神威藥業
SHINEWAY

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2877

Annual Report 2023

LEADING
Modern Chinese Medicine
PROMOTING
Health Industry

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Liu TieJun
(ceased on 1 November 2023)

Independent non-executive Directors

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

Non-executive Director

Mr. Zhou Wencheng

BOARD COMMITTEES

Audit Committee

Mr. Liu Shun Fai *(Committee Chairman)*
Mr. Yew Yat On
Ms. Wang Guihua
(appointed on 1 April 2023)
Ms. Cheng Li
(ceased on 1 April 2023)

Remuneration Committee

Ms. Wang Guihua *(Committee Chairman)*
(appointed on 1 April 2023)
Ms. Xin Yunxia
Mr. Liu Shun Fai
Ms. Cheng Li
(ceased on 1 April 2023)

Nomination Committee

Mr. Li Zhenjiang *(Committee Chairman)*
Mr. Liu Shun Fai
Mr. Yew Yat On

Corporate Social Responsibility and Sustainability Committee

Mr. Liu Shun Fai *(Committee Chairman)*
Ms. Xin Yunxia
Mr. Yew Yat On
Ms. Wang Guihua
(appointed on 1 April 2023)
Ms. Cheng Li
(ceased on 1 April 2023)

AUTHORISED REPRESENTATIVES

Mr. Li Huimin
Mr. Lee Bun Ching, Terence

COMPANY SECRETARY

Mr. Lee Bun Ching, Terence

AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

REGISTERED OFFICE

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

CORPORATE INFORMATION

HEAD OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

As to Hong Kong Law
Woo Kwan Lee & Lo

As to Cayman Islands Law
Conyers Dill & Pearman, Cayman

STOCK CODE

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

WEBSITES

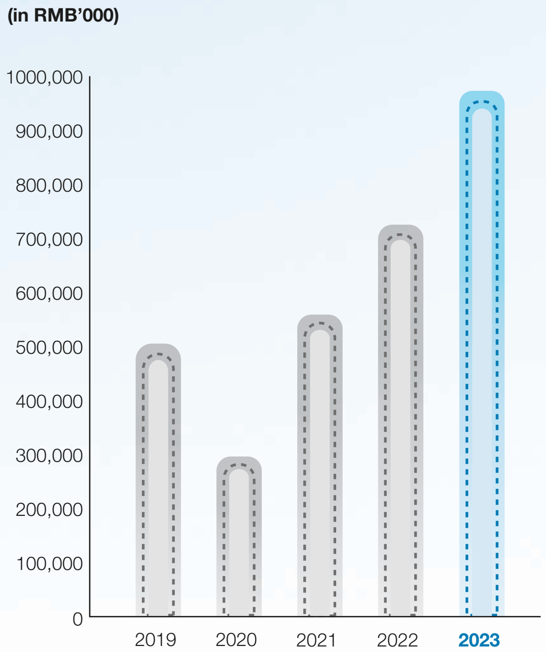
www.shineway.com.hk
www.shineway.com

FINANCIAL HIGHLIGHTS

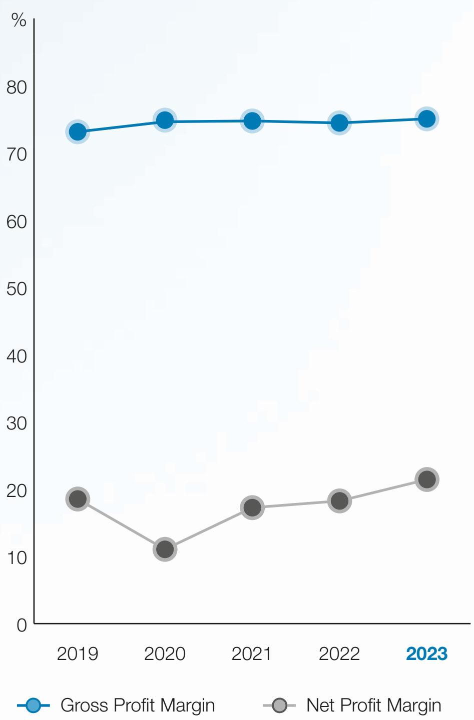
(in RMB'000)

	2019	2020	2021	2022	**2023**
RESULTS					
Turnover	2,705,996	2,655,701	3,223,550	3,950,636	**4,516,538**
Gross profit	1,981,565	1,987,846	2,410,336	2,938,314	**3,394,119**
Profit before taxation	642,772	395,024	720,103	917,025	**1,240,253**
Profit attributable to owners of the Company	503,150	295,033	556,674	722,773	**969,510**
Basic earnings per share	RMB0.64	RMB0.39	RMB0.74	RMB0.96	**RMB1.28**
Dividends	249,072	241,472	453,072	241,728	**317,268**
ASSETS AND LIABILITIES					
Total assets	7,131,341	7,213,508	7,203,958	8,231,861	**9,573,993**
Total liabilities	(1,354,414)	(1,419,326)	(1,302,477)	(1,849,335)	**(2,539,225)**
Total equity attributable the owners of the Company	5,776,927	5,794,182	5,901,481	6,382,526	**7,034,768**

Profit Attributable to Owners of the Company



Gross and Net Profit Margins



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2023, following the normalization of centralized procurement and the commencement of industry remediation, the pharmaceutical industry faced a new wave of challenges and opportunities. During the year, the Group has seized the opportunity and steadily implemented its strategic deployment, achieved cost reduction and efficiency enhancement, continued to improve its competitive edge and operating efficiency, strengthened its risk prevention ability, and promoted the steady development of its various businesses. Meanwhile, increased efforts in national policy support to traditional Chinese medicine ("TCM") industry, coupled with favourable policies such as the liberalization of the TCM formula granule, the Group is well positioned for better development opportunities.

In 2023, the Group' overall sales revenue and profit both reached record highs. Full-year sales exceeded RMB4.5 billion, representing an increase of 14.3% as compared to last year. Among them, sales of our respiratory system medications and exclusive oral products reported continued increases, while sales of the TCM formula granule also attained record high. The Group recorded net profit of RMB969 million for the year, representing an increase of 34.1% as compared to last year.

After considering the free cash flow and dividend policy, the board of directors (the "Board") of the Company resolved to declare the first interim dividend of 2024 (in lieu of a final dividend) amounting to RMB43 cents per share. Together with the 2023 second interim dividend amounting to RMB11 cents per share paid in September 2023, the total dividend relating to the profit for the financial year 2023 increased to RMB54 cents per shares. Dividend payout ratio for the year was 42.2%.

Currently, the pharmaceutical industry and the formula granules segment have entered a new stage of major reshuffle and consolidation, which also presents an important opportunity for the Group to strengthen innovation and core competitiveness. As one of the leading modern TCM enterprises, the Group is committed to making the TCM industry bigger and stronger and continuously steps into the forefront of innovative TCM technology. The Group also continues to build TCM innovation platforms, develop innovative TCMs with clinical advantages and characteristics in the advantageous fields of TCM, working for the health and well-being of the general public.

A number of research and clinical projects of the Group are progressing smoothly. Yiguan Jian Granule, a Class 3.1 innovative TCM and an ancient classical prescription, for which the Group was fully responsible for technical research, has been approved for product launch. In addition, phase III clinical trials of the exclusive innovative drugs of the Group, "Sailuotong Capsule" and "JC Soft Capsule" will soon be completed. "Yi Gong San Granules", a Class 1.1 innovative TCM independently developed by the Group, was also approved to carry out clinical trials during the year. "Yi Gong San Granules" originates from the classical prescription of the Song Dynasty and has been in clinical application for more than 900 years to treat anemia of chronic diseases. At present, there is no specific Chinese patent medicine for treating anemia of chronic disease on the market. "Yi Gong San Granules" will fill the market gap in the treatment of anemia of chronic disease after it is launched, which has great social value.

The year 2023 was the first year of economic recovery in the post epidemic era and a leap forward for the Group in achieving its "14th Five-Year Plan" strategic development. During the year, the Group held a kick-off meeting for the construction of the Smart Factory and established seven specialised project groups to promote the construction

CHAIRMAN'S STATEMENT

of various projects of the Group's modern Chinese medicine industrial park with the objectives of "automation, informatisation, digitisation and intelligence" under the guidance of the development strategy for the next ten years, with a view to developing the Group into the most cutting-edge intelligent factory within the nation and an internationally leading lighthouse factory, and to actively embark on the construction of smart supply chain projects. In particular, the Group focuses on the expansion of Shineway's modern TCM innovative technology industrialisation and the Smart Manufacturing Demonstration Plant project. Such projects focus on the concept of smart manufacturing and utilise advanced technological tools such as the industrial internet, the internet of things, big data analytics, artificial intelligence and cloud computing. By applying these advanced technologies, the Group is able to embark on a new chapter in the Group's third venture development with high quality.

China continued to ramp up its support and promotion for the development of TCM during the 14th Five-Year Plan period. During the year, the State Council issued the "Implementation Plan of Major Projects for the Revitalization and Development of Traditional Chinese Medicine", which proposed the implementation of eight major projects and twenty-six construction projects, and established objectives to, inter alia, facilitate the development of TCM to become an important support for the construction of a healthy China by 2025. Among which, it stipulated the establishment of 130 key hospitals featuring TCM, layout of 35 national TCM bases for the prevention and control of epidemic, and construction of 64 county-level medical centers of TCM in "Three Regions and Three Autonomous Prefecture (三區三州)" and 50 "flagship" hospitals for the synergy of TCM and Western medicine. In addition, the State Administration of Traditional Chinese Medicine, the National Development and Reform Commission, and the National Health Commission have jointly issued the "Notice on Comprehensively Strengthening the Construction of County-Level Traditional Chinese Medicine Hospitals and Basically Achieving Full Coverage of County-Level Traditional Chinese Medicine Institutions", which aims to basically achieve full coverage of county-level TCM institutions and consolidate the main battlefield of grass-root TCM services. The number of TCM institutions will increase significantly in an orderly manner.

At present, Chinese medicine is at its best strategic opportunity for development in recent years, and the Chinese medicine industry has broad prospects. The Group will continue to promote the marketing strategy of multi-products, multi-channels and multi-models in our core business to drive performance growth, and will continue to expand its dominant regional and national competitive advantages in formula granule. Moreover, the Group will actively press ahead with its digital transformation and smart manufacturing strategic planning, so as to build the Group into a business group capable of digital operation and management and digital marketing, with an aim to contribute to the high-quality development of Chinese medicine for the betterment of the people.

2024 marks the 40th anniversary of Shineway Pharmaceutical's reform and development, and the 20th anniversary of the Company's listing on The Stock Exchange of Hong Kong Limited. On behalf of the Board, I would like to express my heartfelt appreciation again to the shareholders, customers and strategic partners for their continued trust and unremitting support, as well as the management team and all staff personnel for their hard work amid the extremely challenging environment last year. Let us continue to work hard together to create sustainable growth of Shineway Pharmaceutical.

Li Zhenjiang
Chairman of the Board
Hong Kong, 28 March 2024

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS HIGHLIGHTS

In 2023, the TCM industry continued to enjoy opportunities for high-quality development as China devoted greater effort to propel TCM's revitalization and development. In the second half of the year, the launch of the remediation work in the pharmaceutical industry has built a clean and positive industry environment, which also underpinned the high-quality development of the medical and healthcare industry. However, the process inevitably brought about impacts on the industry. Facing TCM's development opportunities and the difficulties and challenges faced by the industry, the Group continued to work hard to strengthen its core marketing on terminal construction, academy and evidence-based medical research during the year. By doing so, the Group made remarkable results with both the overall sales revenue and profit setting a record high. Among them, the sales volume of TCM formula granules reached a new high, and sales of respiratory system medications and exclusive oral products reported continuous increase. The sales recorded throughout 2023 was RMB4,516,538,000, representing an increase of 14.3% as compared to last year. Net profit was RMB969,510,000, representing an increase of 34.1% as compared to last year.

The Group further enhanced quality and efficiency in 2023. The gross profit margin increased by 0.7 percentage point to 75.1% as compared to last year. Net profit margin increased from 18.3% last year to 21.5%, and earnings per share increased by 33.3% to RMB128 cents as compared to last year.

During the year, the Group generated net cash from operating activities of RMB932,635,000. Capital expenditures including those for construction of factories and production lines as well as purchasing equipment totalled approximately RMB144,325,000. As such, the Group's free cash flow for the year of 2023 amounted to approximately RMB788,310,000, which was equivalent to RMB0.95 per share (as calculated based on the total issued shares of 827,000,000).

After considering the free cash flow and dividend policy, the Board has decided to declare the first interim dividend for 2024 amounting to RMB43 cents per share (in lieu of a final dividend). Together with the 2023 second interim dividend amounting to RMB11 cents per share paid in September 2023, the total dividend relating to the profit for the financial year 2023 increased to RMB54 cents per share, representing a dividend payout ratio of 42.2%.

As of 31 December 2023, the Group's total bank balances and cash amounted to RMB5,888,776,000, and total bank borrowings amounted to RMB300,000,000. As calculated based on the total issued shares of 827,000,000, net cash per share of the Company amounted to HK$7.43, and net assets per share amounted to HK$9.36.

MANAGEMENT DISCUSSION AND ANALYSIS

Record High Sales Revenue

In 2023, the Group continued to focus on key products and comprehensively strengthened its terminal coverage and investments, with overall sales reaching a record high. Driven by the influenza drug Qing Kai Ling Injection, the overall sales of injection products recorded impressive growth, and the Group's exclusive products such as Huamoyan Granule and Qi Huang Tong Mi Soft Capsule also continued to grow during the year, with the exception of TCM formula granules the sales of which declined in the second half of the year, but continued to grow throughout the year. The table below shows the sales and growth rates of each dosage form in 2023 as compared to last year:

	Year-on-year growth rate in 2023			RMB'000	
	First half	Second half	Full year	Full year sales	Percentage of sales
Injections	**37.3%**	**14.1%**	**25.5%**	**1,785,836**	39.5%
Soft capsules	**19.0%**	**-25.2%**	**-3.6%**	**582,143**	12.9%
Granules	**28.5%**	**-2.7%**	**10.1%**	**693,589**	15.4%
TCM formula granules	**34.0%**	**-9.6%**	**8.9%**	**1,201,664**	26.6%
Other dosage forms	**36.3%**	**29.7%**	**33.0%**	**253,306**	5.6%
Oral products	**28.9%**	**-8.5%**	**8.0%**	**2,730,702**	60.5%
Total	**32.1%**	**-0.8%**	**14.3.%**	**4,516,538**	100.0%

Sales of injections products increased by 25.5% during the year. Amongst which sales of Qing Kai Ling Injection reached a record high since 2013, with a 75.1% increase to RMB850,751,000, as the incidence of influenza continued to increase. TCM injections for cardio-cerebrovascular diseases also achieved steady growth during the year. Sales of Shen Mai Injection increased by 0.6% to RMB187,883,000 during the year, while sales of Shu Xie Ning Injection and Guan Xin Ning Injection decreased by 11.0% and 3.5% to RMB184,385,000 and RMB292,790,000 respectively.

In 2023, the Group continued to focus on the development of the oral products market, with sales of oral products in the first half of the year up 28.9%. However, due to the impact of remediation work in the pharmaceutical industry and the centralised procurement of formulated granules in the second half of the year, overall sales of oral products slowed down in the second half of the year, but still recorded a sale growth of 8.0% for the full year. In 2023, sales of oral products accounted for 60.5% of the Group's overall sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of soft capsule products reported a positive growth in the first half of the year but declined in the second half of the year, resulting in an overall negative sales growth of 3.6% for the year, which was mainly attributable to the drop in sales of Wu Fu Xin Nao Qing Soft Capsule by 24.5% to RMB135,154,000 during the year. As for Qing Kai Ling Soft Capsule, the Group's exclusive respiratory system oral medication which has been included in the national "Diagnosis and Treatment Program for Influenza" for several times, its sales dropped by 7.6% to RMB87,623,000 for the year as compared with last year because there was a high base due to medication requirements as a result of the COVID-19 pandemic, while the sales of Huo Xiang Zheng Qi Soft Capsule recorded a 23.3% sales growth to RMB187,249,000 during the year.

For granule products, as driven by the Group's exclusive oral products such as Huamoyan Granule, Qi Huang Tong Mi Granule and Shu Jin Tong Luo Granule, the overall sales of granules increased by 10.1%.

ESSENTIAL DRUGS SALES INCREASED BY 32.8%

The Group regularly manufactured a total of 18 medications which are listed on the National Essential Drug List, including Qing Kai Ling Injection, Shen Mai Injection, Qing Kai Ling Soft Capsule, Huamoyan Granule, Huo Xiang Zheng Qi Soft Capsule, Compound Licorice Tablet and so on.

During the year, the overall sales of the Group's regularly-manufactured medications listed on the National Essential Drug List increased by 32.8% to RMB1,743,820,000, accounting for 38.6% of the Group's overall sales.

According to national policies, the essential drugs shall be prioritized for treatments in medical institutions at all levels and the proportion of use of essential drugs shall be increased. In particular, the proportion of essential drugs by number of types in primary public medical and healthcare institutions, second-tier public hospitals and third-tier public hospitals, should be no less than 90%, 80% and 60% respectively in principle, and medical institutions at all levels are required to follow the "1+X" protocol with essential drugs as the lead.

The government's promotion of the widespread use of essential drugs will drive the sustained growth of the Group's medications which are included in the National Essential Drug List.

MANAGEMENT DISCUSSION AND ANALYSIS

GROWTH OVERVIEW

In 2023, the sales of the Group's prescription and over-the-counter medications ("OTC medications") accounted for approximately 87.1% and 12.9% of the Group's total sales respectively. During the year, the overall sales of prescription medications increased by 14.6% as compared to the same period last year while the OTC medications recorded a 12.6% growth. The table below summarizes the growth of the Group by medicine category:

RMB'000	2022 Sales	**2023 Sales**	Percentage of sales	**2023 Sales growth**
Respiratory system prescription medications	678,646	**1,102,257**	24.4%	**62.4%**
TCM formula granules	1,102,958	**1,201,664**	26.6%	**8.9%**
Cardio-cerebrovascular injection prescription medications	839,629	**822,845**	18.2%	**-2.0%**
Exclusive oral prescription medications	415,870	**445,150**	9.9%	**7.0%**
Other prescription medications	395,628	**361,405**	8.0%	**-8.7%**
Prescription medications	3,432,731	**3,933,321**	87.1%	**14.6%**
OTC medications	517,905	**583,217**	12.9%	**12.6%**
Total	3,950,636	**4,516,538**	100.0%	**14.3%**

ANTI-INFLUENZA MEDICATIONS SERVING AS THE GROWTH ENGINE OF REVENUE

The Group's respiratory system prescription medications which are used for treating influenza served as the growth engine during the year, recording a total sales revenue of RMB1,102,257,000, representing a growth of 62.4% and accounting for 24.4% of the Group's overall sales revenue. Among them, sales of Qing Kai Ling Injection reached RMB850,751,000 during the year, up by 75.1%, accounting for 18.8% of the Group's total sales revenue. Other anti-influenza medications such as Compound Licorice Tablet also showed significant growth.

The Group's Qing Kai Ling medication mainly treats high fever, viral cold, and respiratory tract infections. Qing Kai Ling Injection has been listed on the National Essential Drug List and the National Reimbursement Drug List. It is an "Essential Drug for the Emergency Department of TCM Hospital" recognized by the National Administration of Traditional Chinese Medicine, and is also listed on the "Type A H1N1 Influenza Diagnosis and Treatment Program" by the state. During the COVID-19 pandemic, several provinces included Qing Kai Ling injection in the recommended medicine catalogue of their treatment programs. As an anti-influenza drug recommended by national institutions, there is a vast demand for Qing Kai Ling Injection. In 2023, there was a high incidence of influenza in China, during which the demand for Qing Kai Ling Injection was far exceeding its supply.

Qing Kai Ling Injection of the Group is mainly sold in basic medical institutions such as clinics and township health centers, but currently, a considerable proportion of Qing Kai Ling Injection of the Group is already being used in tertiary hospitals, highlighting the trend of the popularization of using TCM injections to treat influenza.

MANAGEMENT DISCUSSION AND ANALYSIS

TCM FORMULA GRANULES WON ALL THE BIDS INCLUDED IN CENTRALIZED PROCUREMENT BY INTER-PROVINCIAL ALLIANCE

The sales performance of the Group's TCM formula granules continued to grow, with sales revenue increasing significantly by 34.0% in the first half of 2023. However, due to the impact of remediation work in the pharmaceutical industry and the centralized procurement of TCM formula granules by an inter-provincial alliance consisting of fifteen provincial units, the graded hospitals had slowed down their procurement in the second half of the year, and the basic medical institutions even showed negative growth of procurement. Nevertheless, the sales revenue still recorded an increase of 8.9% to RMB1,201,664,000 for the year.

The Group's TCM formula granules accounted for 26.6% of the total sales revenue of the Group in 2023. In terms of sales revenue, the Group ranks among the top five listed companies nationwide for TCM formula granules.

During the year, the Group's TCM formula granules team continued to step up its efforts in the market development and personnel deployments of graded medical institutions and grass-root markets in Hebei, Yunnan and other provinces. Currently, tertiary hospitals in Hebei and Yunnan Provinces still contributed to the majority of the sales of TCM formula granules of the Group, accounting for 84.7% of the total sales of TCM formula granules, and tertiary hospitals in other provinces accounted for 1.9%. During the year, the Group's sales in grass-root medical institutions in provinces including Hebei, Yunnan and other provinces across the country accounted for 13.4% of the total sales of TCM formula granules.

In August 2023, a total of 15 provincial units including Shandong and Shanxi formed a inter-provincial alliance to commence the centralized procurement of 200 varieties that comply with national drug standards of TCM formula granules. The Group won all the bids for TCM formula granules, bringing a catalyst opportunity for the Group to accelerate the development of TCM formula granule market in the allied provinces.

In 2024, the Group's TCM formula granules business unit will continue to give priority to accelerating the development work in graded medical institutions in Beijing, Tianjin, Shandong and Anhui and the grass-root market across the country, and will carry out the work of the formula granule market in the 15 provinces of the inter-provincial alliance in an orderly manner.

The Group's production capacity of TCM formula granules has reached an annual production value of RMB5 billion. In the future, the Group will continue to implement its production capacity expansion plan based on market development.

RECOVERY IN THE DEMANDS FOR CHINESE MEDICINE INJECTIONS PRESCRIPTION MEDICINE FOR CARDIOVASCULAR AND CEREBROVASCULAR DISEASES

During the year, the Group recorded a 2.0% slight decrease in sales of a series of cardiovascular and cerebrovascular TCM injection prescription medicine to RMB822,845,000. In particular, sales of Shen Mai Injection, Huang Qi Injection and Xiang Dan Injection increased by 0.6%, 54.6% and 29.8% to RMB187,883,000, RMB34,501,000 and RMB48,705,000 respectively. Sales of Shu Xue Ning Injection, Guan Xin Ning Injection and Dan Shen Injection declined by 11.0%, 3.5% and 9.5% to RMB184,385,000, RMB292,790,000 and RMB74,580,000 respectively during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Various positive factors have led to a recovery in the demands for Chinese medicine injection these years. Chinese medicine injections of the Group have regained growth momentum since 2021. In recent years, a number of Chinese medicine injections have been included in the scope of centralized procurement for use in public medical institutions at all levels across the country and many provinces. During the pandemic, several Chinese medicine injections varieties were selected into the diagnosis and treatment plan for Novel Coronavirus Pneumonia recommended by the government institutions, with its clinical value being further verified. The National Healthcare Security Administration has further lifted the reimbursement restrictions on Chinese medicine injections in the year. With the acceleration of population aging, the demand for Chinese medicine injections for cardio-cerebrovascular diseases will become more prominent.

In December 2023, the National Medical Products Administration convened a meeting for establishing an expert group dedicated to the research and evaluation of post-market Chinese medicine injections to accelerate revaluation work for Chinese medicine injections, in order to distinguish the good from the bad and provide an objective evaluation of Chinese Medicine injections.

SUSTAINED GROWTH MOMENTUM OF EXCLUSIVE ORAL PRESCRIPTION PRODUCTS

The Group's exclusive products maintained its growth momentum in sales in 2023, and recorded an increase of 7.0% to RMB445,150,000 for the year. Among them, sales of Huamoyan Granule, Qi Huang Tong Mi Soft Capsule, Jiang Zhi Tong Luo Soft Capsule, and Shu Jin Tong Luo Granule for the year increased by 5.2%, 7.7%, 16.1% and 40.8% to RMB242,974,000, RMB73,653,000, RMB41,677,000 and RMB22,689,000 respectively as compared to the same period of last year.

Huamoyan Granule is the only innovative Chinese Medicine for treating knee joint synovitis approved by the National Medical Products Administration. It has filled the gap in both Western medicines and TCM in the treatment of synovitis in China.

Qi Huang Tong Mi Soft Capsule is the only next-generation modern Chinese medicine on the market for treating functional constipation in the elderly that is laxative without causing diarrhea, while also being sustainable and effective.

Jiang Zhi Tong Luo Soft Capsule is the only lipid-regulating medication with a hepato-protective effect and can effectively treat hyperlipidemia with good safety.

The Group will continue to actively strengthen evidence-based medical research, and through boosting terminal investments and academic promotion, to expand the sales of the Group's exclusive oral prescription products.

ACCELERATE THE DEVELOPMENT OF OTC MEDICATIONS THROUGH THE STRATEGIC COOPERATION WITH JD GROUP

The Group has a number of well-received OTC medications with sustained growth potential, which are available at more than 300,000 retail pharmacies nationwide and key internet pharmacy platforms.

In 2023, the sales of OTC medications of the Group increased by 12.6% to RMB583,217,000, of which sales of Huo Xiang Zheng Qi Soft Capsule increased by 23.3% to RMB187,249,000, but the Group's series of OTC granules for treating respiratory diseases in children recorded a negative growth of 1.0% during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the Group entered into a strategic cooperation agreement with JD Group ("JD"), pursuant to which, both parties will comprehensively cooperate in digital marketing and the establishment of an intelligent supply chain system. The Group's strategic cooperation with JD focuses on digital marketing. Through the online and offline self-operated pharmacies of JD, Yaojingcai Pharmacy Alliance (藥京采聯盟藥房), chain pharmacies of Shineway and other channels, the Group rapidly completed the online and offline layout of its products and enhanced its service capabilities across the country. In the meantime, by sharing the resources of internet hospital and carrying out digital marketing and cooperated promotion across channels, the Group expanded the coverage and improved the overall competitiveness of its products through various means, such as academic marketing and patient management.

The Group will continue to strengthen marketing efforts to drive continued growth of its OTC medications.

CONTINUOUSLY INCREASE INVESTMENT IN SCIENTIFIC RESEARCH RESOURCES

By continuously increasing its investment in scientific research resources, the Group initiated projects precisely to develop new modern Chinese medicines with unique curative effects, focusing on the research and development of oral preparations and the treatments of chronic diseases. Particularly, the fields where no cures can be provided by Western medicines are the Group's spotlight. In addition, the Group is well placed to take advantage of its knowhow on modernizing Chinese medicines. Extensive effort will also be put into accelerating the commercialization of the Group's research findings and ensuring that clinical and production approvals for new products must be obtained each year. The Group will publish seminal academic articles to form the evidence-based medical proof for academic promotion of the Group's products, and eventually lead products into the recommended clinical practices and guidelines. The end results are to render academic support for the market development and sales of the Group's key products, as well as providing the Group with innovative products for its sustainable development.

CLINICAL TRIALS OF NEW DRUGS

Currently, the Group has a number of research projects which are progressively being put on pharmaceutical and clinical trials, among which 3 exclusive innovative medications, namely Sailuotong Capsule, Q-B-Q-F Condensed Pill and JC Soft Capsule, are still undergoing Phase III clinical trials.

Sailuotong Capsule, an innovative "Compound Chinese Medicine" developed with modern innovative technology for treatment of vascular dementia, is now under Phase III clinical trials. Vascular dementia is the second most common cause of dementia following Alzheimer's disease. At present, there are no effective therapeutic drugs for vascular dementia, and the drugs commonly used in clinical application can only delay the course of the disease and slow down the functional degeneration. Upon success of its research and development, Sailuotong Capsule will bring innovative clinical breakthroughs for vascular dementia patients.

Q-B-Q-F Condensed Pill, for curing mycoplasma pneumonia in children, is currently at its Phase III clinical trial through the green channel. At present, macrolides (including azithromycin), are generally mainly used in clinical treatment for mycoplasma pneumonia in children. Due to repeated clinical uses, resistance of these medications has increased significantly. The entering of Q-B-Q-F Condensed Pill into the market will ease the clinical dilemma where drug-resistant mycoplasma pneumoniae infection turns incurable.

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

Please refer to the interim reports and annual reports announced in previous years for the detailed descriptions and market potential of Sailuotong Capsule and the other two medications.

CLINICAL APPROVAL OF NEW DRUGS

During the year, the Group received approval from the National Medical Products Administration to carry out the clinical trial of Yi Gong San Granules (異功散顆粒), a new drug under Class 1.1 of TCM developed by the Group. Yi Gong San Granule comes from the classical prescription of the Song Dynasty. It has been in clinical application for more than nine hundred years to treat anemia of chronic disease. At present, there is no specific Chinese patent medicine for treating anemia of chronic disease in the market. Previous studies have demonstrated the clinical efficacy of Yi Gong San Granules in the treatment of anemia of chronic disease, especially in cases where EPO therapy with erythropoietin is ineffective. Yi Gong San Granules will fill the market gap in the treatment of anemia of chronic disease with Chinese patent medicine when it is launched.

LAUNCH OF NEW DRUGS FROM CLASSICAL PRESCRIPTIONS

On 26 December 2023, Yiguan Jian Granule (一貫煎顆粒), a new drug under Class 3.1 of TCM coming from ancient classical prescriptions, and for which the technical research was wholly responsible by the Group, was approved for launch. Yiguan Jian Granule is used for the treatment of chronic hepatitis, chronic gastritis, gastric and duodenal ulcers, intercostal neuralgia and other diseases. The Group was the first to obtain a marketing licence for this kind of medicine.

Ancient classical prescriptions refer to the prescriptions recorded in ancient Chinese medicine books, which are still broadly used nowadays with clear efficacy and have obvious characteristics and advantages, and are the classic carrier of TCM culture. At present, the state is vigorously supporting the development of innovative TCM based on ancient classical prescriptions, experienced prescriptions of famous and veteran Chinese medicine practitioners, Chinese medicine preparations of medical institutions which have rich experience in the clinical practice of Chinese medicine practitioners. Guided by the latest national policies, the Group is accelerating the registration and launching of several new drugs developed from ancient classical prescriptions of Chinese medicine under Class 3.1 of TCM. During the year, the Group also submitted the new drug listing application for another classical prescription, Shaoyao Gancao Decoction Granule (芍藥甘草湯顆粒) under Class 3.1 of TCM. Shaoyao Gancao Decoction Granule is based on an ancient classical prescription for relieving spasm and pain in various diseases characterized by muscle spasms and pain. Currently, the Group has a total of nearly 100 research and development projects of new TCM based on ancient classical prescriptions.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Turnover

In 2023, the Group recorded an increase in turnover of 14.3% from last year. Sales of injection products reached approximately RMB1,785,836,000, up approximately 25.5% as compared with 2022. Sales of injection products accounted for approximately 39.5% of the Group's turnover. Sales of soft capsule products were approximately RMB582,143,000, down approximately 3.6% from last year. Soft capsule products accounted for approximately 12.9% of the Group's turnover. Sales of granule products amounted to approximately RMB693,589,000, up approximately 10.1% from last year. Granule products accounted for 15.4% of the Group's turnover. Sales of TCM formula granules were approximately RMB1,201,664,000, representing an increase of 8.9% from last year and accounting for 26.6% of the Group's turnover. Sales of the Group's products in other dosage forms were approximately RMB253,306,000 which accounted for approximately 5.6% of the Group's turnover.

The aggregate sales attributable to the largest customer and ten largest customers accounted for 5.8% and 18.8% respectively of the Group's turnover.

Cost of Sales

Cost of sales in 2023 was approximately RMB1,122,419,000 representing approximately 24.9% of total turnover. Direct materials, direct labor and other production costs accounted for approximately 66.1% (2022: 59.9%), 14.9% (2022: 16.4%) and 19.0% (2022: 23.7%) of total cost of sales respectively.

Gross Margin

In 2023, average gross margins of injection products, soft capsule products, granule products and TCM formula granule products were approximately 76.7% (2022: 74.2%), 77.5% (2022: 73.7%), 77.5% (2022: 77.3%) and 74.0% (2022: 74.8%) respectively. Overall gross margin of the Group was 75.1% (2022: 74.4%).

Other Income

Other income mainly included government subsidies of RMB143,257,000 (2022: RMB106,379,000). The government subsidies mainly represented incentives received from government for research and development and investments in relevant regions in PRC by the Group.

Investment Income

Investment income mainly included interest income from bank deposits, interest income from structured deposits and investments in financial products of RMB94,833,000 (2022: RMB92,357,000), RMB374,000 (2022: RMB74,000) and RMB10,306,000 (2022: RMB6,668,000) respectively.

Other Gains and Losses

In 2023, other gains and losses mainly comprised net exchange gains arose from the change in exchange rate between Renminbi and Hong Kong dollars/Australian dollars of approximately RMB6,605,000 (2022: net exchange losses of RMB8,515,000).

Impairment Losses on Financial Assets

In 2023, respective impairment of RMB3,954,000 (2022: RMB10,432,000) and RMB1,486,000 (2022: reversal of impairment of RMB1,604,000) for trade receivables and trade receivables backed by bank bills were accounted for after the expected credit risk of financial assets assessment by the Group's management.

Selling and Distribution Costs

Selling and distribution costs comprised advertising expenses, distribution and promotion expenses, wages of salespersons and other market promotion and development expenses. Although the overall distribution costs increased by approximately 9.0% in 2023, the selling and distribution costs to turnover ratio decreased by approximately 2.1 percentage points, as compared with that of last year and accounted for approximately 43.9% of the Group's turnover in 2023 (2022: 46.0%). The increase in distribution costs was mainly due to the increase in market promotion expenses of 12.5% as compared to last year. Market promotion expenses accounted for approximately 36.0% (2022: 36.6%) of the Group's turnover.

Administrative Expenses and Research and Development Costs

In 2023, administrative expenses increased by 16.7% as compared to last year, representing approximately 7.2% (2022: 7.1%) of the Group's turnover. The increase in administrative expenses was mainly attributable to the rise in salaries of administrative staff in a range of 7% to 9% and the distribution of performance related bonuses during the year. Administrative expenses mainly comprised (i) salaries of administrative staff and (ii) depreciation expenses of non-productive fixed assets and amortization expenses of intangible assets which accounted for 2.6% and 1.2% of the Group's total turnover in 2023 respectively. Research and development expenses decreased by approximately 6.0% from last year, accounted for approximately 2.4% (2022: 3.0%) of the Group's turnover in 2023.

Income Tax Rates

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

Certain subsidiaries which are operating in Western China have been granted tax concession by the local tax bureau and enjoyed a PRC EIT concessionary rate of 15.0% (2022: 15.0%). Certain subsidiaries which were recognised as High and New-tech Enterprises have been granted tax concessions by the local tax bureau and enjoyed a PRC EIT concessionary rate of 15.0% for 2022 and 2023. In addition, a subsidiary which is operating in agricultural products business has been granted tax exemption by the local tax bureau.

In 2023, the effective tax rate of the Group was 21.8% (2022: 21.2%).

MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Year

The Group's profit attributable to shareholders of the Company for 2023 was RMB969,510,000, representing an increase of approximately 34.1% from 2022. The increase in profit was mainly attributable to the increase in overall sales revenue of the Group, enhanced cost control and the overall improvement in the Group's operating results.

Liquidity and Financial Resources

As at 31 December 2023, bank balances and cash and structured deposits of the Group amounted to approximately RMB5,908,776,000 (2022: RMB5,046,495,000), of which approximately RMB5,068,088,000 (2022: RMB4,831,946,000) were denominated in RMB, others being equivalent to approximately RMB23,191,000, RMB813,868,000 and RMB3,629,000 (2022: RMB129,406,000, RMB81,618,000 and RMB3,525,000) were denominated in Hong Kong dollars, Australian dollars and United States dollars respectively.

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

Dividends

Details of dividends are set out in the directors' report on page 27 of this annual report.

Capital Structure

For the year ended 31 December 2023, there was no change in the capital structure of the Group and issued share capital of the Company.

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

As at 31 December 2023, trade receivables backed by bank bills and trade receivables increased by 66.5% and 12.6% respectively as compared to the balance as at 31 December 2022. Turnover days of trade receivables backed by bank bills and trade receivables were 32.5 days and 57.8 days (2022: 32.4 days and 50.7 days) respectively.

Inventories

As at 31 December 2023, inventories in the amount of RMB897,709,000, increased by approximately 36.5%, as compared to the balance as at 31 December 2022. As at 31 December 2023, raw materials, work in progress and finished goods accounted for 18.9%, 49.4% and 31.7% (2022: 34.5%, 33.9% and 31.6%) of inventories respectively. Turnover of finished goods inventories in 2023 was 80.1 days as compared to 75.6 days in 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Property, Plant and Equipment

As at 31 December 2023, property, plant and equipment amounted to approximately RMB1,205,287,000, decreased by approximately 1.0% as compared to last year. During 2023, the Group commenced various workshop modification projects in Shijiazhuang, which amounted to approximately RMB45,968,000 in total. The Group also had new additions to leasehold land, leased/owned properties, plant and machineries, office equipment and motor vehicles of approximately RMB120,209,000 in total during the year. Besides, following the adoption of IFRS 16, property, plant and equipment had included the leasehold land and leased properties, which had respective net book values of RMB165,207,000 and RMB1,279,000 as at 31 December 2023.

The depreciation expense of property, plant and equipment expenses for the year amounted to RMB162,544,000 (2022: RMB166,784,000).

Intangible Assets

Intangible assets represented patents and production licenses with finite useful lives. During the year, the amortisation expense of intangible assets was approximately RMB14,558,000.

Goodwill

Goodwill is comprised of the Group's acquisition of the remaining 20% equity interests of Shineway Pharmaceutical Sales Company Limited in 2005, the acquisition of 100% equity interests of Shineway Pharmaceutical (Zhangjiakou) Co., Ltd and Shineway Pharmaceutical (Sichuan) Company Limited in 2010, the acquisition of 100% equity interest of Shineway Pharmaceutical Group (Shandong) Company Limited in 2014, the acquisition of 100% equity interest of Yunnan Shineway Spirin Pharmaceutical Company Limited in 2015 and the acquisition of 100% equity interest of Shineway Pharmaceutical (Kunming) Company Limited (formerly known as Yunnan Liangfang Pharmaceutical Co., Ltd.) in 2021.

Trade Payables

As at 31 December 2023, turnover days of trade payables was 129.0 days (2022: 96.8 days).

Bank Borrowings

As at 31 December 2023, the Group had bank borrowings of RMB300,000,000 (2022: Nil) with interest rate of Loan Prime Rate minus 200 basis point and is repayable within one year. The proceed was used to finance the Group's daily operations. As at 31 December 2023, the Group's gearing ratio based on interest bearing debt for the year was 4.3% (2022: Nil).

Employees

As at 31 December 2023, the Group had 3,436 (2022: 4,131) employees. Remuneration was determined and reviewed based on fair principles with reference to market conditions and individual performance. The Group also provided other benefits to its employees, including medical insurance and retirement benefits. The Group's employees in Hong Kong were also enrolled in the Mandatory Provident Fund Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Fluctuations in Exchange Rates

A majority of the business transactions and liabilities of the Group are denominated in Renminbi and Hong Kong Dollars. The Group adopts a conservative financial policy and a majority of its bank deposits are in Renminbi and Hong Kong Dollars. The exchange gain for the year arose from the change in exchange rate between Renminbi and Hong Kong Dollars/Australian Dollars. As at 31 December 2023, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2023 (2022: Nil).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors ("ED")

LI Zhenjiang (李振江), aged 68, is an executive Director and one of the founders of the Group. Mr. Li obtained an EMBA degree from the Yangtze Commercial Institute. Mr. Li joined the predecessor of the Group in 1974 and has been the Chairman and President of the Group and its predecessor since 1984 with responsibility for business development and strategy. He has more than 30 years' experience in the operation and management of modern Chinese medicine enterprises. Mr. Li takes charge of the overall management of the Group and is also specifically responsible for the Group's research and development activities. Mr. Li is a Representative to the 10th, 11th and 12th National People's Congress. He was named as an Outstanding Entrepreneur in the PRC Pharmaceutical Industry in 1994 and has received a National Wu Yi Labour Award and special subsidies of the State Council. Mr. Li is the vice-chairman of the PRC Chinese Medicine Association. Mr. Li is also directors of several members of the Group.

XIN Yunxia (信蘊霞), formerly known as XIN Yunxia (信雲霞), aged 60, is an executive Director and one of the founders of the Group. Ms. Xin graduated from the Yangtze Commercial Institute with an EMBA degree. Ms. Xin is primarily responsible for the Group's human resources management and operation. Ms. Xin joined the predecessor of the Group in 1981, focused on administration. She was the Deputy General Manager (human resources management) of Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical") immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004. Ms. Xin has more than 30 years' experience in business management in the industry with the Group.

LI Huimin (李惠民), aged 56, is an executive Director. He obtained an EMBA degree from Chinese University of Hong Kong in 2016. He is primarily responsible for the marketing and sales of the Group's products and, since joining the predecessor of the Group in 1992, focused on sales and marketing. Immediately prior to the corporate reorganisation in preparation of the listing of the Company in 2004, Mr. Li was the sales and marketing manager of Shineway Medical. He has developed a deep understanding of sales management in the PRC Chinese medicine industry with more than 25 years' experience. Mr. Li is the vice-chairman of Hong Kong Chinese Prepared Medicine Traders Association since 2010.

LIU Tiejun (劉鐵軍), aged 49, was appointed as an executive Director on 1 November 2022 and ceased to be an executive Director on 1 November 2023.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors ("INED")

LIU Shun Fai (廖舜輝), aged 52, was appointed as an INED on 1 November 2021. He is currently an executive director, the company secretary and the chief financial officer of AMVIG Holdings Limited (together with its subsidiaries, the "AMVIG Group"). He is responsible for the accounting, finance and treasury function of the AMVIG Group. He graduated from the Chinese University of Hong Kong with a bachelor's degree and a master's degree in Business Administration in 1992 and 1999 respectively and is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Liu has more than 30 years of auditing and accounting experience. Before joining the AMVIG Group in August 2007, Mr. Liu had been the financial controller and the qualified accountant of two other companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for 9 years and had also worked in an international accounting firm for 8 years.

YEW Yat On (姚逸安), aged 52, was appointed as an INED on 1 October 2022. He has near 30 years of experience in investment banking and finance. He held various senior positions in several international, Hong Kong and China investment banks and handled a number of initial public offering and merger and acquisition deals. He is the founder and managing director of Alliance Capital Partners Limited, a leading boutique corporate finance house carrying Type 1 and Type 6 regulated activities under the Securities and Futures Ordinance. Mr. Yew holds an Executive Diploma in Organization Leadership from Saïd Business School, University of Oxford, and obtained a Master of Science degree in Investment Management from The Hong Kong University of Science and Technology, and a Bachelor of Arts degree from The University of Hong Kong. Mr. Yew is a chartered financial analyst. Mr. Yew was appointed as an non-executive director of Ajisen (China) Holdings Limited (HKEX Stock code: 538) on 7 June 2023

WANG Guihua (王桂華), aged 63, was appointed as an independent non-executive Director on 1 April 2023. Ms. Wang is a holder of undergraduate degree and is a deputy chief pharmacist. She has more than 30 years of experience in operation and management of Chinese medicine enterprises. She served as a director of Shandong Wohua Pharmaceutical Technology Co., Ltd.* (山東沃華醫藥科技股份有限公司) (the shares of which are listed on the Shenzhen Stock Exchange ("SZSE") (stock code: 002107)) from February 2019 to February 2022; an independent director of Chongqing Huasen Pharmaceutical Co., Ltd.* (重慶華森製藥股份有限公司) (the shares of which are listed on the SZSE (stock code: 002907)) from September 2015 to September 2021; and an independent director of Guangdong Taiantang Pharmaceutical Co., Ltd.* (廣東太安堂藥業股份有限公司) (the shares of which are listed on the SZSE (stock code: 002433)) ("Guangdong Taiantang") from May 2016 to January 2023, and has served as the secretary general of the China Association of Traditional Chinese Medicine/National Technical Committee of Standardization of Traditional Chinese Medicine* (中國中藥協會/全國中藥標準化技術委員會) since August 2005; an independent director of Hainan Huluwa Pharmaceutical Group Co., Ltd. (海南葫蘆娃藥業集團股份有限公司) (the shares of which are listed on the Shanghai Stock Exchange ("SHSE") (stock code: 605199)) since November 2018; an independent director of Beijing Tongrentang Co., Ltd.* (北京同仁堂股份有限公司) (the shares of which are listed on the SHSE (stock code: 600085)) and an independent director of Sailing Pharmaceutical Technology Group Co., Ltd* (賽靈藥業科技集團股份有限公司) since June 2021.

DIRECTORS AND SENIOR MANAGEMENT

CHENG Li (程麗), aged 64, was appointed as an INED in 2006 and ceased to be an INED on 1 April 2023. She has a legal science bachelor's degree and the legal science master's degree from the law department of Japan Special Training University. She also studied in Sino-Japanese Investment Trade Promotion Association. She joined Commerce & Finance Law Office in 1995 and became a partner of Commerce & Finance Law Office since 2002. She is currently a member of Beijing Lawyer Association.

Non-Executive Director ("NED")

ZHOU Wencheng (周文成), aged 48, was appointed as a non-executive director on 1 October 2020. Mr. Zhou graduated from the Faculty of Finance and Taxation of the Hebei University of Economics and Business, is a certified tax agent of the People's Republic of China. Mr. Zhou has more than 20 years' experience in financial and taxation management. He has been the chief executive officer of Kexin Enterprise Consulting Group Company Limited since 2017, and has provided financial and taxation consultancy services for various large and medium-sized domestic enterprises.

SENIOR MANAGEMENT

LIU Tiejun (劉鐵軍), aged 49, joined the Group in 1999 and was appointed as vice president of Shineway Pharmaceutical Group Limited ("Shineway Pharmaceutical") (an indirect wholly-owned subsidiary of the Company) on 16 May 2013. Mr. Liu is qualified as a senior engineer and is a certified pharmacist. He graduated from Hebei Medical University in 1999 with a bachelor's degree in pharmacy. Mr. Liu is a member of the China Association of Chinese Medicine (Chinese Medicine Branch) and a deputy director of the National and Local United Engineering Laboratory for the Development Technology of New Chinese Medicine Injection. He has received an award of "Model Worker of Hebei Province" * (「河北省勞動模範」) by the People's Government of Hebei Province. Mr. Liu is the legal representative of Shineway Pharmaceutical, being responsible for overseeing the Group's production technology management with more than 20 years of experience.

ZHANG Yudong (張宇棟), aged 50, joined the Group in 1994. He graduated from Hebei University of Economics and Business with major in marketing and obtained a bachelor's degree in pharmacy. He has served as director of Investment, general manager of hospital division and general manager of terminal division. Since November 2017, he has been the general manager of sales and marketing. He is responsible for the sales and marketing management of the Group with more than 20 years' experience.

JIANG Guozhi (姜國志), aged 43, joined the Group's predecessor company in 2004 and was appointed as the Group's Vice President on 21 July, 2019. He has nearly 20 years of experience in pharmaceutical production and technology management. Mr. Jiang is a senior engineer and graduated from Heilongjiang University of Traditional Chinese Medicine in 2004 with a bachelor's degree in traditional Chinese medicine. Mr. Jiang is a master's tutor of Hebei College of Traditional Chinese Medicine, deputy director of the Traditional Chinese Medicine Quality Evaluation Professional Committee of the Hebei Traditional Chinese Medicine Association, a member of the Pharmaceutical Preparation Professional Committee of the Hebei Pharmaceutical Association, and director of the National and Local Joint Engineering Laboratory for New Drug Development Technology of Traditional Chinese Medicine Injections. He has won the honorary titles such as the "Youth Civilization Award" in Hebei Province and the second-level candidate of Hebei Province's "333 Talent Project". Mr. Jiang has presided over 8 national and provincial (ministerial) scientific research projects, published more than 100 academic papers, 2 books, and applied for more than 50 invention patents.

DIRECTORS AND SENIOR MANAGEMENT

HUNG Randy King Kuen (孔敬權), aged 58, is the Director of Investor Relation of the Group. Mr. Hung has more than 20 years of experience as CFO, executive director and independent non-executive director of various listed companies in Hong Kong. He was an executive director of the Group from 2005 to 2010, and was appointed as a non-executive director of the Group in 2011 and continued to serve as an independent non-executive director of the Group from 2014 to March 2017. Currently, Mr. Hung is also serving as a council member and the Chairman of Training Committee of the Hong Kong Institute of Directors, and the Vice Chairman of Hong Kong Investor Relations Association.

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

COMPANY SECRETARY

LEE Bun Ching, Terence (李品正), aged 51, is the Financial Controller and Company Secretary of the Group. He joined the company in 2011 as the Financial Controller and was appointed as the Company Secretary and an Authorised Representative with effect from 1 July 2017. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He holds a bachelor's degree in Accounting and Financial Analysis and a master's degree in Economics and Finance from the University of Warwick in the United Kingdom. Mr. Lee has extensive work experience in the field of auditing, accounting, finance and taxation. Prior to joining the Group, he served as the Group Accounting Controller of a listed company in Hong Kong for over 3 years. Between 1996 and 2007, Mr. Lee worked in a reputable international accounting firm and was a Senior Manager when he left in 2007.

DIRECTORS' REPORT

The Board is pleased to present to the shareholders the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

A fair review of business of the Group during the year under review, discussion on the key financial performance indicators of the Group and future development of the Group's business are provided in "Management Discussion and Analysis" set out on pages 8 to 21 of this annual report. Particulars of important events affecting the Company that have occurred since the end of the financial year under review, if any, can be found in the abovementioned section and the notes to the consolidated financial statements.

Environmental Policies and Performance

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

Compliance with the Applicable Laws and Regulations

In 2023, the Group has complied with the relevant laws and regulations which have significant impacts on the operations of the Group.

Relationships with Employees, Customers and Suppliers

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

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

Principal Risks and Uncertainties

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

Product Liability

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

DIRECTORS' REPORT

Healthcare Reform in China

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

Tender and Price Control

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

RESULTS

The results of the Group for the year ended 31 December 2023, prepared in accordance with the International Financial Reporting Standards, are set out in the consolidated statement of profit or loss and other comprehensive income on page 64 of this annual report.

DIVIDENDS

The Board did not recommend the payment of any final dividend for the year ended 31 December 2023 and resolved to declare the first interim dividend of RMB43 cents per share amounting to RMB324,822,000 in respect of the year ending 31 December 2024 which is calculated on the basis of 827,000,000 shares issued less 71,600,000 shares held for share award scheme as at 31 December 2023, which will be paid on 17 May 2024 to the shareholders whose names appear on the Company's register of members on 3 May 2024.

The above interim dividend will be payable in cash in Hong Kong dollars and will be converted from Renminbi at the telegraphic transfer exchange rates quoted by bank at 10:00 a.m. on 28 March 2024 (RMB1=HK$1.073). Accordingly, the amount payable on 17 May 2024 will be HK$0.461 per share.

DIVIDEND POLICY

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

DIRECTORS' REPORT

FINANCIAL HIGHLIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND RESERVES

Details of the movement in share capital and reserves of the Company during the year are set out in notes 27 and 35 to the consolidated financial statements respectively. As at 31 December 2023, the Company's reserves available for distribution to shareholders amounted to RMB1,534,881,000 (2022: RMB1,023,848,000).

DEBENTURES

The Company has not issued any debentures during the year.

DIRECTORS

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

Executive Directors:

Mr. Li Zhenjiang *(Chairman)*
Ms. Xin Yunxia
Mr. Li Huimin
Mr. Liu Tiejun (ceased on 1 November 2023)

Independent Non-Executive Directors:

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

Non-Executive Director:

Mr. Zhou Wencheng

The biographical details of the Directors are set out on pages 22 to 24 of this annual report.

During the year, Ms. Cheng Li ("Ms. Cheng") ceased to serve as an INED in order to devote more time to pursue her personal interests, effective from 1 April 2023. Ms. Cheng confirmed that she has no disagreement with the Board and she is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to her cessation as INED. Ms. Wang Guihua ("Ms. Wang") was appointed as an INED with effect from 1 April 2023. Details of Ms. Wang's appointment and biographical information were disclosed in the announcement of the Company dated 20 March 2023.

DIRECTORS' REPORT

Mr. Liu Tiejun ("Mr. Liu") ceased to serve as an Executive Director to devote more time to focus on his role as a vice president of Shineway Pharmaceutical Group Limited (an indirect wholly-owned subsidiary of the Company), effective from 1 November 2023. Mr. Liu confirmed that he has no disagreement with the Board and he is not aware of any matters that need to be brought to the attention of the shareholders of the Company in relation to his cessation as ED.

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

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

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

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

Pursuant to Article 87(1) of the Articles of Association, Mr. LI Huimin, Mr. LIU Shun Fai and Mr. YEW Yat On will retire from the Board at the forthcoming AGM.

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

CHANGE IN DIRECTOR'S INFORMATION

Ms. Cheng Li ceased to be an INED of the Company on 1 April 2023 and Ms. Wang Guihua was appointed as an INED on 1 April 2023. Mr. Liu Tiejun ceased to be an ED of the Company on 1 November 2023. Save as the abovementioned, the Company is not aware of any changes in the Directors' information during the year required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

No contracts other than employment contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

Save as disclosed in note 34 to the consolidated financial statements, no transaction, arrangement or contract of significance to which the Company, any of its holding companies, fellow subsidiaries or any of its subsidiaries was a party and in which a Director or an entity connected with the Director had a material interest, either directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2023, the interests and short positions of the Directors and chief executives of the Company and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to section 352 of the SFO, to be entered in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

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

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

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

Interest in the Company

As at 31 December 2023, interest of every person (not being a Director or chief executive of the Company) in the shares and underlying shares in the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

Notes:

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

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

Save as disclosed above, as at 31 December 2023, the Company had not been notified by any persons who (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

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

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

The maximum number of shares in respect of which options may be granted under the 2015 Scheme and any other share option schemes of the Company shall not in aggregate exceed 82,700,000 representing 10% of the shares of the Company in issue as at 29 May 2015 (being the date of the extraordinary general meeting approving the 2015 Scheme) and as at the date of this annual report. The number of options available for grant under the scheme mandate at the beginning and the end of the year ended 31 December 2023 is 82,700,000.

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

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

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

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

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

There were no options granted, exercised, cancelled/lapsed or outstanding under the 2015 Scheme during the year.

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

DIRECTORS' REPORT

SHARE AWARD SCHEME

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

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

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

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

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

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

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

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

During the year ended 31 December 2023 and 31 December 2022, there were no disposal or purchase of shares by the trustee.

At the beginning and the end of the reporting period, there are 71,600,000 shares held by the trustee available for grant under the Scheme mandate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2023, the Company and any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENT

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the largest customer and five largest customers combined of the Group were 5.8% and 13.5% respectively of the Group's turnover for the year.

The aggregate purchases attributable to the largest supplier and five largest suppliers combined of the Group were 4.0% and 15.1% respectively of the Group's purchases for the year.

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

CONNECTED TRANSACTIONS

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

Technical Services Agreement between Shineway Pharmaceutical and Shineway Medical

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

Land Lease Agreement with Shineway Medical

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

On 19 December 2023, Land Lease Agreement I has been renewed for a period of three years from 1 January 2024 to 31 December 2026. The annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB1,600,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement I require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

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

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

On 19 December 2023, Land Lease Agreement II has been renewed for a period of three years from 1 January 2024 to 31 December 2026. The annual rental payable to Shineway Sanhe by Hebei Shineway amounts to RMB1,200,000. Pursuant to IFRS 16, the entering into of the Land Lease Agreement II require the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Hotel Services Agreement with Shineway Medical

On 31 December 2022, a hotel services agreement (the "Hotel Services Agreement") was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Hotel Services Agreement, Shineway Medical has agreed to provide Shineway Pharmaceutical with room rental and hotel services from 1 January 2023 to 31 December 2023.

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

On 19 December 2023, the Hotel Services Agreement has been renewed for a period of three years from 1 January 2024. The payment to be made by the Group under the Hotel Services Agreement contains different components and therefore different accounting treatments should be applied. The Hotel Services Agreement contains two components which are room rentals and hotel services. Pursuant to IFRS 16, the entering into of the Hotel Services Agreement in respect of the room rentals requires the Group to recognize the rental as right-of-use assets of the Group, which constitute a one- off connected transaction of the Group. In respect of the room rental of the hotel rooms, the annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB1,368,000.

Equipment Lease Agreement with Shineway Medical

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

On 19 December 2023, Equipment Lease Agreement has been renewed for a period of three years from 1 January 2024 to 31 December 2026. The annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB3,012,000. Pursuant to IFRS 16, the entering into of the Equipment Lease Agreement requires the Group to recognize the rental payments as right- of-use assets of the Group, which constitute a one-off connected transaction of the Group.

Car Lease Agreement with Shineway Medical

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

On 19 December 2023, Car Lease Agreement has been renewed for a period of three years from 1 January 2024 to 31 December 2026. The annual rental payable to Shineway Medical by Shineway Pharmaceutical amounts to RMB1,304,000. Pursuant to IFRS 16, the entering into of the Car Lease Agreement requires the Group to recognize the rental payments as right-of-use assets of the Group, which constitute a one-off connected transaction of the Group.

CONTINUING CONNECTED TRANSACTIONS

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

General Services Agreement between Shineway Pharmaceutical and Shineway Medical

On 17 December 2020, Shineway Pharmaceutical, a wholly-owned subsidiary of the Company, and Shineway Medical entered into a general services agreement ("General Services Agreement I"). Pursuant to the General Services Agreement I, Shineway Medical has agreed to provide Shineway Pharmaceutical with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2023 are RMB11,050,000 and RMB12,500,000 respectively.

On 19 December 2023, General Services Agreement I has been renewed for a period of three years from 1 January 2024. The proposed annual caps for General Service Agreement I for the three years ending 31 December 2026 are RMB12,500,000.

General Services Agreement between Hebei Shineway and Shineway Sanhe

On 17 December 2020, Hebei Shineway, a wholly-owned subsidiary of the Company, and Shineway Sanhe entered into a general services agreement ("General Services Agreement II"). Pursuant to the General Services Agreement II, Shineway Sanhe has agreed to provide Hebei Shineway with property management services, catering services for a term commencing from 1 January 2021 until 31 December 2023. The transaction amount and cap amount of such transaction for the year ended 31 December 2023 are RMB2,708,800 and RMB3,400,000 respectively.

On 19 December 2023, General Services Agreement II has been renewed for a period of three years from 1 January 2024. The proposed annual caps for General Service Agreement II for the three years ending 31 December 2026 are RMB3,500,000.

Hotel Services Agreement with Shineway Medical

On 31 December 2022, a Hotel Services Agreement was entered into between Shineway Pharmaceutical and Shineway Medical. Pursuant to the Hotel Services Agreement, Shineway Medical has agreed to provide Shineway Pharmaceutical with room rental and hotel services for a period from 1 January 2023 to 31 December 2023. The payment to be made by the Group under the Hotel Services Agreement contains different components and therefore different accounting treatments should be applied. The Hotel Services Agreement contains two components which are room rentals and hotel services. The entering into of the Hotel Services Agreement in respect of the hotel services of the Hotel constitutes a continuing connected transaction of the Company. The transaction amount and cap amount of hotel services for the year ended 31 December 2023 are RMB214,541 and RMB3,000,000 respectively.

On 19 December 2023, Hotel Services Agreement has been renewed for a period of three years from 1 January 2024. The payment to be made by the Group under the hotel service agreement contains different components and therefore different accounting treatments should be applied. The Hotel Services Agreement contains two components which are room rentals and hotel services. The entering into of the Hotel Services Agreement in respect of the hotel services of the Hotel constitutes a continuing connected transaction of the Company. The proposed annual caps for Hotel Services Agreement in respect of the hotel services for the three years ending 31 December 2026 are RMB3,000,000.

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

On 17 December 2020, a training agreement (the "Training Agreement") was entered into between Shineway Pharmaceutical and Shineway Training School, a connected person of the Company by virtue of being indirectly owned 100% by the spouse of Mr. Li Zhenjiang, an executive Director. Pursuant to the Training Agreement, Shineway Training School has agreed to provide Shineway Pharmaceutical with training services and training venue for a period of three years from 1 January 2021. The transaction amount and cap amount of such transaction for the year ended 31 December 2023 are RMB531,031 and RMB5,000,000 respectively.

On 19 December 2023, Training Agreement has been renewed for a period of three years from 1 January 2024. The proposed annual caps for Training Agreement for the three years ending 31 December 2026 are RMB5,000,000.

As the highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the transactions contemplated under each of (1) the General Services Agreement I and (2) the Training Agreement exceeds 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from circular and shareholders' approval requirements. As all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps for the transactions contemplated under (1) the General Services Agreement II and (2) the Hotel Services Agreement in respect of the hotel services of the hotel are less than 0.1%, the transactions contemplated thereunder are fully exempted from the reporting, announcement, circular, and shareholders' approval requirements.

As the highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the value of the right-of-use assets under the Equipment Lease Agreement exceeds 0.1% but are less than 5%, the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from circular and shareholders' approval requirements. As all the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the value of the right-of-use assets under each of (1) Land Lease Agreement I, (2) the Land Lease Agreement II, (3) the Hotel Services Agreement in respect of the room rentals of the hotel rooms (whether on a standalone basis or when aggregated with the hotel services agreement dated 31 December 2022 entered into between Shineway Pharmaceutical and Shineway Medical in relation to the provision of hotel rooms rental services by Shineway Medical to the Group) and (4) the Car Lease Agreement are less than 0.1%, the transactions contemplated thereunder are fully exempted from the reporting, announcement, circular, and shareholders' approval requirements.

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

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

(b) on normal commercial terms or better; and

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

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

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

DIRECTORS' REPORT

The related party transactions in note 34 to the consolidated financial statements of this annual report fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosures requirements in accordance with Chapter 14A of the Listing Rules.

EMOLUMENT POLICY

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

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

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

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

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

There was no compensation paid during the financial year ended 31 December 2023 or receivable by Directors or past Directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high level of corporate governance. The Company's governance report is set out page 41 to 57 which contains the details of each of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Social Responsibility and Sustainability Committee.

PENSION SCHEMES

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

DIRECTORS' REPORT

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year of 2023 as required under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

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

CHARITABLE DONATIONS

During the year, the Group has devoted 858 hours and donated RMB0.82 million to charitable activities which will be disclosed in "Community Contribution" in the Environmental, Social and Governance Report to be published.

CLOSURE OF SHARE TRANSFER REGISTRATION

The register of members of the Company will be closed from Thursday, 2 May 2024 to Friday, 3 May 2024 (both days inclusive) for the purpose of determining Shareholders', entitlement to the 2024 first interim dividend, during which period no transfer of shares will be registered. In order to qualify for the first interim dividend for the year ending 31 December 2024, all transfer documents accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 30 April 2024.

The register of members of the Company will be closed from Friday, 24 May 2024 to Friday, 31 May 2024, both days inclusive, for the purpose of determining Shareholders' eligibility to attend, act and vote at the AGM, during which period no transfer of shares will be registered. In order to determine the entitlement to attend, act and vote at the AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Thursday, 23 May 2024.

AUDITOR

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

On behalf of the Board

Li Zhenjiang
Director

Hong Kong, 28 March 2024

CORPORATE GOVERNANCE REPORT

Dear Shareholders,

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2023, the Company has applied and complied with the principles in the Corporate Governance Code (the "CG Code") set out in Appendix C1 to the Listing Rules for the time being in force, except for code provision C.2.1 as described below.

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

CORPORATE CULTURE, PURPOSE, VALUES, AND STRATEGY

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

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The prohibitions on securities dealing and disclosure requirements in the Model Code apply to specified individuals including the Group's senior management and also persons who are likely to be in possession of inside information of the Group. Having made specific enquiry with the Directors, all Directors confirmed that, in respect of the year ended 31 December 2023, they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

BOARD OF DIRECTORS

As at 31 December 2023, the Board comprises three executive Directors, three INEDs and one NED. The names of the Directors and their respective biographies are set out on pages 22 to 24 of this annual report.

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

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

INDEPENDENCE OF THE BOARD

The Group has established mechanisms to ensure independent views and input are available to the Board and such mechanisms will be reviewed annually by the Board. The Board has reviewed the implementation and effectiveness of the following mechanisms at the Board meeting in 2023 and considered that such mechanisms are effective:

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

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

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

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

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

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

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

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

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

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

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

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

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

4. the declaration of interim dividend.

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

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, the Board held six Board meetings and one AGM. Details of the attendance of the Board are as follows:

	Attended/Held	
	Board Meeting	**AGM**
Executive Directors		
Mr. Li Zhenjiang *(Chairman)*	6/6	1/1
Ms. Xin Yunxia	6/6	1/1
Mr. Li Huimin	6/6	1/1
Mr. Liu Tiejun (ceased on 1 November 2023)	5/5	1/1
Independent Non-executive Directors		
Ms. Wang Guihua (appointed on 1 April 2023)	5/5	1/1
Mr. Liu Shun Fai	6/6	1/1
Mr. Yew Yat On	6/6	1/1
Ms. Cheng Li (ceased on 1 April 2023)	1/1	0/0
Non-executive Director		
Mr. Zhou Wencheng	6/6	1/1

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Throughout the year ended 31 December 2023, the Company has applied and complied with the principles in the CG Code set out in Appendix C1 to the Listing Rules, except for code provision C.2.1 as described below.

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

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors' training is an ongoing process. During the year, the Company had provided to the Directors regular updates and presentations on changes and developments to the Group's business and to the legislative regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their record of training they received during the year ended 31 December 2023. During the year ended 31 December 2023, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management.

Pursuant to code provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2023, all Directors have participated in continuous professional development by attending training courses and/or referring materials on the topics related to corporate governance and regulations:

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

TERM OF OFFICE AND RE-ELECTION

INEDs, Mr. Liu Shun Fai, Mr. Yew Yat On and Ms. Wang Guihua have been appointed for a term of two years. NED, Mr. Zhou Wencheng, does not enter into a service contract with the Company.

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

WHISTLEBLOWING POLICY

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

ANTI-FRAUD AND ANTI-CORRUPTION POLICY

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

REMUNERATION COMMITTEE

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

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

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

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

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

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

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

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

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

As at the date of this annual report, the Remuneration Committee comprises two INEDs, Ms. Wang Guihua (from date of appointment on 1 April 2023), Ms. Cheng Li (ceased to be a member of the Remuneration committee with effect from 1 April 2023), Mr. Liu Shun Fai and one executive Director Ms. Xin Yunxia. Ms. Wang Guihua (from date of appointment on 1 April 2023) is the chairman of the Remuneration Committee. The Remuneration Committee met three times during the year to assess the performance of executive Directors and to discuss renewal of service contracts of Directors and has duly discharged the above duties.

Individual attendance of each Remuneration Committee member was as follows:

	Attendance
Ms. Wang Guihua (appointed on 1 April 2023) *(Chairman)*	1/1
Ms. Cheng Li (ceased on 1 April 2023) *(Chairman)*	2/2
Ms. Xin Yunxia	3/3
Mr. Liu Shun Fai	3/3

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

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

Directors' Remuneration Policy

Purpose

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

Key elements for Executive Director's Remuneration

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

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

4. Performance bonus is determined by company performance and individual performance and contribution.

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

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

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

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

The Group's share option scheme and share award scheme as described on pages 31 to 33 of this annual report are adopted as the Group's long term incentive scheme.

NOMINATION COMMITTEE

The Nomination Committee was established with written terms of reference in compliance with the CG Code. As at the date of this annual report, the Nomination Committee comprise one executive Director, Mr. Li Zhenjiang, and two Independent Non-executive Directors, Mr. Liu Shun Fai and Mr. Yew Yat On.

Individual attendance of each Nomination Committee member during the year ended 31 December 2023 was as follows:

	Attendance
Mr. Li Zhenjiang *(Chairman)*	2/2
Mr. Liu Shun Fai	2/2
Mr. Yew Yat On	2/2

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

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

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

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

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

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

4. At least one Director should be the professional or have extensive experience of the industry in which the Group operates.

The Board achieved the above measurable objectives of the Board Diversity Policy during the year ended 31 December 2023. The current Board composition reflects a diverse mix of gender, educational background, professional knowledge and industry experience. As of the date of this report, the Board comprises 5 male Directors and 2 female Directors.

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

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

Board Diversity Policy

INTRODUCTION

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

THE POLICY

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

MESURABLE OBJECTIVES

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

MONITORING AND REPORTING

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

REVIEW OF THIS POLICY

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

The Board Diversity Policy was last reviewed by the Board on 27 October 2023 and was considered suitable and effective.

The Company currently has two female Directors, and the Board will endeavour to at least maintain female representation on the Board and take opportunities to increase the proportion of female members over time as and when suitable candidates are identified. As at 31 December 2023, among the 3,436 employees (including senior management) of the Group, the percentages of male employees and female employees are 48.05% and 51.95%, respectively, With a male-to-female ratio of approximately 1:1, the Board considers that the Group's workforce (including senior management) are diverse in terms of gender.

NOMINATION POLICY

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

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

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

AUDIT COMMITTEE

As at the date of this annual report, the Audit Committee comprises Mr. Liu Shun Fai, Mr. Yew Yat On, Ms. Wang Guihua (from date of appointment on 1 April 2023) and Ms. Cheng Li (ceased on 1 April 2023).

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

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

Individual attendance of each Audit Committee member during the year ended 31 December 2023 was as follows:

	Attendance
Mr. Liu Shun Fai *(Chairman)*	4/4
Mr. Yew Yat On	4/4
Ms. Wang Guihua (from date of appointment on 1 April 2023)	3/3
Ms. Cheng Li (ceased on 1 April 2023)	1/1

The Audit Committee met on four occasions during the year and the report on the work performed by the Audit Committee can be found on page 58 of this annual report.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY COMMITTEE

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

Mr. Liu Shun Fai is the chairman of the Corporate Social Responsibility and Sustainability Committee. As at the date of this annual report, the members of the Corporate Social Responsibility and Sustainability Committee comprise one executive Director, Ms. Xin Yunxia and two INEDs Mr. Yew Yat On, Ms. Wang Guihua (from date of appointment on 1 April 2023) and Ms. Cheng Li (up to date of cessation on 1 April 2023).

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

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

Individual attendance of each Corporate Social Responsibility and Sustainability Committee member during the year ended 31 December 2023 was as follows:

	Attendance
Mr. Liu Shun Fai *(Chairman)*	2/2
Ms. Xin Yunxia	2/2
Mr. Yew Yat On	2/2
Ms. Wang Guihua (from date of appointment on 1 April 2023)	2/2
Ms. Cheng Li (ceased on 1 April 2023)	0/0

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

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

During 2023, members of the Board have reviewed and discussed, among other things, the Company's policies and practices on corporate governance at regular board meetings. They have also reviewed and monitored the training and continuous professional development of directors, and the Company's policies and practices on compliance with legal and regulatory requirements as well as its disclosure in the Corporate Governance Report. The Board has reviewed the code of conduct applicable to employees and directors setting out the standards of behaviour that the Company expects from them and the guidelines on how they should handle different situations in business dealings with the Group.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

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

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

REMUNERATION OF SENIOR MANAGEMENT

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

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

AUDITOR'S REMUNERATION

Since 2004, Deloitte Touche Tohmatsu has been appointed as the Group's external auditor by shareholders annually. During the year, the fees charged to the accounts of the Company and its subsidiaries for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$2,250,000 (2022: HK$2,250,000), and in addition to a total of HK$648,000 (2022: HK$390,000) for other non-audit services, including the review of interim financial statements and tax services.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

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

The statement by the auditor of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 59 to 63.

In preparing the consolidated financial statements for the year ended 31 December 2023, the Directors have adopted appropriate accounting policies and applied them consistently, and have made judgments and estimates that are prudent and reasonable.

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

COMMUNICATION WITH SHAREHOLDERS

The Group attaches great priority to communication with shareholders and investors. Since our listing on the Main Board of the Stock Exchange in December 2004, the Group has regularly met with investors to increase corporate transparency. During the year ended 31 December 2023, the Group met and/or held telephone conferences with a number of investors and participated in institutional investor conferences. We held a number of site visits for investors.

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

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

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

Shareholders' Communication Policy

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

A summary of the SC Policy is as follows:

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

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

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

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

(ii) Procedures for putting enquiries to the Board

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

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

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

INVESTOR RELATIONS

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

CODE OF CONDUCT

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

AUDIT COMMITTEE REPORT

Dear Shareholders,

The Audit Committee formally met four times during the year and other informal meetings were conducted as and when necessary. These meetings were held together with senior management and external auditor as and when necessary, to consider the external auditor's proposed audit fees, their independence and scope of the audit; review the internal control and risk management systems; review the interim and annual financial statements, particularly judgmental areas, accounting principles and practice adopted by the Group; review the external auditor's management letter and management's response; and review the Group's adherence to the Corporate Governance Code as set out in Appendix C1 to the Listing Rules.

The Audit Committee recommended the Board to re-appoint Deloitte Touche Tohmatsu as external auditor for the fiscal year 2023 and recommended to approve the interim and annual reports.

MEMBERS OF THE AUDIT COMMITTEE

Mr. Liu Shun Fai *(Chairman)*
Mr. Yew Yat On
Ms. Wang Guihua (appointed on 1 April 2023)
Ms. Cheng Li (ceased on 1 April 2023))

28 March 2024

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of China Shineway Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 64 to 126, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS Standards") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill	
We identified the impairment assessment on goodwill as a key audit matter due to the involvement of significant judgements and assumptions in estimating the recoverable amounts of the cash-generating units to which goodwill has been allocated. At 31 December 2023, the Group has goodwill with carrying amounts of RMB165,956,000 relating to cash-generating units of manufacturing and trading of pharmaceutical products. Based on the assessment made by management of the Group, no impairment was recognised during the year ended 31 December 2023. Details are disclosed in note 16 to the consolidated financial statements. The recoverable amounts of the cash-generating units were determined based on the value in use calculations which require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.	Our procedures in relation to the impairment assessment on goodwill included: • Obtaining an understanding of the management's process and basis adopted in preparing the cash flow forecasts, including significant assumptions for the cash-generating unit; • Challenging the reasonableness of the key assumptions and inputs made by the management, including the growth rates and gross profit margin based on the historical financial performance and the industry trend; • Engaging our internal valuation expert to evaluate the appropriateness of the valuation technique, i.e. discounted cash flows method, and the reasonableness of discount rates used in the value in use calculations; and • Evaluating the sensitivity analysis performed by the management in respect of the growth rates and discount rates to assess the extent of impact on the value in use.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Revenue	5	**4,516,538**	3,950,636
Cost of sales		**(1,122,419)**	(1,012,322)
Gross profit		**3,394,119**	2,938,314
Other income		**163,122**	113,368
Investment income	6	**105,513**	99,099
Other gains and losses		**4,260**	(8,388)
Impairment losses on financial assets under expected credit loss model, net of reversal	7	**(5,440)**	(8,828)
Selling and distribution costs		**(1,981,623)**	(1,818,652)
Administrative expenses		**(326,499)**	(279,804)
Research and development costs		**(110,462)**	(117,454)
Finance costs	8	**(2,737)**	(630)
Profit before taxation	9	**1,240,253**	917,025
Taxation	10	**(270,743)**	(194,252)
Profit and total comprehensive income for the year		**969,510**	722,773
Earnings per share	13		
– Basic (RMB)		**128 cents**	96 cents
– Diluted (RMB)		**128 cents**	96 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	14	**1,205,287**	1,216,937
Intangible assets	15	**32,790**	47,348
Goodwill	16	**165,956**	165,956
Deferred tax assets	17	**15,230**	19,221
		1,419,263	1,449,462
Current assets			
Inventories	18	**897,709**	657,659
Trade receivables	19	**758,205**	673,380
Trade receivables backed by bank bills	19	**502,162**	301,682
Prepayments, deposits and other receivables	19	**87,878**	103,183
Structured deposits	20	**20,000**	20,230
Bank balances and cash	21	**5,888,776**	5,026,265
		8,154,730	6,782,399
Current liabilities			
Trade payables	22	**484,791**	308,540
Trade payables backed by bank bills	22	**–**	205
Other payables and accrued expenses	22	**1,400,857**	1,063,519
Contract liabilities	22	**51,560**	153,118
Bank borrowing	23	**300,000**	–
Lease liabilities	24	**971**	6,530
Amounts due to related companies	25	**13,784**	13,784
Deferred income	26	**75,842**	12,103
Tax payable		**105,913**	107,794
		2,433,718	1,665,593
Net current assets		**5,721,012**	5,116,806
Total assets less current liabilities		**7,140,275**	6,566,268

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Lease liabilities	24	**355**	912
Deferred tax liabilities	17	**16,264**	18,844
Deferred income	26	**88,888**	163,986
		105,507	183,742
Net assets		**7,034,768**	6,382,526
Capital and reserves			
Share capital	27	**87,662**	87,662
Reserves		**6,947,106**	6,294,864
Total equity		**7,034,768**	6,382,526

The consolidated financial statements on pages 64 to 126 were approved and authorised for issue by the board of directors on 28 March 2024 and are signed on its behalf by:

LI ZHENJIANG
DIRECTOR

LI HUIMIN
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000 (Note a)	Statutory surplus reserve fund RMB'000 (Note b)	Discretionary surplus reserve fund RMB'000 (Note b)	Shares options reserve RMB'000	Share held for share award scheme RMB'000	Accumulated profits RMB'000	Total equity RMB'000
At 1 January 2022	87,662	422,140	83,758	442,608	154,760	7,571	(578,649)	5,281,631	5,901,481
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	722,773	722,773
Transfers	–	–	–	53,006	–	–	–	(53,006)	–
Lapse of share options	–	–	–	–	–	(2,173)	–	2,173	–
Cancellation of share options	–	–	–	–	–	(5,398)	–	5,398	–
Dividends paid (note 12)	–	–	–	–	–	–	–	(241,728)	(241,728)
At 31 December 2022	**87,662**	**422,140**	**83,758**	**495,614**	**154,760**	**-**	**(578,649)**	**5,717,241**	**6,382,526**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**969,510**	**969,510**
Transfers	**-**	**-**	**-**	**43,201**	**-**	**-**	**-**	**(43,201)**	**-**
Dividends paid (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(317,268)**	**(317,268)**
At 31 December 2023	**87,662**	**422,140**	**83,758**	**538,815**	**154,760**	**-**	**(578,649)**	**6,326,282**	**7,034,768**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB'000	2022 RMB'000
Operating activities		
Profit before taxation	**1,240,253**	917,025
Adjustments for:		
Depreciation of property, plant and equipment	**162,544**	166,784
Amortisation of intangible assets	**14,558**	19,078
Impairment losses on financial assets under expected credit loss model, net of reversal	**5,440**	8,828
Loss (gain) on disposal of property, plant and equipment	**2,388**	(127)
Net unrealised exchange gain	**(6,154)**	(6,325)
Interest income	**(95,207)**	(92,431)
Investment income from financial products	**(10,306)**	(6,668)
Government grant recognised as other income	**(18,789)**	(30,339)
Finance costs	**2,737**	630
Gain on early termination of lease contracts	**–**	(67)
Operating cash flows before movements in working capital	**1,297,464**	976,388
Increase in inventories	**(240,050)**	(69,703)
Increase in trade receivables	**(290,745)**	(158,707)
Decrease (increase) in prepayments, deposits and other receivables	**46,588**	(21,860)
Increase in trade payables	**176,046**	80,125
Increase in other payables and accrued expenses	**316,103**	392,854
(Decrease) increase in contract liabilities	**(101,558)**	67,233
Cash generated from operations	**1,203,848**	1,266,330
PRC Enterprise Income Tax paid	**(224,136)**	(136,304)
Withholding tax paid	**(47,077)**	(20,350)
Net cash from operating activities	**932,635**	1,109,676

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB'000	2022 RMB'000
Investing activities		
Placement of financial products	**(500,000)**	(300,000)
Purchase of property, plant and equipment	**(144,325)**	(129,463)
Placement of structured deposits	**(20,000)**	(20,230)
Government grants received	**7,430**	3,667
Proceeds from disposal of property, plant and equipment	**12,895**	2,579
Proceeds from redemption of structured deposits	**20,230**	–
Interest received	**63,924**	90,439
Proceeds from redemption of financial products	**510,306**	306,668
Net cash inflow on disposal of a subsidiary	**–**	920
Net cash used in investing activities	**(49,540)**	(45,420)
Financing activities		
Dividends paid	**(317,268)**	(241,728)
Repayment of lease liabilities	**(6,875)**	(7,680)
Interest paid	**(2,595)**	(630)
New borrowing raised	**300,000**	–
Net cash used in financing activities	**(26,738)**	(250,038)
Net increase in cash and cash equivalents	**856,357**	814,218
Cash and cash equivalents at beginning of the year	**5,026,265**	4,205,722
Effect of exchange rate changes of cash and cash equivalents	**6,154**	6,325
Cash and cash equivalents at end of the year, Representing by bank balances and cash	**5,888,776**	5,026,265

1. GENERAL INFORMATION

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

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

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

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

New and amendments to IFRS Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRS Standards issued by the International Accounting Standards Board (the "IASB") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	*Insurance Contracts*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform-Pillar Two model Rules*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*

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

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

Impacts on application of Amendments to IAS 8 "Definition of Accounting Estimates"

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. IAS 1 "Presentation of Financial Statements" is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in note 3 to the consolidated financial statements.

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

Amendments to IFRS Standards in issue but not yet effective

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendment to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

[1] Effective for annual periods beginning on or after a date to be determined.

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

[3] Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all amendments to IFRS Standards will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies

Goodwill

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

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

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

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

Revenue from contracts with customers

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Government grants

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

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

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

Taxation

Income tax expense represents the sum of the current and deferred income tax expense.

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the leasing liabilities and related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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

Current and deferred tax are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Property, plant and equipment

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

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

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

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

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

Cash and cash equivalents

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

(a) cash, which comprises of cash on hand and demand deposits; and

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

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

Inventories

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

A financial asset is held for trading if:

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

(i) Amortised cost and interest income

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

(ii) Financial assets at FVTPL

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

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

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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

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

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

Measurement and recognition of ECL

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

Financial liabilities and equity

Classification as debt or equity

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units (or group of cash-generating units) and a suitable discount rate in order to calculate the present value. The estimated uncertainty mainly includes gross profit margin, discount rate and growth rate. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or a further impairment loss may arise.

As at 31 December 2023, the carrying amount of goodwill is RMB165,956,000 (2022: RMB165,956,000) (net of accumulated impairment loss of RMB56,794,000 (2022: RMB56,794,000)). Details of the recoverable amount calculation are disclosed in note 16.

5. REVENUE AND SEGMENT INFORMATION

Operating segments

The Group is engaged in a single segment in research and development, manufacturing and trading of Chinese pharmaceutical products. This operating segment has been identified on the basis of internal management reports that are regularly reviewed by the Chairman of the board of directors of the Group, being the chief operating decision maker (the "CODM"), for the purpose of resources allocation and performance assessment. The information reported to the CODM is further categorised into different locations within the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment as they share similar economic characteristics.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major products

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

	2023	2022
	RMB'000	RMB'000
Injections	**1,785,836**	1,423,254
Soft capsules	**582,143**	603,755
Granules	**693,589**	630,248
Traditional Chinese medicine formula granules	**1,201,664**	1,102,958
Others	**253,306**	190,421
	4,516,538	3,950,636

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

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

Geographical information

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

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

Information about major customers

For each of the years ended 31 December 2023 and 2022, there was no customer with revenue accounted for more than 10% of the Group's total revenue.

6. INVESTMENT INCOME

	2023 RMB'000	2022 RMB'000
Interest on bank deposits	94,833	92,357
Interest on structured deposits *(note)*	374	74
Investment income from financial products *(note)*	10,306	6,668
	105,513	99,099

Note: The structured deposits and financial products are measured at FVTPL. The redemption amounts (including the return) of such products are linked to the performance of underlying debt instruments, equity instruments or foreign currencies. The investment income represents the differences between initial investment amounts and redemptions amounts.

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

	2023 RMB'000	2022 RMB'000
Impairment losses recognised on trade receivables	3,954	10,432
Impairment losses recognised (reversed) on trade receivables backed by bank bills	1,486	(1,604)
	5,440	8,828

Details of impairment assessment are set out in note 33.

8. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on bank borrowing	2,441	–
Interest on lease liabilities	296	630
	2,737	630

9. PROFIT BEFORE TAXATION

	2023 **RMB'000**	2022 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Directors' emoluments *(see note 11)*	**42,317**	11,849
Other staff costs	**437,477**	371,024
Other staff's pension costs	**26,727**	39,963
	506,521	422,836
Less: Capitalised in inventories	**(173,775)**	(134,389)
	332,746	288,447
Depreciation of property, plant and equipment	**162,544**	166,784
Amortisation of intangible assets	**14,558**	19,078
Total depreciation and amortisation	**177,102**	185,862
Less: Capitalised in inventories	**(116,869)**	(127,176)
	60,233	58,686
Auditor's remuneration	**2,400**	2,336
Cost of inventories recognised as an expense (included in cost of sales)	**1,122,419**	1,012,322
Loss (gain) on disposal of property, plant and equipment (included in other gains and losses)	**2,388**	(127)
Gain on early termination of lease contracts	**–**	(67)
Net exchange (gains) losses (included in other gains and losses)	**(6,605)**	8,515
Government subsidies (included in other income) *(note)*	**(143,257)**	(106,379)

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

During the year ended 31 December 2023, government subsidies of (a) RMB124,468,000 (2022: RMB76,040,000) represent incentives received in relation to engagement of the subsidiaries of the Company in business development, the grants of which were unconditional, approved and received during the year; and (b) RMB18,789,000 (2022: RMB30,339,000) represent recognition of deferred income upon completion of related research activities and development projects (note 26).

10. TAXATION

	2023 RMB'000	2022 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT"):		
Current tax	**226,879**	187,123
Overprovision in prior years	**(4,624)**	(8,121)
Withholding tax on distributed profits	**47,077**	20,350
	269,332	199,352
Deferred tax (note 17)	**1,411**	(5,100)
	270,743	194,252

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

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

According to the relevant laws and regulations in the PRC, enterprises engaging in research and development activities are entitled to claim 200% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). In March 2023, the State Taxation Administration and the Ministry of Finance announced that the Super Deduction is available to all types of PRC enterprises from 1 January 2023 onwards. The Group made its best estimate for the Super Deduction to be claimed for the Group's PRC subsidiaries in ascertaining their assessable profits for the years ended 31 December 2023 and 2022.

According to a joint circular of the State Taxation Administration, Cai Shui 2011 No. 1, PRC withholding income tax of 10% shall be levied on the dividend declared by the companies established in the PRC to their foreign investors out of their profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding company of the PRC subsidiaries are incorporated or operated in Hong Kong and fulfil the requirements to the tax treaty arrangements between the PRC and Hong Kong. Those immediate holding company of the Group's PRC subsidiaries were entitled to 5% withholding tax rate during the years ended 31 December 2023 and 2022.

10. TAXATION *(Continued)*

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

	2023	2022
	RMB'000	RMB'000
Profit before taxation	**1,240,253**	917,025
Tax at the applicable tax rate of 25% (2022: 25%)	**310,063**	229,256
Tax effect of expenses not deductible for tax purposes	**65,896**	74,697
Tax effect of income not taxable for tax purposes	**(17,928)**	(4,979)
Tax effect of tax losses not recognised	**8,760**	9,948
Utilisation of tax losses previously not recognised	**(239)**	(2,501)
Income tax on concessionary rates	**(143,262)**	(120,398)
Withholding tax on distributed profits of subsidiaries operating in the PRC	**47,077**	20,350
Withholding tax on undistributed profits of subsidiaries operating in the PRC	**5,000**	(4,000)
Overprovision in prior years	**(4,624)**	(8,121)
Taxation charge for the year	**270,743**	194,252

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

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

	Fees RMB'000	Salaries, and allowance RMB'000	Performance related incentive payments RMB'000	Pension costs RMB'000	Total remuneration RMB'000
Year ended 31 December 2023					
Executive directors:					
Li Zhenjiang	369	5,267	20,000	–	25,636
Xin Yunxia	1,091	2,091	10,000	16	13,198
Li Huimin	73	2,027	–	16	2,116
Liu Tiejun (resigned on 1 November 2023)	776	–	–	24	800
Non-executive director:					
Zhou Wencheng	142	–	–	–	142
Independent non-executive directors:					
Liu Shun Fai	142	–	–	–	142
Yew Andric Yat On	142	–	–	–	142
Wang Guihua (appointed on 1 April 2023)	106	–	–	–	106
Cheng Li (resigned on 1 April 2023)	35	–	–	–	35
	2,876	9,385	30,000	56	42,317

Note: The performance related incentive payments were determined with reference to the Group's results and the individual's performance for the year.

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

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

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

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

Of the five individuals with the highest emoluments in the Group, three (2022: three) were directors, including Mr. Li Zhenjiang as the chief executive of the Company, whose emoluments are included in the disclosures above. Details of the remuneration for the year of the remaining two (2022: two) highest paid individuals in the capacity as an employee are as follows:

	2023 **RMB'000**	2022 RMB'000
Salaries and other benefits	**3,190**	3,347
Pension costs	**32**	32
	3,222	3,379

The emoluments were within the following band:

	Number of employees	
	2023	2022
HKD1,500,001 to HKD2,000,000	**2**	2

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

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

12. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Dividends recognised as distributions during the year:		
– 2022 first interim dividend of RMB21 cents per share	–	158,634
– 2022 second interim dividend of RMB11 cents per share	–	83,094
– 2023 first interim dividend of RMB31 cents per share	234,174	–
– 2023 second interim dividend of RMB11 cents per share	83,094	–
	317,268	241,728

	2023 RMB'000	2022 RMB'000
Dividends declared subsequent to the reporting period:		
– 2023 first interim dividend of RMB31 cents per share	–	234,174
– 2024 first interim dividend of RMB43 cents per share	324,822	–
	324,822	234,174

The 2024 first interim dividend of RMB43 cents per share, in the amount of an aggregate of RMB324,822,000, has been declared by the directors of the Company on 28 March 2024 and will be paid out on 17 May 2024, to the shareholders of the Company whose names appear on the register of members of the Company on 3 May 2024. The aggregate amount of RMB324,822,000 (2022: RMB234,174,000) has been calculated on the basis of 827,000,000 (2022: 827,000,000) shares in issue less 71,600,000 (2022: 71,600,000) shares held for share award scheme as at 31 December 2023.

13. EARNINGS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**969,510**	722,773

	Number of shares	
	2023	2022
Weighted average number of ordinary shares in issue less shares held for share award scheme for the purpose of calculation of basic and diluted earnings per share	**755,400,000**	755,400,000

During the year ended 31 December 2022, the computation of diluted earnings per share did not assume the exercise of all the Company's options at exercise prices of HK$8.39 and HK$7.21 because the exercise prices of those options were higher than the average market price for shares for the year ended 31 December 2022.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets										
	Leasehold land	Leased properties	Leased motor vehicles	Leased machineries	Sub-total	Owned properties	Plant and machineries	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST											
At 1 January 2022	122,256	8,914	3,559	5,821	140,550	1,243,947	1,291,252	100,103	623	130,168	2,906,643
Additions	–	1,659	–	–	1,659	2,297	43,703	6,698	283	80,915	135,555
Disposals	–	(4,355)	–	–	(4,355)	–	(12,613)	(1,374)	(163)	–	(18,505)
Reclassifications	–	–	–	–	–	8,134	9,736	152	–	(18,022)	–
At 31 December 2022	122,256	6,218	3,559	5,821	137,854	1,254,378	1,332,078	105,579	743	193,061	3,023,693
Additions	66,301	759	–	–	67,060	399	48,564	2,513	1,673	45,968	166,177
Disposals	(5,559)	–	–	–	(5,559)	(2,899)	(69,201)	(2,625)	(916)	–	(81,200)
Reclassifications	–	–	–	–	–	50,380	70,130	837	–	(121,347)	–
At 31 December 2023	182,998	6,977	3,559	5,821	199,355	1,302,258	1,381,571	106,304	1,500	117,682	3,108,670
DEPRECIATION AND IMPAIRMENT											
At 1 January 2022	6,728	5,803	1,186	1,940	15,657	588,521	972,206	77,701	559	–	1,654,644
Charge for the year	6,121	1,961	1,186	1,940	11,208	60,470	88,087	6,964	55	–	166,784
Eliminated on disposals	–	(2,974)	–	–	(2,974)	–	(10,213)	(1,337)	(148)	–	(14,672)
At 31 December 2022	12,849	4,790	2,372	3,880	23,891	648,991	1,050,080	83,328	466	–	1,806,756
Charge for the year	7,180	908	1,187	1,941	11,216	60,433	80,786	8,352	1,757	–	162,544
Eliminated on disposals	(2,238)	–	–	–	(2,238)	(2,284)	(58,671)	(1,865)	(859)	–	(65,917)
At 31 December 2023	17,791	5,698	3,559	5,821	32,869	707,140	1,072,195	89,815	1,364	–	1,903,383
CARRYING VALUES											
At 31 December 2023	165,207	1,279	–	–	166,486	595,118	309,376	16,489	136	117,682	1,205,287
At 31 December 2022	109,407	1,428	1,187	1,941	113,963	605,387	281,998	22,251	277	193,061	1,216,937

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

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

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

The Group as lessee

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

	2023 **RMB'000**	2022 RMB'000
Expense relating to short-term leases	**3,726**	1,620
Total cash outflow for leases	**9,529**	9,930

For both years, the Group leases various offices, hotel rooms, staff quarter, motor vehicles, machineries and lands for its operations. Lease contracts are entered into for fixed term of 1 to 3 years (2022: 1 to 3 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for warehouses and offices. As at 31 December 2023 and 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

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

15. INTANGIBLE ASSETS

	RMB'000
COST	
At 1 January 2022, 31 December 2022 and 31 December 2023	474,840
AMORTISATION AND IMPAIRMENT	
At 1 January 2022	408,414
Charge for the year	19,078
At 31 December 2022	427,492
Charge for the year	14,558
At 31 December 2023	442,050
CARRYING VALUES	
At 31 December 2023	32,790
At 31 December 2022	47,348

The intangible assets represent patents with finite useful lives which were acquired from third parties or purchased as a part of a business combination in prior years. Such intangible assets are amortised on a straight-line basis over the periods ranging from 5 to 20 years.

16. GOODWILL

	RMB'000
COST	
At 1 January 2022, 31 December 2022 and 31 December 2023	222,750
IMPAIRMENT	
At 1 January 2022, 31 December 2022 and 31 December 2023	56,794
CARRYING VALUES	
At 31 December 2022 and December 2023	165,956

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

	2023 **RMB'000**	2022 RMB'000
Cash-generating unit A ("Unit A")	**165,956**	102,497
Cash-generating unit B ("Unit B")	**–**	63,459
	165,956	165,956

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

At 31 December 2022, the Group allocated goodwill with carrying amounts of RMB102,497,000 and RMB63,459,000, to two cash-generating units ("Unit A" and "Unit B") of subsidiaries with principal activities of research and development, manufacturing and trading of pharmaceutical products, respectively.

16. GOODWILL *(Continued)*

During the year ended 31 December 2023, the Group has completed its internal reorganisation, which changed the composition of cash-generating units to which goodwill has been allocated. Following the completion of internal reorganisation, the goodwill previously allocated to Unit B amounting to RMB63,459,000 has been reallocated to Unit A, as the business of Unit B was integrated into Unit A.

At 31 December 2023, the Group has goodwill with carrying amount of RMB165,956,000 being allocated to one cash-generating unit of subsidiaries with principal activities of research and development, manufacturing and trading of pharmaceutical products.

Unit A

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period (2022: 5-year), and discount rate of 11% (2022: 11%). Unit A's cash flows beyond the 5-year period (2022: 5-year) are extrapolated using the estimated constant growth rate of 1% (2022: 1%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

During the years ended 31 December 2023 and 2022, management of the Group determines that there is no impairment on Unit A. The recoverable amount is significantly above the carrying amount of Unit A. Management believes that any reasonably possible change in any of these assumptions would not result in impairment.

Unit B

At 31 December 2022, the recoverable amount of this unit had been determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by management covering a 5-year, and discount rate of 18.5%. Unit B's cash flows beyond the 5-year are extrapolated using the estimated constant growth rate of 2%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

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

During the year ended 31 December 2023, following the completion of internal reorganisation as abovementioned, the business of Unit B was integrated into Unit A. Details of impairment assessment of Unit A is set out in above.

17. DEFERRED TAXATION

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

	2023	2022
	RMB'000	RMB'000
Deferred tax assets	**15,230**	19,221
Deferred tax liabilities	**(16,264)**	(18,844)
	(1,034)	377

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

	Decelerated tax depreciation	**Deferred income**	**Fair value adjustment arising from acquisition of subsidiaries**	**Withholding tax on undistributed profits**	**Others**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	3,980	12,815	(10,407)	(14,000)	2,889	(4,723)
(Charge) credit to profit or loss	(138)	(793)	2,336	4,000	(305)	5,100
At 31 December 2022	3,842	12,022	(8,071)	(10,000)	2,584	377
(Charge) credit to profit or loss	(138)	(332)	2,336	(5,000)	1,723	(1,411)
At 31 December 2023	3,704	11,690	(5,735)	(15,000)	4,307	(1,034)

At the end of the reporting period, the Group has unused tax losses of RMB332,074,000 (2022: RMB332,870,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of RMB193,733,000 (2022: RMB198,305,000) that will expire in 5 years (2022: 5 years). Other losses may be carried forward indefinitely.

Under the EIT Law, withholding tax of 5% is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributed profits of the PRC subsidiaries amounting to RMB4,854,115,000 (2022: RMB4,843,786,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

18. INVENTORIES

	2023	2022
	RMB'000	RMB'000
Raw materials	**169,830**	226,862
Work in progress	**443,576**	222,637
Finished goods	**284,303**	208,160
	897,709	657,659

19. TRADE RECEIVABLES AND TRADE RECEIVABLE BACKED BY BANK BILLS

	2023	2022
	RMB'000	RMB'000
Trade receivables	**787,844**	699,065
Less: Allowance for ECL	**(29,639)**	(25,685)
	758,205	673,380
Trade receivables backed by bank bills	**504,756**	302,790
Less: Allowance for ECL	**(2,594)**	(1,108)
	502,162	301,682
	1,260,367	975,062

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

As at 1 January 2022, trade receivables and trade receivables backed by bank bills from contracts with customers amounted to RMB424,457,000 and RMB400,726,000, respectively.

19. TRADE RECEIVABLES AND TRADE RECEIVABLE BACKED BY BANK BILLS *(Continued)*

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

	2023	2022
	RMB'000	RMB'000
Within 6 months	**1,041,352**	811,052
Over 6 months but less than 1 year	**144,207**	117,855
Over 1 year but less than 2 years	**65,818**	40,546
More than 2 years	**8,990**	5,609
	1,260,367	975,062

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB201,647,000 (2022: RMB149,079,000) which are past due as at the reporting date. Out of the past due balances, RMB115,942,000 (2022: RMB80,130,000) has been past due 90 days or more and is not considered as in default based on repayment records of those customers and continuous business with the Group.

As at 31 December 2023, total bills received with carrying amount amounting to RMB502,162,000 (2022: RMB301,682,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

Prepayments, deposits and other receivables of the Group mainly represent interest income receivables of RMB60,575,000 (2022: RMB29,292,000), prepayments of RMB19,935,000 (2022: RMB32,012,000), value added tax recoverable of RMB3,347,000 (2022: RMB2,109,000) and a short-term receivable is nil (2022: RMB36,077,000) for development purpose.

Details of impairment assessment of trade and other receivables are set out in note 33.

20. STRUCTURED DEPOSITS

During the year ended 31 December 2023, the Group subscribed principal guaranteed structured deposits of approximately RMB20,000,000 (2022: RMB20,230,000) with maturity date of January 2024 (2022: March 2023) carrying at interest rate linked to the performance of exchange rate between United States Dollar and Euro (2022: United States Dollar and Canadian Dollar). Such deposits are classified as financial assets at FVTPL. The related fair values are made reference to the market values provided by financial institutions with fair value hierarchy of Level 2. No material fair value change is recognised in profit or loss during the year ended 31 December 2023 and 2022. Subsequent to end of the reporting period, the Group has redeemed such deposits in full.

21. BANK BALANCES AND CASH

Bank balances and cash are cash and cash equivalents, which include bank deposits for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.01% to 5.10% (2022: 0.01% to 4.18%).

At the end of the reporting period, bank balances and cash of RMB5,047,990,000 (2022: RMB4,800,098,000) were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

Details of impairment assessment of bank balances are set out in note 33.

22. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	2023	2022
	RMB'000	RMB'000
Trade payables	**484,791**	308,540
Trade payables backed by bank bills *(Note)*	**–**	205
	484,791	308,745

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

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

	2023	2022
	RMB'000	RMB'000
Within 6 months	**422,734**	298,906
Over 6 months but less than 1 year	**55,716**	3,793
Over 1 year but less than 2 years	**1,883**	2,363
Over 2 years but less than 3 years	**1,053**	254
Over 3 years	**3,405**	3,429
	484,791	308,745

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

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

Other payables and accrued expenses of the Group mainly represent payables for acquisition of property, plant and equipment of RMB93,770,000 (2022: RMB72,677,000), accrued expenses of RMB1,070,475,000 (2022: RMB787,099,000), deposits received of RMB169,352,000 (2022: RMB126,729,000) and value added tax payable of RMB36,256,000 (2022: RMB55,881,000).

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

	2023	2022
	RMB'000	RMB'000
Contract liabilities	**51,560**	153,118

The Group receives certain amount of the contract values as receipt in advance upon receiving the purchase orders from customers. The receipt in advance results in contract liabilities being recognised until the customer obtains control of the goods.

As at 1 January 2022, contract liabilities amounted to RMB85,885,000. The contract liabilities as at 1 January 2022 and 1 January 2023 were fully recognised as revenue during the year ended 31 December 2022 and 31 December 2023, respectively.

23. BANK BORROWING

During the year ended 31 December 2023, the Group obtained a new bank loan amounting to RMB300,000,000. The loan carries interest at Loan Prime Rate minus 200 basis point without any reset of the interest rate and is repayable within 1 year. The proceed was used to finance the Group's daily operations

24. LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	**971**	6,530
Within a period of more than one year but not more than two years	**355**	566
Within a period of more than two years but not more than five years	**–**	346
	1,326	7,442
Less: Amount due for settlement with 12 months shown under current liabilities	**(971)**	(6,530)
Amount due for settlement after 12 months shown under non-current liabilities	**355**	912

The weighted average incremental borrowing rates applied to lease liabilities is at range from 5.88% to 6.13% (2022: from 4.75% to 5.88%).

	2023 RMB'000	2022 RMB'000
Lease obligations that are denominated in currency other than the functional currency of the relevant group entity are set out below:		
HK$	**936**	1,445
Australian Dollars ("AUD")	**390**	–

25. AMOUNTS DUE TO RELATED COMPANIES

	2023 **RMB'000**	2022 RMB'000
Shineway (Sanhe) Property Development Limited ("Shineway Sanhe")	**9,008**	9,008
Shineway Medical Science & Technology Co., Ltd. ("Shineway Medical")	**4,776**	4,776
	13,784	13,784

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

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

26. DEFERRED INCOME

	2023 **RMB'000**	2022 RMB'000
At 1 January	**176,089**	202,761
Addition during the year	**7,430**	3,667
Recognised as other income	**(18,789)**	(30,339)
At 31 December	**164,730**	176,089
Analysed for reporting purpose as		
Current liabilities	**75,842**	12,103
Non-current liabilities	**88,888**	163,986
	164,730	176,089

Included in the deferred income at 31 December 2023 are government subsidies amounting to RMB96,058,000 (2022: RMB102,107,000) in relation to research and development expenses on certain new products which are not yet recognised. The subsidies are recognised as deferred income until the conditions attaching to the subsidies have been fulfilled. During the year, the Group received RMB7,430,000 (2022: RMB3,667,000) government subsidies in relation to research and development expenses and recognised RMB13,479,000 (2022: RMB25,029,000) in profit or loss.

26. DEFERRED INCOME *(Continued)*

Included in the deferred income at 31 December 2023 is a government subsidy amounting to RMB25,818,000 (2022: RMB28,378,000) received in 2011 in relation to a development project, including the construction of production premises and acquisition of plant and machineries, in 邛崍醫藥產業園 (Qionglai Pharmaceutical Area) in Sichuan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2014 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB2,560,000 (2022: RMB2,560,000) is transferred to profit or loss during the year.

Included in the deferred income at 31 December 2023 is a government subsidy amounting to RMB42,854,000 (2022: RMB45,604,000) received in 2018 and 2019 in relation to a development project, including the construction of production facilities, in 楚雄州 (Chuxiong Prefecture) in Yunnan Province in the PRC. The grant is recognised as deferred income and to be credited to profit or loss on a systematic basis over the useful lives of the related assets when the assets are ready for the management's intended use. The development project was completed in 2021 and the deferred income has been amortised and recognised as other income in profit or loss over the useful lives of the related assets. Deferred income amounting to RMB2,750,000 (2022: RMB2,750,000) is transferred to profit or loss during the year.

27. SHARE CAPITAL

	Number of shares '000	Amount '000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2022, 31 December 2022 and 31 December 2023	**5,000,000**	HK$500,000
Issued and fully paid:		
At 1 January 2022, 31 December 2022 and 31 December 2023	**827,000**	HK$82,700
Shown in the financial statement as		RMB87,662

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

28. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

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

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

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

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

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

The 2015 Scheme will expire on 28 May 2025.

As at 31 December 2023 and 2022, there are no outstanding options under the 2015 Scheme. During the years ended 31 December 2023 and 2022, no share options were granted under the 2015 Scheme.

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

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

Share option scheme *(Continued)*

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

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

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

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

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

Share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by employees and directors pursuant to the 2015 Scheme during the year ended 31 December 2022:

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

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

Share award scheme

On 26 March 2018, the Company adopted the share award scheme (the "Scheme") with objectives to recognise the contributions by certain employees and give incentives thereto in order to motivate them for the continual operation and development of the Group; and to attract suitable personnel for further development of the Group. Unless terminated earlier by the board of directors pursuant to the Scheme, the Scheme shall be valid and effective for a period of ten years commencing on the adoption date.

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

There were no disposal or purchase of shares by the trustee during the year ended 31 December 2023 and 2022.

At the end of the reporting period, there are 71,600,000 (2022: 71,600,000) shares held by the trustee.

29. RETIREMENT BENEFITS PLANS

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

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

The total expense recognised in the consolidated statement of profit or loss and other comprehensive income of RMB26,783,000 (2022: RMB40,018,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

30. CAPITAL COMMITMENTS

	2023 RMB'000	2022 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**134,420**	166,666

31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Bank Borrowing RMB'000	Lease liabilities RMB'000	Accrued interest expenses RMB'000	Dividends payable RMB'000	Total RMB'000
At 1 January 2022	–	14,911	–	–	14,911
Financing cash flows	–	(8,310)	–	(241,728)	(250,038)
Dividends declared	–	–	–	241,728	241,728
Early termination of a lease contract	–	(1,448)	–	–	(1,448)
New leases entered	–	1,659	–	–	1,659
Interest expenses	–	630	–	–	630
At 31 December 2022	–	7,442	–	–	7,442
Financing cash flows	300,000	(7,171)	(2,299)	(317,268)	(26,738)
Dividends declared	–	–	–	317,268	317,268
New leases entered	–	759	–	–	759
Interest expenses	–	296	2,441	–	2,737
At 31 December 2023	300,000	1,326	142	–	301,468

32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which includes bank borrowing, lease liabilities and amount due to related companies, disclosed in notes 23, 24 and 25, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

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

33. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets		
Amortised cost	**7,209,899**	6,066,732
FVTPL	**20,000**	20,230
Financial liabilities		
Amortised cost	**1,061,697**	521,936

Financial risk management objectives and policies

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

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency risk

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

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

	2023 RMB'000	2022 RMB'000
HK$	**23,191**	129,550
United States Dollars ("USD")	**3,629**	3,527
AUD	**813,868**	–

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2022: 5%) increase and decrease in RMB against HK$, USD and AUD 5% (2022: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2022: 5%) change in HK$, USD and AUD. A negative number below indicates a decrease in profit for the year where RMB strengthens 5% (2022: 5%) against HK$, USD and AUD. For a 5% (2022: 5%) weakening of RMB against HK$, USD and AUD, there would be an equal and opposite impact on the profit for the year.

	2023 RMB'000	2022 RMB'000
Decrease in profit for the year	**(31,904)**	(5,556)

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

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Other price risk

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

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank balances, bank borrowing and lease liabilities (see notes 23 and 24 for details). The Group is also exposed to cash flow interest rate risk which relates to variable-rate bank balances. The Group currently does not have an interest rate hedging policy. The directors of the Company continuously monitor interest rate exposure and will consider entering into interest rate hedging should the need arise. The directors considered the Group's exposure of the variable-rate bank balances to interest rate risk is not significant and therefore no sensitivity analysis is presented.

Credit risk and impairment assessment

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

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

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

Trade receivables arising from contracts with customers

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

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2022: 100%) of the total trade receivables as at 31 December 2023.

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

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

Trade receivables with significant outstanding balances or credit-impaired balances with gross carrying amounts of RMB87,748,000 and RMB384,000 (2022: RMB69,002,000 and RMB2,335,000) respectively as at 31 December 2023 are assessed individually and the remaining balances with gross carrying amount of RMB699,712,000 (2022: RMB627,728,000) are assessed collectively based on internal credit rating as at 31 December 2023 within lifetime ECL (not credit-impaired). Impairment allowance of RMB3,954,000 (2022: RMB10,432,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

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

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

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

	2023		2022	
Internal credit rating	Average loss rate	Gross carrying amount RMB'000	Average loss rate	Gross carrying amount RMB'000
Low	0.46%	232,570	2.30%	367,525
Normal	4.78%	394,263	4.90%	209,678
High	12.77%	72,879	12.38%	50,525

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and forward-looking information that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated. During the year ended 31 December 2023, the Group provided RMB5,889,000 (2022: RMB9,335,000) impairment allowance for trade receivables under lifetime ECL (not credit-impaired).

As at 31 December 2023, the Group assessed the ECL of trade receivables backed by bank bills with a gross carrying amount of RMB322,041,000 (2022: RMB195,601,000) backed by banks with external credit rating ranged from Aaa to Ba1 (2022: Aaa to Ba1) at the loss rates ranged from 0.05% to 0.12% (2022: 0.05% to 0.28%) and the remaining balances with a gross carrying amount of RMB182,715,000 (2022: RMB107,189,000) backed by banks that do not have external crediting rating at the loss rate of 1.1% (2022: 0.8%). During the year ended 31 December 2023, the Group provided RMB1,486,000 (2022: reversed RMB1,104,000) impairment allowance for trade receivables backed by bank bills under lifetime ECL (not credit-impaired).

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2022	16,226	1,739	17,965
Changes due to financial instruments recognised as at 1 January 2022:			
– Impairment loss recognised	205	–	205
– Impairment loss reversed	(14,116)	(1,618)	(15,734)
New financial assets originated or purchased	22,142	2,215	24,357
As at 31 December 2022	24,457	2,336	26,793
Changes due to financial instruments recognised as at 1 January 2023:			
– Impairment loss reversed	(20,297)	(2,215)	(22,512)
New financial assets originated or purchased	27,689	263	27,952
As at 31 December 2023	31,849	384	32,233

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers (Continued)

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

	2023		2022	
	(Decrease) increase in lifetime ECL		(Decrease) increase in lifetime ECL	
	Not credit-impaired	**Credit-impaired**	Not credit-impaired	Credit-impaired
	RMB'000	**RMB'000**	RMB'000	RMB'000
Settlement in full of trade receivables with a gross carrying amount of RMB920,099,000 (2022: RMB794,961,000)	**(20,297)**	**(2,215)**	(14,116)	(1,618)
New trade receivables with gross carrying amount of RMB1,210,845,000 (2022: RMB953,668,000)	**27,689**	**263**	22,142	2,215

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

Other receivables

For other receivables with gross carrying amount of RMB60,756,000 (2022: RMB65,405,000), the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended 31 December 2023 and 2022, the Group assessed the ECL for other receivables were insignificant and thus no loss allowance was recognised.

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Bank balances

As at 31 December 2023, the Group assessed the ECL of bank balances with a gross carrying amount of RMB5,893,340,000 (2022: RMB5,026,733,000) placed in banks with external credit rating ranged from Aa3 to Baa3 (2022: Aa3 to Baa3) at the loss rates ranged from 0.04% to 0.10% (2022: 0.05% to 0.22%) and bank balances with a gross carrying amount of nil (2022: RMB3,885,000) placed in banks that do not have external crediting rating at the loss rate of 0.90% (2022: 0.83%). For the years ended 31 December 2023 and 2022, the Group assessed the ECL for bank balances were insignificant based on 12m ECL and thus no further loss allowance was recognised.

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

	12m ECL RMB'000
As at 1 January 2022, 31 December 2022 and 31 December 2023	4,618

Liquidity risk

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

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

33. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2023						
Trade payables	–	–	484,791	–	484,791	484,791
Other payables	–	–	263,122	–	263,122	263,122
Amounts due to related companies	–	13,784	–	–	13,784	13,784
Lease liabilities	5.95%	–	1,025	362	1,387	1,326
Bank borrowing	1.55%	–	302,402	–	302,402	300,000
Total		13,784	1,051,340	362	1,065,486	1,063,023

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

Fair value measurement of financial instruments

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

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

34. RELATED PARTY DISCLOSURES

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

Name of related parties	Nature of balances/transactions	**As at/ For the year ended 31 December 2023 RMB'000**	As at/ For the year ended 31 December 2022 RMB'000
Shineway Medical	Interest expenses on lease liabilities	**150**	382
	Service fee	**11,050**	10,430
	Lease liabilities	**–**	4,834
	Hotel service fee	**215**	–
	Expense relating to short-term leases	**1,368**	–
Shineway Sanhe	Interest expenses on lease liabilities	**36**	92
	Service fee	**2,709**	2,556
	Lease liabilities	**–**	1,164
Kang Yue Hotel Co., Ltd. ("Kang Yue Hotel")	Interest expenses on lease liabilities	**–**	105
	Hotel service fee	**–**	152
	Training expenses	**–**	25
Shijiazhang Municipal Luancheng Country Shineway Training School ("Shineway Training School")	Service fee	**531**	1,062

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

Compensation of key management personnel

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

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 RMB'000	2022 RMB'000
Non-current asset		
Investments in subsidiaries	63,599	63,599
Current assets		
Other receivables	21	–
Amounts due from subsidiaries*	1,012,730	447,080
Bank balances and cash	4,126	33,638
	1,016,877	480,718
Current liabilities		
Other payables	34,900	4,421
Amounts due to subsidiaries	1,682	1,637
	36,582	6,058
Net current assets	980,295	474,660
Net assets	1,043,894	538,259
Capital and reserves		
Share capital	87,662	87,662
Reserves (note)	956,232	450,597
Total equity	1,043,894	538,259

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

Note:

	Reserves RMB'000
At 1 January 2022	303,852
Profit and total comprehensive income for the year	380,902
Dividends paid	(241,728)
Lapse of share option	2,173
Cancellation of share option	5,398
At 31 December 2022	450,597
Profit and total comprehensive income for the year	822,903
Dividends paid	(317,268)
At 31 December 2023	956,232

* The management of the Company considered that the expected loss on amounts due from subsidiaries is insignificant after assessing the financial position of these subsidiaries.

36. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2023 and 2022 are as follows:

Name of companies	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2023	2022	Principal activities
Yuan Da Investment Limited	Hong Kong 10 November 2009	Ordinary share – HK$1	**100%**	100%	Investment holding
Yuan Da International Limited 遠大國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Hong Zhan International Limited 宏展國際有限公司	BVI 20 November 2002	Share – US$10,000	**100%**	100%	Investment holding
Shineway Pharmaceutical Group Limited (note a) 神威藥業集團有限公司	PRC 30 December 2003	Registered capital – US$136,000,000	**100%**	100%	Research and development, manufacturing and trading of Chinese pharmaceutical products
Hebei Shineway Pharmaceutical Company Limited (note a) 河北神威藥業有限公司	PRC 30 December 2003	Registered capital – US$12,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

36. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of companies	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2023	2022	Principal activities
China Shineway Pharmaceutical (Hong Kong) Limited 中國神威藥業(香港)有限公司	Hong Kong 21 April 2004	Ordinary share – HK$1	**100%**	100%	Trading of Chinese pharmaceutical products
Xizang Shineway Pharmaceutical Company Limited (note a) 西藏神威藥業有限公司	PRC 7 November 2006	Registered capital – US$1,250,000	**100%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Hainan) Company Limited (note a and c) 神威藥業(海南)有限公司	PRC 21 May 2007	Registered capital – US$3,900,000	**0%**	100%	Trading of Chinese pharmaceutical products
Shineway Pharmaceutical (Zhangjiakou) Company Limited (note b) 神威藥業(張家口)有限公司	PRC 18 November 2002	Registered capital – RMB22,000,000	**100%**	100%	Manufacturing and trading of Chinese products
Shineway Pharmaceutical (Sichuan) Limited) (note b) 神威藥業(四川)有限公司	PRC 15 September 2003	Registered capital – RMB400,500,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Shineway (Shijiazhuang) Chinese Medicine Prepared Herbs Limited (note b) 神威藥業(石家莊)中藥飲片有限公司	PRC 19 November 2010	Registered capital – RMB3,000,000	**100%**	100%	Trading of Chinese pharmaceutical products and agricultural products
Shineway Pharmaceutical (Minle) Modern Agricultural Limited (note b) 神威藥業(民樂)現代農業有限公司	PRC 17 June 2012	Registered capital – RMB2,000,000	**100%**	100%	Trading of Chinese pharmaceutical products
Hebei Tongshun Bioenergy Technology Limited (note b) 河北通順生物質能源科技有限公司	PRC 20 September 2013	Registered capital – RMB10,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Australia Shineway Technology Pty Ltd.	Australia 29 August 2012	Registered capital – AUD1,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shineway Pharmaceutical Group (Shandong) Company Limited (note b) 神威藥業集團(山東)有限公司	PRC 27 April 1993	Registered capital – RMB28,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products

36. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of companies	Place and date of incorporation/ establishment/ operations	Issued share fully paid/ registered capital	Percentage of equity interest held by the Company 2023	2022	Principal activities
Yunnan Shineway Spirin Pharmaceutical Company Limited (note b) 雲南神威施普瑞藥業有限公司	PRC 20 November 2014	Registered capital – RMB50,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Beijing Wanter Bio-Pharmaceutical Co., Ltd. (note b) 北京萬特爾生物製藥有限公司	PRC 25 August 2002	Registered capital – RMB8,000,000	**100%**	100%	Research and development, manufacturing and trading of pharmaceutical products
Jing Jin Ji Lian Chuang Medicine Research (Beijing) Limited (note b) 京津冀聯創藥物研究(北京)有限公司	PRC 19 January 2017	Registered capital – RMB10,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Kunming Shineway (note b) 神威藥業(昆明)有限公司	PRC 4 June 1997	Registered capital – RMB1,000,000	**100%**	100%	Manufacturing and trading of Chinese pharmaceutical products
Chuxiong Shineway Spirin Medicine Research Limited (note b) 楚雄神威施普瑞药物研究有限公司	PRC 1 June 2018	Registered capital – RMB5,000,000	**100%**	100%	Research and development of Chinese pharmaceutical products
Shi Jia Zhuang Ji Zhong Feed Technology Limited (note b) 石家莊市冀中飼料技術開發有限公司	PRC 4 March 2014	Registered capital – RMB500,000	**100%**	100%	Inactive

Notes:

(a) Being foreign wholly-owned enterprises.

(b) Being PRC domestic enterprises.

(c) Deregistered during the year ended 31 December 2023.

Except for Yuan Da Investment Limited, Yuan Da International Limited and Hong Zhan International Limited, all other subsidiaries are indirectly held by the Company.

The above table lists subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.