Depreciation commences on the day the transaction of purchase is completed and is calculated on the straight-line basis over 20 to 50 years.

The Group's investment properties located in Hong Kong and in Mainland China as at 31 December, 2022 were revalued as at that date by independent professionally qualified external appraisal firms Shanghai Oriental Appraisal Ltd, with fair value of approximately RMB377,099,000 (2021: RMB336,939,000) and RMB725,391,000 (2021: RMB628,596,000), respectively.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 16 to the financial statements.

The properties with a net carrying amount of HK\$314,427,000 (approximately equivalent to RMB 278,179,000 as at 31 December, 2022) (2021: HK\$340,388,000 (approximately equivalent to RMB277,700,000)) have been mortgaged for bank loans as mentioned in note 29.

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Year ended 31 December, 2022

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

At 31 December, 2022

	Fair value measurement using			Total RMB'000		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000			
	Investment properties	–	–		1,102,490	1,102,490

At 31 December, 2021

	Fair value measurement using			Total RMB'000		
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000			
	Investment properties	–	–		965,536	965,536

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range or weighted average	
			2022	2021
Investment properties	Market comparison method	Adjusted market price	RMB10,618- RMB16,200 per square foot	RMB9,310- RMB15,712 per square foot

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Year ended 31 December, 2022

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold lands and properties. Lump sum payments were made upfront to acquire the leased lands from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of properties generally have lease terms of 1 year or less to 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Leasehold lands RMB'000	Properties RMB'000	Total RMB'000
As at 1 January, 2021	1,233,985	287,931	1,521,916
Additions	26,931	147,349	174,280
Depreciation charge	(28,525)	(73,641)	(102,166)
Transfer to Investment properties	(225,085)	–	(225,085)
Exchange realignment	–	(7,181)	(7,181)
As at 1 January, 2022	1,007,306	354,458	1,361,764
Additions	159,352	46,378	205,730
Depreciation charge	(25,905)	(73,075)	(98,980)
Exchange realignment	–	23,077	23,077
As at 31 December, 2022	1,140,753	350,838	1,491,591

As at 31 December, 2022, Group's lands with a net carrying amount of approximately RMB304,841,000 (2021: RMB311,241,000) were pledged to secure general banking facilities granted to the Group (note 29).

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Year ended 31 December, 2022

16. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022	2021
	Lease	Lease
	liabilities	liabilities
	RMB'000	RMB'000
Carrying amount at 1 January	384,422	293,560
New leases	43,502	147,219
Accretion of interest recognised during the year	17,725	19,719
Payments	(86,134)	(80,708)
Exchange realignment	25,179	4,632
Carrying amount at 31 December	384,694	384,422
Analysed into:		
Current portion	60,431	64,473
Non-current portion	324,263	319,949

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022	2021
	Lease	Lease
	liabilities	liabilities
	RMB'000	RMB'000
Interest on lease liabilities	17,725	19,719
Depreciation charge of right-of-use assets	91,691	102,166
Expense relating to leases of short-term and low-value assets (included in administrative expenses)	121,027	129,307
Total amount recognised in profit or loss	230,443	251,192

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16. LEASES (continued)

The Group as a lessee (continued)

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in note 38(b) to the financial statements.

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms from 1 year or less to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December, 2022, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2022 RMB'000	2021 RMB'000
Within one year	22,904	20,472
In the second to five years, inclusive	29,152	18,599
In the six to ten years, inclusive	30,643	–
	82,699	39,071

17. GOODWILL

	2022 RMB'000	2021 RMB'000
Cost at 1 January, net of accumulated impairment	647,930	88,926
Acquisition of subsidiaries	–	651,599
Impairment	–	(47,254)
Exchange alignment	14,681	(45,341)
Cost and net carrying amount at 31 December	662,611	647,930
At 31 December:		
Cost	709,865	695,184
Accumulated impairment	(47,254)	(47,254)
Net carrying amount	662,611	647,930

Notes to Financial Statements

Year ended 31 December, 2022

17. GOODWILL (continued)

Impairment testing of goodwill

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

The carrying amount of goodwill of the Group is related to fourteen different cash-generating units (“CGUs”), namely Softhale NV, Shanghai Jingmai Medical Technology Co., Ltd., Zhejiang Tianqing Zhongwei Medicines Co., Ltd., Suzhou Tianqing Xingwei Medicines Co., Ltd., Shanghai Tongyong and nine other subsidiaries of the Group acquired in previous years.

The recoverable amounts of the goodwill attributable to the acquisition of equity interests in these CGUs have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a period ranging from five to nine years approved by senior management.

The discount rates applied to the cash flow projections ranged from 10.3%-13.2% (2021: 11.5% to 18.2%). The growth rate used to extrapolate the cash flows beyond the period is 1%-2% (2021: 3%), which is based on the relevant industry growth forecasts and does not exceed the average long term growth rate for the relevant industry.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

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

Growth rate – The growth rate is based on industry growth forecasts.

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

The values assigned to the key assumptions on discount rates, growth rate and changes in selling prices and direct costs are consistent with external information sources. The directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amount of each CGU to exceed its recoverable amount.

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18. INTANGIBLE ASSETS

	Patents and licences RMB'000	Development costs RMB'000	Trademarks RMB'000	Customer relationship RMB'000	Total RMB'000
31 December, 2022					
Cost at 1 January, 2022, net of accumulated amortisation	273,872	772,459	17,685	–	1,064,016
Additions	22,460	280,475	–	–	302,935
Amortisation provided during the year	(20,910)	(79,446)	(1,330)	–	(101,686)
Impairment during the year	(19,401)	–	–	–	(19,401)
Exchange realignment	5,975	–	–	–	5,975
At 31 December, 2022	261,996	973,488	16,355	–	1,251,839
At 31 December, 2022					
Cost	359,161	1,231,362	1,037,796	1,928,000	4,556,319
Accumulated amortisation	(97,165)	(257,874)	(1,021,441)	(1,928,000)	(3,304,480)
Net carrying amount	261,996	973,488	16,355	–	1,251,839
	Patents and licences RMB'000	Development costs RMB'000	Trademarks RMB'000	Customer relationship RMB'000	Total RMB'000
31 December, 2021					
Cost at 1 January, 2021, net of accumulated amortisation	186,251	699,363	39,096	–	924,710
Additions	10,007	142,915	–	–	152,922
Amortisation provided during the year	(16,814)	(69,819)	(3,284)	–	(89,917)
Acquisition of subsidiaries	510,950	–	8,500	–	519,450
Impairment during the year	(414,471)	–	(26,627)	–	(441,098)
Exchange realignment	(2,051)	–	–	–	(2,051)
At 31 December, 2021	273,872	772,459	17,685	–	1,064,016
At 31 December, 2021					
Cost	350,126	950,887	1,037,797	1,928,000	4,266,810
Accumulated amortisation	(76,254)	(178,428)	(1,020,112)	(1,928,000)	(3,202,794)
Net carrying amount	273,872	772,459	17,685	–	1,064,016

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19. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE

	2022 RMB'000	2021 RMB'000
Share of net assets	9,861,274	10,944,222
Goodwill on acquisition	3,539,486	3,524,777
	13,400,760	14,468,999
Provision for impairment	(202,603)	(202,603)
	13,198,157	14,266,396

Particular of the material associates and a joint venture is as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Sinovac Life Sciences Co., Ltd. ("Sinovac LS")	Ordinary shares	PRC/ Mainland China	15.03%	Human vaccine research, development, production and sales

The above table lists the associate of the Group 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 associates and a joint venture would, in the opinion of the directors, result in particulars of excessive length.

(i) Sinovac Life Sciences

	2022 RMB'000	2021 RMB'000
Share of net assets	9,126,467	10,051,831
Goodwill on acquisition	2,865,701	2,865,701
	11,992,168	12,917,532

The Group considers that it exerts significant influence on Sinovac LS as it had the power to appoint one out of five directors. Sinovac LS, previously known as Sinovac Research Development Co., Ltd. is a research-based company incorporated in 2009 that conducts human vaccine research, development, production and sales.

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Year ended 31 December, 2022

19. INVESTMENTS IN ASSOCIATES AND A JOINT VENTURE (Continued)

(i) Sinovac Life Sciences (Continued)

The following table illustrates the summarised financial information of Sinovac Life Sciences adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements.

	2022 RMB'000	2021 RMB'000
Current assets	55,340,180	78,083,876
Non-current assets, excluding goodwill	10,972,593	5,734,502
Goodwill on acquisition of the associate	2,865,701	2,865,701
Current liabilities	(4,631,943)	(15,910,893)
Non-current liabilities	(882,611)	(1,029,038)
Net assets	63,663,920	69,744,148
Net assets, excluding goodwill	60,798,219	66,878,447
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	15.03%	15.03%
Group's share of net assets of the associate excluding goodwill	9,126,467	10,051,831
Goodwill on acquisition (less accumulated impairment)	2,865,701	2,865,701
Carrying amount of the investment	11,992,168	12,917,532
Revenue	6,767,047	122,455,954
Profit for the year	337,317	92,114,197
Total comprehensive income for the year	343,218	92,110,224
Dividend received	976,950	4,462,171

(ii) Others

The following table illustrates the aggregate financial information of the Group's associates and a joint venture that are not individually material:

	2022 RMB'000	2021 RMB'000
Share of the associates and a joint venture's loss for the year	(203,675)	(213,243)
Share of the associates and a joint venture's total comprehensive loss	(84,481)	(168,721)
Aggregate carrying amount of the Group's interests in the associates and a joint venture	1,205,989	1,348,864

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20. 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		
Equity investments, at fair value	1,574,808	1,988,238

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.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Financial assets at fair value through profit or loss		
Current		
Wealth management products and trust funds	4,543,239	4,250,533
Non-Current		
Other unlisted investments, at fair value	4,104,618	3,942,851

For wealth management products, the Group entered into the investment contracts with several PRC and Hong Kong financial institutions with a floating return which will be paid together with the principal on the maturity date.

The other unlisted investments measured at financial assets at fair value through profit or loss mainly represents convertible redeemable preferred shares which the Group has the right to require and demand the investee to redeem the shares held by the Group upon redemption events that are out of control of issuers (31 December, 2022 and 2021: RMB3,769,308,000 and RMB3,735,175,000, respectively).

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Listed equity investments, at fair value	312,207	405,206

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Year ended 31 December, 2022

23. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	677,427	498,006
Work in progress	938,516	378,299
Finished goods	577,320	976,999
Spare parts and consumables	135,581	84,437
	2,328,844	1,937,741

24. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	3,752,154	3,275,154
Bills receivable	916,203	971,548
Impairment	(29,961)	(26,035)
	4,638,396	4,220,667

The fair value of bills receivable approximates to their carrying amount.

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 periods range from 60 days to 180 days. The Group seeks to maintain a strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An ageing analysis of the Group's trade receivables as at end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2022 RMB'000	2021 RMB'000
Current to 90 days	4,050,406	3,573,203
91 days to 180 days	466,707	547,008
over 180 days	121,283	100,456
	4,638,396	4,220,667

As at 31 December, 2022, bills receivables of RMB 429,669,000 (2021: RMB 0) were pledged as collateral for the Group's bills payables.

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Year ended 31 December, 2022

24. TRADE AND BILLS RECEIVABLES (continued)

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

	2022 RMB'000	2021 RMB'000
At beginning of year	26,035	24,414
Impairment losses recognised (note 7)	3,926	1,621
At end of year	29,961	26,035

Impairment under HKFRS 9 for the year ended 31 December, 2021

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December, 2022

	Current	Past due			Total	
		Less than 30 days	Between 31 and 90 days	Between 91 and 180 days		Over 180 days
Expected credit loss rate	0%	0%	7.31%	7.34%	34.04%	0.64%
Gross carrying amount (RMB'000)	4,064,899	274,413	198,208	108,861	21,976	4,668,357
Expected credit losses (RMB'000)	-	-	14,493	7,986	7,482	29,961

As at 31 December, 2021

	Current	Past due			Total	
		Less than 30 days	Between 31 and 90 days	Between 91 and 180 days		Over 180 days
Expected credit loss rate	0%	0%	8.14%	10.01%	17.62%	0.61%
Gross carrying amount (RMB'000)	3,613,512	351,646	199,307	61,382	20,855	4,246,702
Expected credit losses (RMB'000)	-	-	16,215	6,145	3,675	26,035

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Year ended 31 December, 2022

24. TRADE AND BILLS RECEIVABLES (continued)

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 approximately RMB2,358,455,000 (2021: approximately RMB706,388,000). The Derecognised Bills had maturity of one to six 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 shall have recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all the 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 exposures 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, 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.

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Current		
Prepayments	462,515	233,070
Other receivables	1,197,573	911,825
Investment in wealth management products	–	569,500
Prepaid expenses	3,172	1,057
	1,663,260	1,715,452
Non-current		
Prepayments and other asset	508,261	602,175

The carrying amounts of other receivables, prepayments and prepaid expenses approximate to their fair values due to their relatively short maturity terms.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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Year ended 31 December, 2022

26. CASH AND BANK BALANCES/BANK DEPOSITS

Cash and bank balances

	2022 RMB'000	2021 RMB'000
Cash and bank balances, unrestricted	6,413,982	6,213,974
Time deposits with original maturity of less than three months	2,240,823	3,385,563
Time deposits with original maturity of more than three months	3,411,412	969,275
Cash and bank balances	12,066,217	10,568,812

At the end of the reporting period, the cash and bank balances, time deposits and pledged time deposits of the Group denominated in Renminbi ("RMB") amounted to approximately RMB8,255,442,000 (2021: approximately RMB6,139,791,000) in Mainland China. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Bank deposits

At the end of the reporting period, the bank deposits with a term of three years amounting RMB6,352,000,000 carried interest at market interest rates ranging from 3.15% to 3.98% per annum (2021: RMB4,972,000,000 with interest rates ranging from 3.36% to 4.18%). As at 31 December, 2022, the bank deposits with carrying amount of RMB100,000,000 and RMB750,000,000 was pledged for long term interest bearing bank borrowings and bills payables, respectively.

Notes to Financial Statements

Year ended 31 December, 2022

27. TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice receiving date, is as follows:

	2022 RMB'000	2021 RMB'000
Current to 90 days	996,140	1,073,974
91 days to 180 days	350,513	441,548
Over 180 days	290,698	177,630
	1,637,351	1,693,152

Trade and bills payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and bills payables approximate to their fair values due to their relatively short maturity terms.

28. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Accrued payroll and bonuses	1,855,400	1,674,985
Other payables	1,248,761	1,343,958
Dividend payable	294,421	–
Accrued expenses	4,197,103	3,160,738
Staff welfare and bonus fund	23,219	67,634
Tax payable other than profits tax	223,433	242,483
Contract liabilities	310,793	238,202
	8,153,130	6,728,000

Other payables are non-interest-bearing and have an average term of three months. The carrying amounts of the other payables and accruals approximate to their fair values due to their relatively short maturity terms.

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29. INTEREST-BEARING BANK BORROWINGS

	2022 RMB'000	2021 RMB'000
Analysed as:		
Unsecured	8,849,643	6,447,375
Secured (Note)	1,301,369	486,527
	10,151,012	6,933,902
Analysed as:		
Fixed interest rate	3,745,942	1,065,067
Variable interest rate	6,405,070	5,868,835
	10,151,012	6,933,902
Analysed as:		
Borrowings from banks	10,151,012	6,933,902
	10,151,012	6,933,902
The carrying amounts of the above borrowings are repayable:		
Within one year	6,217,153	6,520,565
Within a period of more than one year, but not exceeding two years	165,949	66,900
Within a period of more than two years, but not exceeding five years	3,480,419	93,000
Over five years	287,491	253,437
	10,151,012	6,933,902
Less Amounts due within one year shown under current liabilities	6,217,153	6,520,565
Amounts shown under non-current liabilities	3,933,859	413,337

Ranges of effective interest rates on the Group's fixed and variable-rate borrowings are as follows:

	2022	2021
Effective interest rate:		
Fixed rate borrowings	2.30%-5.64%	2.00%-5.64%
Variable rate borrowings	0.79%-5.54%	0.79%-2.00%

Details of the assets of the Group as at 31 December, 2022 and 2021 that have been pledged as collateral to secure the bank borrowings are set out in notes 14, 15, 16 and 26.

30. CONVERTIBLE BONDS

On 17 February, 2020, the Company completed the issuance and listing of EUR750,000,000 zero coupon convertible bonds due 2025 by way of debt issues to professional investors only. The investors of the convertible bond have the right to ask the Company to redeem part or all the convertible bonds they held at par value on 17 February, 2023. The bonds may be converted into conversion shares pursuant to the terms and conditions. Assuming full conversion of the bonds at the initial conversion price of HK\$19.09 per share and no further issue of shares, the bonds will be convertible into 338,380,041 shares, representing approximately 2.69 percent of the issued share capital of the Company as at 17 February, 2020, and approximately 2.62 percent of the issued share capital of the Company as at 17 February, 2020 as enlarged by the issue of the conversion shares upon full conversion of the bonds. The conversion shares to be issued upon conversion of the bonds will rank pari passu and carry the same rights and privileges in all respects with the shares then in issue on the relevant registration date.

On 20 July, 2020, the Company made an adjustment to the Conversion Price as a result of the Bonus Issue. The Conversion Price has been adjusted from HK\$19.09 per Share to HK\$12.72 per Share with effect from 25 July, 2020. The maximum number of Conversion Shares that will be issued upon conversion of all the outstanding Bonds at the current Conversion Price and the adjusted Conversion Price is 338,380,041 Shares and 507,836,084 Shares, respectively, representing an increase of 169,456,043 Shares issuable under the Bonds.

On 26 June, 2021, the Company made an adjustment to the Conversion Price in accordance with the terms and conditions of the Bonds that an adjustment will be made to the Conversion Price on the date after the record date for the payment of the final dividend for the year ended 31 December, 2020 and the quarterly dividend for the three months ended 31 March, 2021. The Conversion Price will be adjusted from HK\$12.72 per Share to HK\$12.56 per Share with effect from 26 June, 2021. The maximum number of Conversion Shares that will be issued upon conversion of all the outstanding Bonds at the current Conversion Price and the adjusted Conversion Price is 507,836,084 Shares and 514,305,333 Shares, respectively, representing an increase of 6,469,249 Shares issuable under the Bonds.

In December 2021, the Company redeemed EUR37,500,000 zero coupon convertible bonds with total consideration of EUR36,000,000, approximately equivalent to RMB259,395,957.

On 17 June, 2022, the Company made an adjustment to the Conversion Price in accordance with the terms and conditions of the Bonds that an adjustment will be made to the Conversion Price on the date after the record date for the payment of the final dividend for the year ended 31 December, 2021. The Conversion Price will be adjusted from HK\$12.56 per Share to HK\$12.41 per Share with effect from 23 June, 2022. The maximum number of Conversion Shares that will be issued upon conversion of all the outstanding Bonds at the current Conversion Price and the adjusted Conversion Price is 335,829,040 Shares and 339,888,214 Shares, respectively, representing an increase of 4,059,174 Shares issuable under the Bonds.

In April and May 2022, the Company redeemed EUR222,768,000 zero coupon convertible bonds with total consideration of EUR218,060,000, approximately equivalent to RMB1,672,095,000.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. Derivative component was initially measured at fair value and subsequently measured at fair value with changes in fair value recognised in profit or loss.

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30. CONVERTIBLE BONDS (continued)

The convertible bonds comprise two components:

- (a) was initially measured at fair value amounting to EUR680,291,000 (equivalent to RMB5,146,104,000). It is subsequently measured at amortized cost using the effective interest method after considering the effect of the transaction costs.
- (b) Derivative component comprises conversion options and early redemption options (not closely related to the debt component), which were initially measured at fair value amounting to EUR69,709,000 (equivalent to RMB527,316,000) and subsequently measured at fair value with changes in fair value recognised in profit or loss.

The total transaction costs of EUR8,137,605 (equivalent to RMB61,557,402) that are related to the issue of the convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values.

The convertible bonds issued have been split into the liability and embedded derivative components as follows:

2022

	Debt component RMB'000	Embedded derivative component RMB'000	Total RMB'000
As at 31 December, 2021	4,799,189	152,797	4,951,986
Repurchase	(1,610,688)	(51,816)	(1,662,504)
Exchange adjustments	175,884	10,530	186,414
Interest charged	81,872	-	81,872
Fair value change on derivative components	-	(75,696)	(75,696)
As at 31 December, 2022	3,446,257	35,815	3,482,072

2021

	Debt component RMB'000	Embedded derivative component RMB'000	Total RMB'000
As at 31 December, 2020	5,441,324	439,188	5,880,512
Repurchase	(252,588)	(8,043)	(260,631)
Exchange adjustments	(498,822)	(37,276)	(536,098)
Interest charged	109,275	-	109,275
Fair value change on derivative components	-	(241,072)	(241,072)
As at 31 December, 2021	4,799,189	152,797	4,951,986

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31. DEFERRED GOVERNMENT GRANTS

The Group's deferred government grants represented government grants received for the investment in long-term assets in production base or setting up research and development activities, which are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets or recognised as income on a systematic basis over the periods that the costs, which they are intended to compensate, are expensed.

32. DEFERRED TAX

Deferred tax liabilities

2022

	Development costs RMB'000	Fair value adjustment of financial investment at fair value through profit or loss RMB'000	Withholding tax RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 1 January, 2022	105,076	15,216	1,208,506	122,354	75,193	1,526,345
Deferred tax charged/(credited) to the statement of profit or loss (note 11)	40,947	(7,364)	169,428	(17,565)	(4,744)	180,702
Realised during the year	-	-	(218,376)	-	-	(218,376)
Gross deferred tax liabilities at 31 December, 2022	146,023	7,852	1,159,558	104,789	70,449	1,488,671

Deferred tax assets

2022

	Tax Loss RMB'000	Government grants RMB'000	Provision for receivables RMB'000	Accruals RMB'000	Elimination of profits on inventories RMB'000	Total RMB'000
At 1 January, 2022	47,490	109,525	15,658	650,490	156,457	979,620
Deferred tax credited/(charged) to the statement of profit or loss (note 11)	19,625	2,169	(254)	139,026	21,842	182,408
Gross deferred tax assets at 31 December, 2022	67,115	111,694	15,404	789,516	178,299	1,162,028

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32. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	505,148
Net deferred tax liabilities recognised in the consolidated statement of financial position	(831,791)
	(326,643)

Deferred tax liabilities

2021

	Development costs RMB'000	Fair value adjustment of financial investment at fair value through profit or loss RMB'000	Withholding tax RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Acquisition RMB'000	Total RMB'000
At 1 January, 2021	94,275	6,224	314,780	134,130	49,672	599,081
Acquisition of subsidiaries	-	-	-	-	129,866	129,866
Deferred tax charged/(credited) to the statement of profit or loss	10,801	8,992	1,367,053	(11,776)	(104,345)	1,270,725
Realised during the year	-	-	(473,327)	-	-	(473,327)
Gross deferred tax liabilities at 31 December, 2021	105,076	15,216	1,208,506	122,354	75,193	1,526,345

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32. DEFERRED TAX (continued)

Deferred tax assets

2021

	Tax Loss RMB'000	Government grants RMB'000	Provision for receivables RMB'000	Accruals RMB'000	Elimination of profits on inventories RMB'000	Total RMB'000
At 1 January, 2021	-	110,877	18,355	582,745	178,818	890,795
Acquisition of subsidiaries	35,292	-	-	-	-	35,292
Deferred tax credited/(charged) to the statement of profit or loss	12,198	(1,352)	(2,697)	67,745	(22,361)	53,533
Gross deferred tax assets at 31 December, 2021	47,490	109,525	15,658	650,490	156,457	979,620

For presentation purposes, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	334,865
Net deferred tax liabilities recognised in the consolidated statement of financial position	(881,590)
	(546,725)

The Group has tax losses arising in Hong Kong of approximately RMB241,585,000 (2021: approximately RMB204,034,000) 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 accumulated tax losses of approximately RMB 1,753,428,000 (2021: approximately RMB1,579,272,000) as they have occurred and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

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33. SHARE CAPITAL/TREASURY SHARES

Share capital

Shares

	2022 RMB'000	2021 RMB'000
Issued and fully paid: 18,813,867,230 ordinary shares of HK0.025 each (2021: 18,839,594,230 of HK0.025 each)	414,899	415,440

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
1 January, 2021	18,861,499,230	415,895
Shares repurchased and cancelled (Note (a))	(21,905,000)	(455)
At 31 December, 2021 and 1 January, 2022	18,839,594,230	415,440
Shares repurchased and cancelled (Note (a))	(25,727,000)	(541)
At 31 December, 2022	18,813,867,230	414,899

Notes

- (a) In December 2022, the Company has repurchased 22,727,000 (2021: 24,905,000) ordinary shares of HK\$0.025 (2021:HK\$0.025) each on the Stock Exchange at a total consideration of approximately HK\$99,560,000 (2021:HK\$152,003,000) (approximately RMB81,502,000 (2021:RMB126,776,000) (excluding expenses), of which, 25,727,000 (2021:21,905,000) ordinary shares have been cancelled as at 31 December, 2022.

33. SHARE CAPITAL/TREASURY SHARES (continued)

Treasury shares

A summary of movements in the Company's treasury shares is as follows:

	Number of shares repurchased	Treasury shares RMB'000
1 January, 2021	80,480,500	469,944
Repurchase of shares for cancellation	24,905,000	126,776
Repurchase of shares under share award scheme	44,950,000	206,154
Cancellation of treasury shares	(21,905,000)	(113,527)
At 31 December, 2021 and 1 January, 2022	128,430,500	689,347
Recognition of share-based payments	(8,577,623)	(29,723)
Repurchase of shares for cancellation	22,727,000	81,502
Repurchase of shares under share award scheme	228,945,000	786,111
Cancellation of treasury shares	(25,727,000)	(94,753)
At 31 December, 2022	345,797,877	1,432,484

34. SHARE OPTION SCHEME/SHARE AWARD SCHEME

Share option scheme

The Company operates a share option scheme (the "2013 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The 2013 Scheme became effective on 28 May, 2013 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2013 Scheme remains in force for 10 years from that date.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2013 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of which options over shares or other securities may be granted by the Group under any other scheme shall not exceed 10% of the issued share capital as at the date of adoption of the 2013 Scheme.

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34. SHARE OPTION SCHEME/SHARE AWARD SCHEME (continued)

Share option scheme (continued)

The total number of shares issued and to be issued upon exercise of options granted under the 2013 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding options, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2013 Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the shares in issue; and (b) having an aggregate value (based on the closing price of the shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2013 Scheme at any time during a period to be determined on the date of offer of grant of a share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of grant of options to a grantee, there is no minimum period required under the 2013 Scheme for the holding of a share option before it can be exercised.

The exercise price of the shares under the 2013 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the shares on the date of the offer of the grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2013 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued share of HK\$0.10 into four shares of HK\$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2013 Scheme accordingly.

No share options have been granted under the 2013 Scheme since 28 May, 2013.

34. SHARE OPTION SCHEME/SHARE AWARD SCHEME (continued)

Share award scheme

The Company operates a restricted share award scheme (the “2018 Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations, pursuant to which existing shares will be purchased by a trustee (the “Trustee”) from the market out of cash contributed by the Group and be held on trust for the eligible participants until such shares are vested.

The 2018 Scheme became effective on 5 January, 2018 and remains in force for 10 years from that date.

The maximum number of shares which the Trustee may purchase with funds contributed by the Group shall not exceed 3% of the total issued share capital of the Group as at the date of adoption of the 2018 Scheme. In addition, the maximum number of restricted shares which may be granted to a eligible participant at any time or in aggregate may not exceed 0.5% of the issued capital of the Company as at the date of adoption of the 2018 Scheme.

Pursuant to the 2018 Scheme, eligible participants include the directors and employees of the Company and any of its subsidiaries. Where any grant of the restricted shares is proposed to be made to a director (including the independent non-executive director), such grant must first be approved by all the independent non-executive directors and in each case excluding any independent non-executive director who is the proposed participant.

On 13 June, 2022, the Company granted 8,577,623 restricted shares in aggregate to a total of ten selected participants at nil consideration under the 2018 Share Award Scheme. The restricted shares vested immediately on the date of grant. Among the restricted shares granted, 6,342,623 shares were granted to Mr. Li Yi, David who was then an executive director. The grant of such restricted shares to Mr. Li Yi, David was made as a part of his remuneration package pursuant to the employment agreement entered into by the Company with Mr. Li Yi, David. Saved as disclosed above, no Shares have been awarded to any Selected Participants pursuant to the 2018 Share Award Scheme since the Adoption Date.

The fair value of the restricted shares granted during the year was RMB29,723,000 (RMB3.47 each) (2021: nil), of which the Group recognised a share base compensation of RMB29,723,000 (2021: nil).

As at 31 December, 2022, 345,797,877 Shares were held on trust by the trustee under the 2018 Share Award Scheme.

35. RESERVES

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

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35. RESERVES (continued)

(ii) Contributed surplus

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former group holding companies acquired pursuant to the group reorganisation as stated in the Company's prospectus dated 22 September, 2000, and the nominal value of the Company's shares issued in exchange therefor.

(iii) Reserve funds

In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), all subsidiaries established in the PRC are required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or be converted into additional paid-in capital of the subsidiaries.

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China. The reserve is dealt with in accordance with the accounting policy set out in note 2.4.

(v) Share premium

The share premium of the Group represents the share premium contributed by the shareholders of the Company.

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2022 RMB'000	2021 RMB'000
Percentage of equity interests held by non-controlling interests:		
CT Tianqing	40.0%	40.0%
NJCTT	44.4%	44.4%
Beijing Tide	42.4%	42.4%
LYG Runzhong	40.0%	40.0%

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36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

	2022 RMB'000	2021 RMB'000
Profit for the year allocated to non-controlling interests:		
CT Tianqing	1,791,317	1,684,622
NJCTT	330,994	200,262
Beijing Tide	370,470	254,307
LYG Runzhong	780,196	860,312
Accumulated balances of non-controlling interests at the reporting date:		
CT Tianqing	4,957,970	4,566,653
NJCTT	600,744	458,327
Beijing Tide	1,671,306	1,466,868
LYG Runzhong	1,644,626	1,631,497

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2022	CT Tianqing RMB'000	NJCTT RMB'000	Beijing Tide RMB'000	LYG Runzhong RMB'000
Revenue	14,327,883	3,863,404	3,498,752	3,334,835
Total expenses	(9,808,344)	(3,117,922)	(2,625,001)	(1,384,346)
Profit for the year	4,519,539	745,482	873,751	1,950,489
Total comprehensive income for the year	4,519,539	745,482	873,751	1,950,489
Current assets	11,534,992	2,691,189	3,500,095	3,534,195
Non-current assets	7,789,137	942,405	1,388,721	1,364,837
Current liabilities	(6,670,136)	(1,773,232)	(741,897)	(698,170)
Non-current liabilities	(259,068)	(507,335)	(205,160)	(89,298)
Net cash flows from operating activities	5,399,057	738,114	1,032,107	280,309
Net cash flows used in investing activities	(3,855,959)	(649,390)	(668,160)	(299,362)
Net cash flows used in financing activities	(3,146,582)	(86,802)	(407,077)	-
Net increase/(decrease) in cash and cash equivalents	(1,603,484)	1,922	(43,130)	(19,053)

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36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2021	CT Tianqing RMB'000	NJCTT RMB'000	Beijing Tide RMB'000	LYG Runzhong RMB'000
Revenue	14,464,987	2,859,017	3,084,784	3,474,318
Total expenses	(10,253,430)	(2,407,976)	(2,485,003)	(1,323,539)
Profit for the year	4,211,557	451,041	599,781	2,150,779
Total comprehensive income for the year	4,211,557	451,041	599,781	2,150,779
Current assets	8,593,157	1,702,364	2,878,161	3,559,413
Non-current assets	6,899,146	1,000,076	1,467,974	1,234,505
Current liabilities	(3,719,852)	(1,522,284)	(725,937)	(625,205)
Non-current liabilities	(355,819)	(147,889)	(160,604)	(89,971)
Net cash flows from operating activities	1,854,893	127,690	940,290	2,476,335
Net cash flows from/(used in) investing activities	401,668	375,866	30,162	(246,975)
Net cash flows used in financing activities	(683)	(627,200)	(290,736)	(2,221,508)
Net increase/(decrease) in cash and cash equivalents	2,255,878	(123,644)	679,716	7,852

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB46,378,000 and RMB43,502,000, respectively, in respect of lease arrangements for plant and equipment (2021: RMB147,349,000 and RMB147,219,000).

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37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

2022	Borrowings RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000	Dividend payable RMB'000	Total RMB'000
At 1 January, 2022	6,933,902	384,422	4,951,986	-	12,270,310
Changes from financing cash flows	2,721,220	(86,134)	(1,662,504)	(1,267,622)	(295,040)
Fair value loss	-	-	(75,696)	-	(75,696)
New leases	-	43,502	-	-	43,502
Foreign exchange movement	495,890	25,179	186,414	-	707,483
Interest expense	-	17,725	81,872	-	99,597
Final 2021 dividend declared	-	-	-	610,910	610,910
Interim 2022 dividend	-	-	-	951,133	951,133
At 31 December, 2022	10,151,012	384,694	3,482,072	294,421	14,312,199

2021	Borrowings RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000	Dividend payable RMB'000	Total RMB'000
At 1 January, 2021	8,474,940	293,560	5,880,512	3,482	14,652,494
Changes from financing cash flows	(1,296,269)	(80,708)	(260,631)	(938,489)	(2,576,097)
Fair value loss	-	-	(241,072)	-	(241,072)
New leases	-	147,219	-	-	147,219
Foreign exchange movement	(247,769)	4,632	(536,098)	-	(779,235)
Interest expense	-	19,719	109,275	-	128,994
Transaction cost allocated to embedded derivative	-	-	-	-	-
Final 2020 dividend declared	-	-	-	311,669	311,669
Interim 2021 dividend	-	-	-	623,338	623,338
Acquisition of subsidiaries	3,000	-	-	-	3,000
At 31 December, 2021	6,933,902	384,422	4,951,986	-	12,270,310

(c) Total cash outflow for leases

	2022 RMB'000	2021 RMB'000
Within financing activities	(86,134)	(80,708)
Within operating activities	(121,027)	(129,307)

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38. COMMITMENTS

- (a) The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
– Land, plant and machinery	773,514	900,632
– Capital investments	1,037,725	10,335
	1,811,239	910,967

- (b) The Group has various lease contracts that have not yet commenced as at 31 December, 2022. The future lease payments for these non-cancellable lease contracts are RMB22,904,000 due within one year, RMB59,795,000 due in the second to tenth years.

39. RELATED PARTY TRANSACTIONS

- (a) The Group had the following transactions and outstanding balances with related parties during the year:

	2022 RMB'000	2021 RMB'000
Associates:		
Sales of products (note (i))	19,718	177,022
Selling and marketing service income (note (ii))	95,691	78,512
Research and development service (note (ii))	33,867	62,427
Purchases of products (note (ii))	118,563	11,782

Notes:

- (i) The sales to an associate were made according to the published prices and conditions offered to the major customers of the Group.

The outstanding balance of the amount due from the associate as at 31 December, 2022 was RMB5,047,000 (31 December, 2021: RMB64,572,000).

- (ii) During the year of 2022, the Group provided selling and marketing services, research and development services to an associate with reference to market prices. Also, the Group made purchases from the associate according to the prices mutually agreed between both parties. The purchase was netted off by a receivable from the associate with an amount of RMB153,709,000 (2021: RMB87,772,000).

The outstanding balances of the amount due from the associate and the amount due to the associate as at 31 December, 2022 were RMB345,773,000 and RMB246,237,000, respectively.

39. RELATED PARTY TRANSACTIONS (continued)

(b) Loans due from associates

The Group has provided Karolinska Development AB, where the Group acts as the largest shareholder, with a bridge loan of SEK124,603,000 as at 31 December, 2021 with an annual interest rate of 8.0%. In February 2022, pursuant to the set off agreement, the bridge loan of SEK124,603,000 was set off against part of the subscription amount in connection with a new issue of B shares. The outstanding balance of loan due from the associate as at 31 December, 2022 was RMB nil (31 December, 2021: RMB 87,643,000).

In addition to the foresaid loans, the Group has provided loans to Jilin Chia Tai International Hospital and Jilin Chia Tai Bohua Hospital Co., Ltd., amounting to RMB60,000,000 with annual interest rates ranging from 4.35% to 9.6%, which have been fully impaired as at 31 December, 2021. The Group has provided loans to TEDA Cold Chain Logistics, amounting to RMB10,699,000 with rollover penalty (2021: RMB10,119,000). The Group has provided loans to pHion Therapeutics Ltd amounting to RMB16,630,000 with rollover penalty (2021: nil).

(c) Loans due to other related parties

As at 31 December, 2022 and 2021, the Group has a loan of RMB136,130,000 with repayment on demand from a related company wholly owned by Ms. Cheng, a shareholder and executive director of the Group.

(d) Key management personnel's remuneration

Remuneration of key management personnel of the Group, including amounts paid to the directors as disclosed in note 9 to the financial statements, is as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other short-term employee benefits	230,683	187,262
Pension scheme contributions	1,045	241
Employee restricted share award scheme	25,097	–
	256,825	187,503

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40. 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:

Financial assets

2022

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial assets at amortised cost	Total
	Held for trading	Designated as such upon initial recognition	Debt investments	Equity investments		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at fair value through profit or loss	312,207	—	—	—	—	312,207
Financial assets at fair value through profit or loss	4,543,239	4,104,618	—	—	—	8,647,857
Equity investments designated at fair value through other comprehensive income	—	—	—	1,574,808	—	1,574,808
Trade receivables	—	—	—	—	3,722,193	3,722,193
Bills receivable	—	—	916,203	—	—	916,203
Financial assets included in prepayments, other receivables and other assets	—	—	—	—	1,197,573	1,197,573
Amount due from related companies	—	—	—	—	382,742	382,742
Bank deposit	—	—	—	—	6,352,000	6,352,000
Cash and bank balances	—	—	—	—	12,066,217	12,066,217
	4,855,446	4,104,618	916,203	1,574,808	23,720,725	35,171,800

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40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets (continued)

2021

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Financial assets at amortised cost RMB'000	Total RMB'000
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Debt investments RMB'000	Equity investments RMB'000		
Equity investments designated at fair value through profit or loss	405,206	—	—	—	—	405,206
Financial assets at fair value through profit or loss	4,250,533	3,942,851	—	—	—	8,193,384
Equity investments designated at fair value t hrough other comprehensive income	—	—	—	1,988,238	—	1,988,238
Trade receivables	—	—	—	—	3,249,119	3,249,119
Bills receivable	—	—	971,548	—	—	971,548
Financial assets included in prepayments, other receivables and other assets	—	—	—	—	1,481,325	1,481,325
Amount due from related companies	—	—	—	—	404,767	404,767
Bank deposit	—	—	—	—	4,972,000	4,972,000
Cash and bank balances	—	—	—	—	10,568,812	10,568,812
	4,655,739	3,942,851	971,548	1,988,238	20,676,023	32,234,399

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40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial liabilities

2022

	Financial liabilities at fair value through profit or loss			Total RMB'000
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	
Trade and bills payables	–	–	1,637,351	1,637,351
Financial liabilities included in other payables and accruals	–	–	5,740,285	5,740,285
Derivative financial instruments	110,506	–	–	110,506
Interest-bearing bank borrowings	–	–	10,151,012	10,151,012
Convertible bonds – debt component	–	–	3,446,257	3,446,257
Convertible bonds – embedded derivative instruments	35,815	–	–	35,815
Amounts due to related companies	–	–	382,579	382,579
Contingent consideration	–	131,076	–	131,076
	146,321	131,076	21,357,484	21,634,881

2021

	Financial liabilities at fair value through profit or loss			Total RMB'000
	Held for trading RMB'000	Designated as such upon initial recognition RMB'000	Financial liabilities at amortised cost RMB'000	
Trade and bills payables	–	–	1,693,152	1,693,152
Financial liabilities included in other payables and accruals	–	–	4,504,696	4,504,696
Interest-bearing bank borrowings	–	–	6,933,902	6,933,902
Convertible bonds – debt component	–	–	4,761,913	4,761,913
Convertible bonds – embedded derivative instruments	190,073	–	–	190,073
Amounts due to related companies	–	–	237,662	237,662
Contingent consideration	–	227,983	–	227,983
	190,073	227,983	18,131,325	18,549,381

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
Financial assets				
Equity investments designated at fair value through profit or loss	312,207	405,206	312,207	405,206
Financial assets at fair value through profit or loss	4,543,239	4,250,533	4,543,239	4,250,533
Non-current : Financial assets at fair value through profit or loss	4,104,618	3,942,851	4,104,618	3,942,851
Equity investments designated at fair value through other comprehensive income	1,574,808	1,988,238	1,574,808	1,988,238
Bill receivables	916,203	971,548	916,203	971,548
	11,451,075	11,558,376	11,451,075	11,558,376
Financial liabilities				
Derivative financial instruments	110,506	–	110,506	–
Interest-bearing bank borrowings	10,151,012	6,933,902	10,158,018	6,936,114
Contingent consideration	131,076	227,983	131,076	227,983
Convertible bonds-debt component	3,446,257	4,799,189	3,607,012	5,150,328
Convertible bonds-embedded derivative components	35,815	152,797	35,815	152,797
	13,874,666	12,113,871	14,042,427	12,467,222

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Management has assessed that the fair values of cash and bank balances, bank deposit, amount due from related companies, trade receivable, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, and amounts due to related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December, 2022 were assessed to be insignificant.

The fair values of the listed equity investments are based on quoted market prices.

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December, 2022

	Fair value using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through profit or loss	312,207	–	–	312,207
Financial assets at fair value through profit or loss	–	4,543,239	–	4,543,239
Non-current: Financial assets at fair value through profit or loss	–	–	4,104,618	4,104,618
Bill receivables	–	916,203	–	916,203
Equity investments at fair value through other comprehensive income	265,602	–	1,309,206	1,574,808

As at 31 December, 2021

	Fair value using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Equity investments designated at fair value through profit or loss	405,206	–	–	405,206
Financial assets at fair value through profit or loss	–	4,250,533	–	4,250,533
Non-current: Financial assets at fair value through profit or loss	–	–	3,942,851	3,942,851
Bill receivables	–	971,548	–	971,548
Equity investments at fair value through other comprehensive income	812,391	–	1,175,847	1,988,238

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value

As at 31 December, 2022

	Fair value using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration	-	-	131,076	131,076
Convertible bonds – embedded derivative instruments	-	-	92,234	92,234

As at 31 December, 2021

	Fair value using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration	-	-	227,983	227,983
Convertible bonds – embedded derivative instruments	-	-	152,797	152,797

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

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Year ended 31 December, 2022

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value (continued)

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in level 2.

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

During the year, there were no transfers of fair value measurements among Level 1, Level 2 and Level 3.

(c) *Financial instruments in level 3*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair values of unlisted equity investments designated at fair value through other comprehensive income and unlisted investment (non-current) at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The fair value of the derivative component of convertible bonds has been estimated using the binominal option pricing model.

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Year ended 31 December, 2022

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities measured at fair value (continued)

(c) *Financial instruments in level 3 (continued)*

The recurring fair value measurement for the Group's financial assets and financial liabilities at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December, 2022. Below is a summary of the valuation techniques used and the key input to the valuation:

	Valuation techniques	Significant unobservable inputs
Financial assets		
Financial assets at fair value through profit or loss	Discounted cash flow method	Expected return rate
Unlisted equity investments, at fair value	Valuation multiples	Average P/B or P/E multiple of peers
Financial liabilities		
Contingent consideration	Discounted cash flow method	Profit forecasting
Convertible bonds-Embedded derivative components	Binominal option pricing model	Expected volatility Risk-free rate

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings, 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to Financial Statements

Year ended 31 December, 2022

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's bank borrowings with floating interest rates. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in HK dollars and US dollars interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	(Decrease)/ increase in profit before tax RMB'000	(Decrease) /increase in equity RMB'000
2022			
HK\$-denominated borrowings	50	(6,035)	(6,035)
US\$-denominated borrowings	50	(28,289)	(28,289)
HK\$-denominated borrowings	(50)	6,035	6,035
US\$-denominated borrowings	(50)	28,289	28,289
2021			
HK\$-denominated borrowings	50	(3,890)	(3,890)
US\$-denominated borrowings	50	(25,440)	(25,440)
HK\$-denominated borrowings	(50)	3,890	3,890
US\$-denominated borrowings	(50)	25,440	25,440

Foreign currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi and Hong Kong dollars. In Mainland China, foreign investment enterprises are authorised to convert Renminbi to foreign currencies in respect of the current account items (including payment of dividend and profit to a foreign joint venture partner).

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Year ended 31 December, 2022

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's equity (arising from USD and EUR denominated financial instruments):

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2022			
If Renminbi weakens against the US dollar	5	4,002	3,359
If Renminbi strengthens against the US dollar	(5)	(4,002)	(3,359)
If Renminbi weakens against the EURO	5	(16,461)	(13,745)
If Renminbi strengthens against the EURO	(5)	16,461	13,745
2021			
If Renminbi weakens against the US dollar	5	4,122	3,442
If Renminbi strengthens against the US dollar	(5)	(4,122)	(3,442)
If Renminbi weakens against the EURO	5	50,276	41,980
If Renminbi strengthens against the EURO	(5)	(50,276)	(41,980)

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 cash equivalents, equity investments at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. 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.

Notes to Financial Statements

Year ended 31 December, 2022

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group's liquidity remained strong as at the end of the reporting period. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group's exposure to liquidity risk is not significant.

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:

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	1,637,351	-	-	-	-	1,637,351
Other payables	5,740,285	-	-	-	-	5,740,285
Amounts due to related companies	246,449	-	-	136,130	-	382,579
Derivative financial instruments	-	110,506	-	-	-	110,506
Convertible bonds-debt component	-	-	3,607,012	-	-	3,607,012
Contingent consideration	-	-	13,799	78,358	110,819	202,976
Lease liability	-	17,164	46,861	171,506	81,871	317,402
Interest-bearing bank borrowings	-	2,239,588	4,257,761	3,942,500	328,611	10,768,460
	7,624,085	2,367,258	7,925,433	4,328,494	521,301	22,766,571

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	1,693,152	-	-	-	-	1,693,152
Other payables	4,504,696	-	-	-	-	4,504,696
Amounts due to related companies	101,532	-	-	136,130	-	237,662
Convertible bonds-debt component	-	-	-	5,150,328	-	5,150,328
Contingent consideration	-	-	77,948	65,222	194,277	337,447
Lease liability	-	18,365	44,557	114,516	164,140	341,578
Interest-bearing bank borrowings	5,932	617,578	5,954,466	250,011	233,664	7,061,651
	6,305,312	635,943	6,076,971	5,716,207	592,081	19,326,514

* The calculation of expected interest to be paid is based on borrowings as at 31 December, 2022 and 2021 and the interest rates as at 31 December, 2022 and 2021.

Notes to Financial Statements

Year ended 31 December, 2022

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the value of individual securities. The Group was exposed to equity price risk arising from individual equity investments classified as equity investments designated at fair value through profit or loss (note 22) and equity investments designated at fair value through other comprehensive income (note 20) as at 31 December, 2022. The Group's listed investments are listed on the Hong Kong Stock Exchange and New York Stock Exchange, and the investments were valued at quoted market prices at the end of the reporting period. The Group is also exposed to equity price risk arising from changes in the price of the Company's own shares to the extent that the Company's own equity investments underlie the fair values of the derivatives. As at the end of the reporting period, the Group was exposed to this risk through the conversion rights attached to the convertible bonds (note 30) issued by the Company.

The following table demonstrates the sensitivity to every 1% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2022			
Investments listed in			
Hong Kong – Financial assets at fair value through profit or loss	189,257	1,893/(1,893)	–
US – Financial assets at fair value through profit or loss	122,951	1,230/(1,230)	–
Hong Kong-Equity Investment at fair value through OCI	265,602	–	2,656/(2,656)
2021			
Investments listed in			
Hong Kong – Financial assets at fair value through profit or loss	80,810	808/(808)	–
US – Financial assets at fair value through profit or loss	324,396	3,244/(3,244)	–
Hong Kong-Equity Investment at fair value through OCI	564,647	–	5,646/(5,646)

* Excluding retained profits

Notes to Financial Statements

Year ended 31 December, 2022

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's abilities to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group funds its operations principally via its capital.

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. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December, 2022 and 2021.

43. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the announcement made on 9 March, 2023, the Company announced the completion of the acquisition of F-star Therapeutic, Inc for an aggregate cash consideration of approximately US\$161 million. The acquisition was completed on 8 March, 2023 (U.S. Eastern Time).

44. COMPARATIVE AMOUNTS

The comparative statement of profit or loss has been re-presented to be consistent with current period presentation. For the period ended 31 December, 2021, other gains with total amount of RMB550,482,000 and other losses with total amount of RMB298,788,000 have been re-presented to other gains or losses, net.

Notes to Financial Statements

Year ended 31 December, 2022

45. 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	12,178	13,905
Investment properties	278,180	277,700
Right-of-use assets	274,202	283,530
Other intangible assets	69,237	63,874
Investments in subsidiaries	2,382,863	2,210,177
Interests in associates	48,162	44,404
Equity investments designated at fair value through other comprehensive income	638,019	1,060,335
Financial assets at fair value through profit or loss	633,908	440,504
Prepayments and other asset	-	127,270
Total non-current assets	4,336,749	4,521,699
CURRENT ASSETS		
Due from subsidiaries	11,627,726	9,541,208
Prepayments, other receivables and other assets	54,667	64,974
Equity investments at fair value through profit or loss	312,207	405,206
Cash and bank balances	2,560,045	4,916,832
Financial assets at fair value through profit or loss	67,852	-
Total current assets	14,622,497	14,928,220
CURRENT LIABILITIES		
Other payables and accruals	192,468	77,912
Interest-bearing bank borrowings	3,338,853	5,788,062
Lease liabilities	32,920	31,350
Convertible bonds – debt component	3,446,257	-
Convertible bonds – embedded derivative instrument	35,815	-
Total current liabilities	7,046,313	5,897,324
NET CURRENT ASSETS	7,576,184	9,030,896
TOTAL ASSETS LESS CURRENT LIABILITIES	11,912,933	13,552,595
NON-CURRENT LIABILITIES		
Convertible bonds	-	4,951,986
Lease liabilities	273,083	281,666
Interest-bearing bank borrowings	3,477,686	71,467
Total non-current liabilities	3,750,769	5,305,119
Net assets	8,162,164	8,247,476
EQUITY		
Share capital	414,899	415,440
Treasury shares	(1,432,484)	(689,347)
Reserves (note 45)	9,179,749	8,521,383
Total equity	8,162,164	8,247,476

Notes to Financial Statements

Year ended 31 December, 2022

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

The summary of the Company's reserve is as follows:

	Issued capital RMB'000	Share premium account RMB'000	Treasury reserve RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January, 2021	415,895	12,668,722	(469,944)	65,051	(12,148,025)	603,192	271,769	4,491,849	5,898,509
Profit for the year	-	-	-	-	-	-	-	4,426,088	4,426,088
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	(161,539)	161,539	-
Fair value changes of financial assets	-	-	-	-	-	-	338,150	-	338,150
Exchange differences related to foreign operations	-	-	-	-	-	(1,147,334)	-	-	(1,147,334)
Total comprehensive income for the year	-	-	-	-	-	(1,147,334)	176,611	4,587,627	3,616,904
Repurchase of shares for cancellation	-	-	(126,776)	-	-	-	-	-	(126,776)
Repurchase of shares under share award scheme	-	-	(206,154)	-	-	-	-	-	(206,154)
Cancellation of treasury shares	(455)	(113,072)	113,527	-	-	-	-	-	-
Final 2020 dividend declared	-	-	-	-	-	-	-	(311,669)	(311,669)
Interim 2021 dividend	-	-	-	-	-	-	-	(623,338)	(623,338)
Issue of bonus shares	-	-	-	-	-	-	-	-	-
At 31 December, 2021	415,440	12,555,650	(689,347)	65,051	(12,148,025)	(544,142)	448,380	8,144,469	8,247,476

	Issued capital RMB'000	Share premium account RMB'000	Treasury reserve RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January, 2022	415,440	12,555,650	(689,347)	65,051	(12,148,025)	(544,142)	448,380	8,144,469	8,247,476
Profit for the year	-	-	-	-	-	-	-	2,127,058	2,127,058
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	-	(136,116)	136,116	-
Fair value changes of financial assets	-	-	-	-	-	-	(183,951)	-	(183,951)
Exchange differences related to foreign operations	-	-	-	-	-	371,514	-	-	371,514
Total comprehensive income for the year	-	-	-	-	-	371,514	(320,067)	2,263,174	2,314,621
Recognition of share-based payments	-	-	29,723	-	-	-	-	-	29,723
Repurchase of shares for cancellation	-	-	(81,502)	-	-	-	-	-	(81,502)
Repurchase of shares under share award scheme	-	-	(786,111)	-	-	-	-	-	(786,111)
Cancellation of treasury shares	(541)	(94,212)	94,753	-	-	-	-	-	-
Final 2021 dividend declared	-	-	-	-	-	-	-	(610,910)	(610,910)
Interim 2022 dividend	-	-	-	-	-	-	-	(951,133)	(951,133)
At 31 December, 2022	414,899	12,461,438	(1,432,484)	65,051	(12,148,025)	(172,628)	128,313	8,845,600	8,162,164

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March, 2023.