石藥集團有限公司
CSPC PHARMACEUTICAL GROUP LIMITED
(Stock Code : 1093)

INNOVATION

2023 ANNUAL REPORT

Contents

Corporate Information

Board of Directors

Executive Directors

CAI Dongchen *(Chairman)*
ZHANG Cuilong *(Vice-Chairman and CEO)*
WANG Zhenguo
PAN Weidong
WANG Huaiyu
LI Chunlei
WANG Qingxi
CHAK Kin Man
JIANG Hao

Independent Non-executive Directors

WANG Bo
CHEN Chuan
WANG Hongguang
AU Chun Kwok Alan
LAW Cheuk Kin Stephen
LI Quan

Audit Committee

AU Chun Kwok Alan *(Chairman)*
WANG Bo
CHEN Chuan

Nomination Committee

CAI Dongchen *(Chairman)*
WANG Bo
CHEN Chuan

Remuneration Committee

AU Chun Kwok Alan *(Chairman)*
WANG Bo
CHEN Chuan

Company Secretary

LO Tai On

Registered Office

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32nd Floor
Central Plaza
18 Harbour Road
Wan Chai
Hong Kong

Share Registrar

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

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Stock Exchange

The Stock Exchange of Hong Kong Limited

Stock Code

1093

Website

www.cspc.com.hk

Financial Highlights

	2023	2022	Change
(in RMB'000, unless otherwise stated)			
Revenue by business units:			
Finished drugs	**25,637,134**	24,520,067	+4.6%
Bulk products	**3,641,328**	4,031,947	-9.7%
Functional food and others	**2,171,647**	2,384,890	-8.9%
Total revenue	**31,450,109**	30,936,904	+1.7%
Profit attributable to shareholders			
Underlying profit *(Note)*	**6,275,253**	6,105,725	+2.8%
As reported	**5,873,325**	6,091,390	-3.6%
Earnings per share *(RMB cents)*			
Based on underlying profit attributable to shareholders			
– Basic	**52.86**	51.23	+3.2%
– Diluted	**52.85**	51.23	+3.2%
Based on profit attributable to shareholders			
– Basic	**49.47**	51.11	-3.2%
– Diluted	**49.47**	51.11	-3.2%
Final dividend per share *(HK cents)*	**14.00**	11.00	+27.3%
Full-year dividend per share *(HK cents)*	**28.00**	21.00	+33.3%

Note: *Underlying profit attributable to shareholders, a non-HKFRS measure, represents profit before taking into account fair value changes on financial assets measured at fair value through profit or loss, employee share-based compensation expense and gains on deemed disposal of partial interests in an associate and a joint venture. Reconciliation between the reported and underlying profit is provided on page 29 of this report.*

Chairman's Statement

Results

For the year ended 31 December 2023, the revenue of the Group amounted to RMB31,450 million, an increase of 1.7% as compared to 2022.

The underlying profit attributable to shareholders, excluding fair value changes on financial assets measured at fair value through profit or loss, employee share-based compensation expense, and gains on deemed disposal of partial interests in an associate and a joint venture, amounted to RMB6,275 million, an increase of 2.8% as compared to 2022.

The profit attributable to shareholders amounted to RMB5,873 million, a decrease of 3.6% as compared to 2022.

Dividend

The Board recommended a final dividend of HK14 cents per share for 2023. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on 26 June 2024 to shareholders whose names appear on the register of members on 5 June 2024. Together with an interim dividend of HK14 cents per share, the full-year dividend for 2023 amounted to HK28 cents per share, an increase of 33.3% as compared to 2022.

Industry Review

In 2023, the pharmaceutical industry has gradually resumed to normal amid the ease of the pandemic. In March, the Center for Drug Evaluation of the NMPA issued the "Center for Drug Evaluation Guidelines for Expediting the Review of Innovative Drug's Marketing Approval Applications (Trial)". This not only guides enterprises to explore higher clinical values and foster innovation by setting higher requirements for the clinical development and approval of innovative drugs, but also improves the review and approval mechanism to expedite the launch of innovative drugs.

The 2023 National Reimbursement Drug List (NRDL) was released in December, of which 126 new drugs were added and 1 drug was removed. The overall price decrease was relatively moderate, with an average reduction of 61.7% for negotiated drugs. With the optimisation and improvement in medical insurance policies, the certainty of growth of domestic innovative drugs has increased significantly.

Driven by national policies and increased corporate investments in research and development (R&D) in recent years, the number of innovative drugs approved for launch in this year has significantly increased compared to last year. The scale of out-licensing cooperation by Chinese pharmaceutical companies has reached new heights, and at the same time, a number of innovative drugs have also been successfully approved to launch in the European and the U.S. markets. This indicates a gradual improvement in R&D capabilities for domestic innovative drugs and further alignment of the Chinese pharmaceutical companies with international standards.

Business Review

In 2023, the Group adhered to the operation strategy of "strong innovation, strong team, strong management and stable growth. In the pursuit of continuous improvement of competitiveness, the Group has also achieved stable growth in its performance.

In 2023, the finished drug business maintained steady growth. Several new products of recent years such as Mingfule (明復樂®) (recombinant human TNK tissue-type plasminogen activator for injection), Yiluoda (伊絡達®) (nintedanib capsules) and Anfulike (安複利克®) (amphotericin B cholesteryl sulfate complex for injection) achieved rapid sales ramp-up during the year. In addition, several new drugs with market potential have been approved for launch, including Jinlitai (津立泰®) (narlumosbart injection), Duoenyi (多恩益®) (irinotecan hydrochloride liposome injection) and Ouyuexin (歐悅欣®) (desvenlafaxine succinate extended-release tablets). Mingfule, a third-generation thrombolytic drug, also obtained marketing approval for treatment of acute ischemic stroke in February 2024. Duoenda (多恩達®) (mitoxantrone hydrochloride liposome injection), Copiktra (克必妥®) (duvelisib capsules), Haiyitan (海益坦®) (glumetinib tablets) and Ouyuexin were successfully included into the NRDL through negotiation.

In addition to continuing to increase R&D investments, the Group was also committed to improving R&D efficiency during the year. The R&D and clinical development of innovative drugs were progressing as planned. Currently, more than 60 key product candidates are in the clinical stage, many of which are with global patents and high market value. The approval and continuous ramp-up in sales of new products have laid a solid foundation for the growth of the Group's sales, and have also led to a more balanced product portfolio across various therapeutic areas.

During the year, the Group accelerated our pace of internationalisation by establishing an international headquarters in Singapore and an overseas market division for formulation drugs, striving to expedite the expansion for high-end complex formulation drugs (i.e. liposomes) as well as biological preparations (including monoclonal and bispecific antibodies) in markets including Europe, the US, Japan and South Korea; carrying out product registration and customer development for various types of formulation drugs across Asia, Africa and Latin America; and setting up companies along the "Belt and Road" countries such as Singapore, Thailand, Malaysia and Vietnam to promote product registration and sales, with the goal of increasing the contribution of overseas business.

In terms of business expansion, the Group has completed three major product licensing projects during the year, among them the exclusive licence agreement signed with Corbus Pharmaceuticals, Inc. in the U.S. for SYS6002 (Nectin-4 ADC) marks the global recognition of the Group's innovation capabilities. This is an important milestone for the Group's self-developed innovative products expanding into overseas market.

CSPC attaches great importance to our ESG standard and is committed to creating a green, harmonious and sustainable development path, improving corporate governance and actively giving back to society. The MSCI ESG rating of the Company has remained at A for three consecutive years.

Outlook

Looking forward, the Group will continue to focus on in-house pipelines through our existing eight innovative R&D platforms, adhere to a clinical demand-oriented approach and endeavor to expand into new therapeutic targets. Besides, the Group will also expand into emerging fields such as gene therapy and cell therapy. In terms of internationalisation, the Group aims to enhance the contribution of its overseas business through models such as proactive selection of advantageous projects for simultaneous development overseas, optimisation of clinical development pathway, acceleration of the application and launch of innovative drugs in overseas markets, as well as cooperation with overseas commercial enterprises. In terms of business development, the Group will continue to pursue extensive and in-depth cooperation with innovative biotech companies and scientific research institutions through the win-win model of "Pharma+Biotech". Furthermore, the Group will endeavor to seize opportunities arising from policies and adhere to the "dual-driver" of innovation and internationalisation. The Group is also committed to the philosophy of "All for Better Medicine, All for a Healthier World", striving to become an innovative pharmaceutical company with international influence.

Appreciation

I would like to take this opportunity to express my gratitude to all staff for their dedication and diligence, and to all our shareholders, business partners and customers for their continued support.

CAI Dongchen
Chairman

20 March 2024

Management Discussion and Analysis

Overview

The Group is an innovation-driven pharmaceutical enterprise with integrated research and development (R&D), manufacture and sales capabilities. With the corporate mission of “All for Better Medicine, All for a Healthier World”, the Group is committed to developing innovative products to address unmet clinical needs and provide innovative therapies for patients.

The Group has built an internationalised R&D team with more than 2,000 professionals and key R&D centres located in Shijiazhuang, Shanghai, Beijing and the US respectively, focusing on the key therapeutic areas such as oncology, psychiatry and neurology, cardiovascular, immunology and respiratory, digestion and metabolism, and anti-infectives. Eight innovative technology R&D platforms have been established, encompassing nano-formulation, messenger RNA (mRNA), small interfering RNA (siRNA), monoclonal antibody, bispecific antibody and antibody–drug conjugates (ADC), which provide strong support for the R&D in innovative drugs. The Group currently has approximately 130 innovative drug projects under development, including over 40 large molecule projects, over 40 small molecule projects and over 30 new-formulation projects. It is expected that approximately 50 innovative drugs will be filed for marketing approval in the next 5 years, which will provide continuous momentum for the Group’s development.

The Group has strong commercialisation capabilities. It currently has established a professional sales team of over 10,000 individuals, with extensive coverage in medical institutions across the country. We are now actively stepping up our efforts in lower-tier market penetration and developing the county-level markets to provide quality drugs to the grass roots. Through patient-centric and clinical-data driven academic promotion, the Group's sales team has successfully nurtured a number of market-leading core products. The Group's strong sales team and successful commercialisation experience will safeguard the sales performance of its innovative drugs on the market.

Business Review

Finished Drug Business

In 2023, the finished drug business maintained stable growth. The Group continued to adopt the strategies of hospital channel development, lower-tier market penetration, retail channel expansion, expansion of the drugs' clinical applications and professional academic promotion to drive the growth of finished drug products. During the year, market development activities of the newly launched drugs were initiated smoothly, and a number of drugs were selected at national volume-based procurement (VBP) or included in the National Reimbursement Drug List (NRDL), which boosted sales and led to a more balanced product portfolio.

The finished drug business recorded a revenue of RMB25,637 million (including licence fee income of RMB34.70 million) for the year, an increase of 4.6% compared to the previous year. Sales by major therapeutic areas are as follows:

Therapeutic Area	**Sales in 2023** *(RMB' million)*	**Change**
Nervous system	9,089	+12.1%
Oncology	6,139	-16.4%
Anti-infectives	4,236	+19.7%
Cardiovascular	2,440	-15.5%
Respiratory system	1,560	+124.0%
Digestion and metabolism	889	+17.8%
Others	1,249	+24.1%

Nervous System

Major products include NBP (恩必普®) (butylphthalide soft capsules and butylphthalide and sodium chloride injection), Shuanling (舒安靈®) (pentoxifylline extended-release tablets and pentoxifylline injection), Enliwei (恩理維®) (lacosamide injection and lacosamide tablets), Enxi (恩悉®) (pramipexole dihydrochloride tablets), Oulaining (歐來寧®) (oxiracetam capsules and oxiracetam for injection) and Oushuan (歐舒安®) (paliperidone extended-release tablets).

During the year, NBP maintained stable growth, while Shuanling, Enliwei and Enxi saw rapid sales ramp-ups leading to a significant increase in revenue.

- NBP is a Class 1 new chemical drug and a patent-protected exclusive product indicated for the treatment of acute ischemic stroke. The product is recommended by many professional organisations and guidelines and is one of the major drugs for this indication. In 2023, the new NRDL price of NBP was implemented, which has further improved the accessibility of the product. Its expansion into new indications is also actively underway to provide further room for growth.

- Shuanling is a non-selective phosphodiesterase inhibitor that can comprehensively improve microcirculation through multiple mechanisms of action. While seeking expansion in the fields of neurology and endocrine, Shuanling further developed the nephrology field, with sales continuing to achieve rapid growth.

- Enliwei is an anti-epileptic drug. The injectable was included into the 2022 NRDL through price bidding, while the tablets was selected in the seventh batch of national VBP. Sales achieved rapid growth through the strategy of “low prices in exchange for volume”.

- Enxi is used for the treatment of the signs and symptoms of adult idiopathic Parkinson’s disease, and is a product selected in VBP. During the year, its market coverage was further expanded by penetrating into lower-tier markets and developing retail channels.

- Oushuan, a drug used for the treatment of schizophrenia, has the lowest daily treatment cost among paliperidone products currently available. The product was launched during the year with marketing activities smoothly initiated.

Oncology

Major products include Jinyouli (津優力®) (PEG-rhG-CSF injection), Duomeisu (多美素®) (doxorubicin hydrochloride liposome injection), Keaili (克艾力®) (paclitaxel for injection (albumin-bound)), as well as new products launched in recent years including Duoenda (多恩達®) (mitoxantrone hydrochloride liposome injection), Duoenyi (多恩益®) (irinotecan hydrochloride liposome injection), Jinlitai (津立泰®) (narlumosbart injection), Copiktra (克必妥®) (duvelisib capsules) and Geruite (戈瑞特®) (lenvatinib mesilate capsules).

During the year, Jinyouli maintained steady growth and Duomeisu remained stable, but sales of Keaili decreased significantly due to the price cut at VBP. The new product Duoenyi saw a sales ramp-up after obtaining marketing approval during the year.

- Jinyouli is the first long-acting white blood cell booster drug developed in China. It is a Class 1 therapeutic biological drug used to prevent and treat incidence of infection and pyrexia due to low neutrophil count in patients receiving chemotherapy. The product is unanimously recommended by domestic and foreign guidelines and has won multiple national awards. With the implementation of the results of Guangdong Alliance VBP during the year, sales volume of the product achieved rapid growth in the implemented provinces. Marketing efforts currently focus on promoting the long-acting formulation, expanding the coverage in core hospitals in prefecture-level cities, lower-tier market penetration and driving sales ramp-up in VBP regions in order to maintain sustainable growth of the product.

- Duomeisu is a drug developed by the National Key Laboratory for New Pharmaceutical Preparations and Excipients of the Group and supported by the Major New Drug Development project in China. It is recommended by the US National Comprehensive Cancer Network (NCCN) Guidelines and the Chinese Society of Clinical Oncology (CSCO) for the first-line treatment of lymphoma, ovarian cancer, relapsed or metastatic breast cancer, soft tissue sarcoma and AIDS-related Kaposi's sarcoma. Duomeisu is a leading brand of liposomal doxorubicin in China. The Group will continue to carry out professional academic promotion, enhance lower-tier market penetration and leverage on government policies (such as the VBP by the Beijing-Tianjin-Hebei "3+N" Alliance) to increase market coverage.

- Keaili is a new-generation paclitaxel chemotherapy drug with recommendation in domestic and foreign guidelines and expert consensus for therapeutic areas such as breast cancer, lung cancer, ovarian cancer, gastric cancer, pancreatic cancer and esophageal cancer. During the year, the renewed VBP price of the product was implemented successively in each province, which resulted in a significant decline in sales. Leveraging on the low-price advantage, the Group will promote usage of Keaili in more therapeutic areas and continue to promote the replacement of conventional paclitaxel drugs and enhance lower-tier market penetration to expand the market potential.

- Duoenda, a Class 2 new chemical drug developed by the Group for the treatment of relapsed/refractory peripheral T-cell lymphoma, is the world's first mitoxantrone nanodrug on the market with patents in several countries. The product was launched in January 2022, and was included into the CSCO Guidelines for Lymphoma in April 2022 which recommends its usage for the treatment of relapsed/refractory peripheral T-cell lymphoma (stage 2A) and NKT cell lymphoma (stage 2B). Through professional academic promotion and continuous provision of supplemental medical evidence, the product has received positive market response since its launch. Currently, it is being used by more than 670 hospitals. In December 2023, Duoenda was successfully included in the NRDL through negotiation, which will have a positive impact on its sales in the future. The product is also actively exploring and studying in the field of hematological tumors including T-cell lymphoma, diffuse large B-cell lymphoma, acute myeloid leukemia and multiple myeloma, and solid tumors including nasopharyngeal cancer.

- Duoenyi is the first generic irinotecan hydrochloride liposome injection in China. It was approved in September 2023 for being used in combination with 5-fluorouracil (5-FU) and leucovorin (LV) for the treatment of patients with metastatic pancreatic cancer that has progressed after receiving gemcitabine treatment. The product is recommended by the CSCO, China Anti-Cancer Association (CACA) and National Comprehensive Cancer Network (NCCN) guidelines. The CSCO Guidelines recommends (Class I recommendation) the combination regimen for the second-line and above treatment of metastatic pancreatic cancer. The Group has established a dedicated sales team for Duoenyi, and the product has experienced rapid sales growth since its launch. The marketing efforts currently focus on gastrointestinal stromal tumors, including pancreatic cancer, biliary tract tumors, colorectal cancer, and will expand into solid tumors such as small cell lung cancer in the future.

- Jinlitai is a Class 1 new drug with marketing approval obtained in September 2023. It is the world's first IgG4 RANKL inhibitor independently developed by the Group, used for giant cell tumor of bone, tumor bone metastasis and the improvement of osteoporosis. Compared with denosumab, it has a faster onset of action (median time to tumor response of 0.95 month for narlumosbart compared to 3.1 months for denosumab) and good safety profile (incidence of skeletal-related events is only 3.1% and incidence of grade ≥3 hypocalcemia is lower). Currently, the Group is actively carrying out marketing activities for the product and striving for expanding market coverage rapidly.

- Copiktra is the first approved dual PI3K δ/γ dual-target inhibitor in China. It achieves a balance between efficacy and safety by specifically acting on the δ and γ dual targets of PI3K signaling pathway. The product is the only PI3K inhibitor jointly recommended by the CSCO and NCCN guidelines for the treatment of relapsed and refractory peripheral T-cell lymphoma. In December 2023, Copiktra was successfully included into the NRDL through negotiation, which will have a positive impact on its sales in the future.

- Geruite can be indicated for patients with unresectable hepatocellular carcinoma who have not received systemic therapy, and patients with progressive, locally advanced or metastatic radioactive iodine-refractory differentiated thyroid cancer. It is recognised by the CSCO, CACA and NCCN guidelines. Geruite currently focuses on liver cancer, and will expand into endometrial cancer, kidney cancer, thyroid cancer, biliary tract tumors and other tumor types in the future. The product saw a rapid growth in sales after being selected in the seventh batch of national VBP in 2022.

Anti-infective

Major products include Anfulike (安複利克®) (amphotericin B cholesteryl sulfate complex for injection), Shuluoke (舒羅克®) (meropenem for injection), Nuomoling (諾莫靈®) (amoxicillin capsules), Xianqu (先曲®) (ceftriaxone sodium for injection), Xianwu (先伍®) (cefazolin sodium for injection), Zhongnuo Lixin (中諾立新®) (cefuroxime sodium for injection) and Weihong (維宏®) (azithromycin tablets/capsules/enteric tablets, azithromycin for injection).

During the year, sales of antibiotic products soared due to the strong market demand and the selection of a number of products in national VBP or provincial alliance VBP. Sales of Anfulike has doubled. Continuous academic promotion has led to a better understanding of the clinical benefits of the product among doctors.

- Anfulike is recommended jointly by the State Ministry of Industry and Health Care Commission as a "clinically urgent, market-deficient" drug. It was granted drug registration approval after passing a priority review in March 2021 for the treatment of patients with invasive fungal infections. With modification of the product's lipid structure, the incidence of nephrotoxicity and hypokalaemia is reduced. It can be used by patients with renal impairment or drug toxicity which precludes the use of effective dose of amphotericin B, or patients who have failed in prior amphotericin B deoxycholate treatment. Anfulike has high accessibility as it has been included in the NRDL. The Group strives to enhance doctors' understanding of the clinical advantage of the product, expand its market coverage and develop its clinical application in hematology, severe illness, respiratory and infection departments to achieve rapid sales growth.

Cardiovascular

Major products include Xuanning (玄寧®) (maleate levamlodipine tablets and dispersible tablets), Mingfule (明復樂®) (recombinant human TNK tissue-type plasminogen activator for injection), Encun (恩存®) (clopidogrel bisulfate tablets), Daxinning (達新寧®) (dronedarone hydrochloride tablets), Abikang (阿比康®) (aspirin enteric tablets), Yishuning (意舒寧®) (nifedipine controlled-release tablets) and Meiluolin (美洛林®) (ticagrelor tablets).

During the year, the sales of Xuanning and Encun declined due to the impact of VBP, while the sales of Mingfule, Yishuning, Daxinning and Meiluolin recorded satisfactory growth.

- Xuanning is mainly used for the treatment of hypertension, chronic stable angina and variant angina, and is a product in the NRDL and essential drug list. Following the inclusion of other levamlodipine products on the market in the eighth batch of national VBP in 2023, the sales of Xuanning in public hospital channel have been affected to a certain extent. Leveraging the leading brand name, the Group will adopt all-channel promotion strategy, deepen the expansion into lower-tier and private markets, and enhance promotion in retail markets and online sales channel to ensure the steady development of the product.

- Mingfule is a third-generation thrombolytic drug with proprietary intellectual property mainly used for the thrombolysis treatment in patients with acute myocardial infarction within 6 hours of onset. It is a preferred thrombolytic drug recommended by authoritative guidelines and consensuses, including the Guidelines for the Rational Medication for Thrombolytic Treatment of Acute ST-Segment Elevation Myocardial Infarction (2nd Edition), Chinese Expert Consensus on Microcirculation Protection Strategies for Emergency PCI in Patients with ST-Segment Elevation Myocardial Infarction, and Chinese Expert Consensus on Prehospital Thrombolytic Therapy for ST-Segment Elevation Myocardial Infarction. In February 2024, Mingfule obtained marketing approval as a thrombolytic therapy for the treatment of patients with acute ischemic stroke, and was included in the Chinese Cerebrovascular Disease Clinical Management Guidelines 2023 and Chinese Guideline of Endovascular Treatment for Acute Ischemic Stroke 2023, which has created a larger market potential.

Respiratory

Major products include Yiluoda (伊絡達®) (nintedanib capsules), Qixin (琦昕®) (oseltamivir phosphate capsules), Qixiao (琦效®) (arbidol hydrochloride tablets), Nuoyian (諾一安®) (montelukast sodium tablets/chewable tablets), Zhongnuo Like (中諾立克®) (ambroxol hydrochloride oral solution) and Zhongnuoping (中諾平®) (ambroxol hydrochloride extended-release tablets).

During the year, benefiting from effective promotion strategies and booming demand, the sales of Yiluoda, Qixin, Qixiao and Nuoyian increased significantly as compared to the previous year.

- Yiluoda is the first-to-market generic nintedanib drug in China, which is indicated for the treatment of systemic sclerosis-associated interstitial lung disease (SSc-ILD) and progressive fibrosing interstitial lung diseases (PF-ILD). The product has achieved continuous rapid sales growth since its launch in 2022. In January 2024, the indication of nintedanib esilate soft capsules for the treatment of progressive pulmonary fibrosis (PPF) was included into the NRDL. This is the third indication of the drug being included in the NRDL (after idiopathic pulmonary fibrosis and systemic sclerosis-related interstitial lung disease), further improving the product's accessibility.

- Qixin is the preferred drug for the prevention and treatment of influenza, and a product in the NRDL and essential drug list. The product achieved rapid sales growth after being selected in the seventh batch of national VBP in July 2022.

Digestion and metabolism

Major products include Linmeixin (林美欣®) (glimepiride dispersible tablets), Shuanglexin (雙樂欣®) (metformin hydrochloride tablets/extended-release tablets), Xinweiping (欣維平®) (acarbose tablets), Oubeituo (歐倍妥®) (esomeprazole capsules) and Debixin (得必欣®) (omeprazole capsules/tablets/injection).

During the year, Oubeituo and Shuanglexin saw rapid sales growth, while the sales of Linmeixin and Xinweiping declined due to the impact of VBP.

Other therapeutic areas

Major products include Oubida (歐必達®) (apremilast tablets), Gujie (固杰®) (tofacitinib citrate extended-release tablets), Gubang (固邦®) (alendronate sodium tablets/enteric tablets), Xianpai (先派®) (omeprazole sodium for injection) and Qimaite (奇邁特®) (tramadol hydrochloride tablets).

Bulk Product Business

Vitamin C

In 2023, sales amounted to RMB1,929 million. Despite sales volume remaining stable during the year, sales decreased by 23.7% as compared to the previous year due to the impact of weakening product prices. The Group will focus on product quality and expand into the high-end market in order to achieve competitive differentiation. Meanwhile, the Group will also actively develop overseas sales networks and establish overseas offices to further increase its market share.

Antibiotics

In 2023, sales amounted to RMB1,712 million, representing an increase of 13.9%, which was mainly driven by the increase in the sales volume of azithromycin and other products. The Group will adopt a market-oriented approach, continue to enhance its product chain and optimise its sales, production, quality and registration in order to enhance its ability to expand into the high-end market.

Functional Food and Other Businesses

In 2023, sales amounted to RMB2,172 million, representing a year-on-year decrease of 8.9%. During the year, despite moderate growth in volume, caffeine products recorded a decrease in sales as driven by a decline in selling price. The sales of Guoweikang (果維康®) (vitamin C health supplement product) also slightly declined. The Group will leverage the development and application of new technology and other measures, and optimise its product mix to continue to enhance its competitiveness.

Research and Development

The Group firmly believes that innovative R&D is the most important driver for future development and continues to increase its investment in R&D. In 2023, R&D expenses amounted to RMB4,830 million (charged to the income statement), representing a year-on-year increase of 21.2% and accounting for approximately 18.8% of the revenue from the finished drug business. Currently, more than 60 key drug candidates have entered clinical trial or registration stage, of which 7 candidates have filed marketing approval application and 18 candidates have entered pivotal clinical trial stage.

Regulatory Updates

Since the beginning of 2023, 4 innovative drugs (including new indication) and 1 special preparation have obtained marketing approval, 5 marketing applications for innovative drug/special preparation have been accepted, 17 innovative drug candidates have obtained clinical trial approval for their first indication, 24 additional indications have obtained clinical trial approval, 8 generic drugs have obtained registration approvals and 1 Breakthrough Therapy Designation have been obtained in China. In North America, 2 marketing applications for innovative drugs/special preparations have been accepted, 5 innovative drug candidates have obtained clinical trial approval for their first indication and 1 Fast Track Designation has been obtained.

China

- In March 2023, the SARS-CoV-2 mRNA vaccine (brand name: Duentai (度恩泰®)) containing BA.5 key mutations independently developed by the Group was included for emergency use in China for the prevention of COVID-19 caused by the infection of SARS-CoV-2, becoming the first mRNA vaccine launched in China.

- In September 2023, Class 1 new biological drug Narlumosbart for Injection (JMT103) (brand name: Jinlitai (津立泰®)) for the treatment of giant cell tumor of bone that is unresectable or where surgical resection is likely to result in severe morbidity obtained marketing approval. The product is the first IgG4 subtype fully human monoclonal antibody against RANKL obtaining marketing approval worldwide.

- In September 2023, Irinotecan Hydrochloride Liposome Injection (brand name: Duoenyi (多恩益®)), being used in combination with 5-fluorouracil (5-FU) and leucovorin (LV), for the treatment of patients with metastatic pancreatic cancer that has progressed after receiving gemcitabine treatment obtained marketing approval.

- In December 2023, the bivalent COVID-19 mRNA vaccine (XBB.1.5 +BQ.1) (SYS6006.32) independently developed by the Group was included for emergency use in China. It has broad-spectrum cross-immunity against current and possible future circulating variants.

- In February 2024, Mingfule® (recombinant human TNK tissue-type plasminogen activator for injection) (rhTNK-tPA) obtained marketing approval for the thrombolytic treatment in patients with acute ischemic stroke. It is the first approval for this indication of this product type in China, and the second approved indication of the product.

- In March 2023, the application for marketing approval for Enlonstobart for Injection (recombinant fully human anti-PD-1 monoclonal antibody) (SG001) for the treatment of recurrent or metastatic cervical cancer patients with positive PD-L1 expression who have failed at least first-line platinum-based chemotherapy was accepted with eligibility for conditional approval pathway.

- In March 2023, the application for marketing approval for Amphotericin B Liposome for Injection for the treatment of invasive fungal infection was accepted.

- In April 2023, the application for marketing approval for Class 1 new chemical drug Prusogliptin Tablets (DBPR108) for the treatment of type 2 diabetes was accepted.

- In June 2023, the application for marketing approval for Omalizumab for Injection for the treatment of chronic spontaneous urticaria was accepted.

- In December 2023, the application for marketing approval for the indication of Meloxicam Nanocrystal Injection for the treatment of moderate-to-severe pain in adults (used alone or in combination with analgesics other than nonsteroidal anti-inflammatory drugs) was accepted.

- In November 2023, KN026 (recombinant humanized anti-HER2 bispecific antibody for injection) for the indication of combination chemotherapy for the treatment of HER-2 positive locally advanced, recurrent or metastatic gastric cancer (including gastroesophageal junction cancer) which has failed standard first-line treatment (trastuzumab combination chemotherapy) was granted Breakthrough Therapy Designation.

- 17 innovative drug candidates have obtained clinical trial approval for their first indication and 24 additional indications have obtained clinical trial approval:

First Indication

Drug Candidate	Indication
SYH2045 (PRMT5 inhibitor)	Advanced malignant tumors
Meloxicam nanocrystal injection	Moderate-to-severe pain in adults
Clevidipine injectable emulsion	Hypertension
Octreotide long-acting injection	Acromegaly
NBL-020 (TNFR2 monoclonal antibody)	Advanced solid tumors
SYS6010 (ADC)	Advanced solid tumors
SYH2051 (ATM inhibitor)	Solid tumors
JMT203 (GFRAL monoclonal antibody)	Tumor cachexia
Semaglutide injection	Type 2 diabetes
NBL-028 (CLDN6-CD137 bispecific antibody)	Advanced tumors
SYS6006.32 (bivalent COVID-19 mRNA vaccine)	Prevention of COVID-19
Secukinumab injection (IL-17A)	Moderate-to-severe plaque psoriasis
Dextromethorphan hydrobromide and quinidine sulphate tablets	Pseudobulbar palsy
SYH2038 (SOS1)	Advanced malignant tumors
SYH2053 injection (PCSK9 siRNA)	Primary hypercholesterolaemia or mixed dyslipidaemia in adults
SYS6011 (CD73 inhibitor)	Advanced solid tumors
Dexmedetomidine hydrochloride nasal spray	Sedation before invasive procedures

Additional Indication

Drug Candidate	Indication
KN026 for injection	In combination with docetaxel (albumin-bound) for the treatment of first-line HER2-positive recurrent and metastatic breast cancer
Docetaxel for injection (albumin-bound)	In combination with SG001 (PD-1) for the perioperative treatment of non-small cell lung cancer
Docetaxel for injection (albumin-bound)	In combination with SG001 (PD-1) and cisplatin with concomitant radiotherapy for the treatment of locally advanced esophageal cancer
Docetaxel for injection (albumin-bound)	In combination with cisplatin with concomitant radiotherapy and in sequential combination with SGO01 (PD-1) for the treatment of locally advanced non-small cell lung cancer
Docetaxel for injection (albumin-bound)	In combination with cisplatin with concomitant radiotherapy for the treatment of locally advanced unresectable non-small cell lung cancer
Docetaxel for injection (albumin-bound)	Neoadjuvant therapy for luminal breast cancer
SYH2055 tablets	Prevention of COVID-19
Enlonstobart for injection (SG001)	In combination with chemotherapy for first-line cervical cancer
Paclitaxel cationic liposome for injection	Arterial perfusion therapy in patients with advanced solid tumors who have failed standard treatment
Simmitinib tablets	In combination with SG001 (PD-1) for the treatment of solid tumors
Simmitinib tablets	In combination with irinotecan liposome for the treatment of second-line and above esophageal cancer
JMT101 injection	In combination with SG001 and irinotecan for treatment of colorectal cancer
ALMB-0166 injection	Acute ischemic stroke
Batoclimab	Proliferative lupus nephritis
CM310 injection	Chronic obstructive pulmonary disease
CM326 injection	Chronic obstructive pulmonary disease
JMT601 for injection	In combination with different regimens – CD20-positive diffuse large B-cell lymphoma
SYHX1901 tablets	Vitiligo
SYHX1901 tablets	Alopecia areata
Octreotide long-acting injection	Gastroenteropancreatic neuroendocrine tumors

Drug Candidate	Indication
Sirolimus for injection (albumin-bound)	In combination with endocrine therapy for second-line and above HR-positive HER2-negative advanced breast cancer
Cisplatin micelle injection	In combination with paclitaxel for the treatment of advanced solid tumors
JMT101 for injection	In combination with docetaxel (albumin-bound) for the treatment of second-line squamous cell non-small cell lung cancer
SYSA1801 for injection	In combination with SG001 and CAPOX for the first-line treatment of CLDN18.2-positive, HER2-negative unresectable locally advanced or metastatic gastric or gastroesophageal junction adenocarcinoma

- Since the beginning of 2023, 8 generic drugs have obtained drug registration approvals, namely Apremilast Tablets, Mirabegron Extended-release Tablets, Paliperidone Extended-release Tablets, Tedizolid Phosphate for Injection, Rabeprazole Sodium Enteric-coated Tablets, Lenvatinib Mesilate Capsules, Desvenlafaxine Succinate Extended-release Tablets and Sacubitril Valsartan Sodium Tablets. Desvenlafaxine Succinate Extended-release Tablets, a first-to-market generic drug, has enriched the Group's product pipeline in psychiatry and neurology. It was successfully included into the NRDL in December 2023 through negotiation.

North America

- In January 2023, NBL-020 for injection (fully human monoclonal antibody targeting TNFR2) obtained clinical trial approval in the US.
- In March 2023, CPO301 for injection (ADC) obtained clinical trial approval in the US.
- In June 2023, CPO301 for injection (ADC) obtained clinical trial approval in Canada.
- In August 2023, NBL-028 for injection (Claudin-6/CD137 bispecific antibody) obtained clinical trial approval in the US.
- In August 2023, CPO301 for injection (ADC) obtained Fast Track Designation for the treatment of EFGR-mutated non-small cell lung cancer that is resistant to the third-generation TKI osimertinib in the US.

- In November 2023, the Abbreviated New Drug Application (ANDA) for Amphotericin B Liposome for Injection was filed successfully with the US FDA.

- In December 2023, the New Drug Application (NDA) for Irinotecan Liposome Injection was successfully filed with the US FDA.

- In January 2024, JMT106 Injection (bispecific fusion protein targeting GPC3 and interferon receptors) obtained clinical trial approval in the US.

Major Clinical Trials Progress

Trastuzumab injection

- In January 2023, the first patient was dosed in a phase III clinical study of the combination of trastuzumab and docetaxel for the neoadjuvant treatment of early or locally advanced HER2-positive breast cancer in China. The study is currently in the enrollment stage.

Docetaxel for injection (albumin-bound)

- In February 2024, the first phase III clinical study comparing to Taxotere® for the treatment of locally advanced or metastatic gastric adenocarcinoma or gastroesophageal junction adenocarcinoma that has failed previous first-line treatments was initiated in China. The study is currently in the enrollment stage.

Duoenda (Mitoxantrone hydrochloride liposome injection)

- In March 2023, the first patient was dosed in a phase III clinical study for the treatment of patients with recurrent metastatic nasopharyngeal carcinoma who have failed platinum-based therapy in China. The study is currently in the enrollment stage.

CM310 (IL-4Rα antibody)

- In March 2023, a phase II/III clinical study for the treatment of moderate-to-severe asthma was initiated in China. The first patient was dosed in April 2023. The study is currently in the enrollment stage.

SYHX2011 (Paclitaxel for injection (albumin-bound) II)

- In April 2023, the first patient was dosed in a phase III clinical study of SYHX2011 comparing to paclitaxel for injection (albumin-bound) for the treatment of advanced breast cancer in China. Enrollment was completed in March 2024.

Ustekinumab injection

- In April 2023, the first patient was dosed in a phase III clinical study of ustekinumab injection comparing to the originator drug for the treatment of moderate-to-severe plaque psoriasis in China. Enrollment was completed in August 2023.

TG103 injection (GLP-1 receptor agonists)

- In November 2023, the first patient was dosed in a phase III clinical study for weight loss in China. Enrollment was completed in January 2024.

Semaglutide injection

- In February 2024, the first phase III clinical study for the treatment of type 2 diabetes was initiated in China. The study is currently in the enrollment stage.

Clevidipine injectable emulsion

- In April 2023, the first patient was dosed in a phase III clinical study for the treatment of hypertensive emergencies in China. Enrollment was completed in March 2024.

Enlonstobart for injection (recombinant fully human anti-PD-1 monoclonal antibody) (SG001)

- In February 2023, the first patient was dosed in a phase III clinical study for the first-line treatment of PD-L1-positive advanced cervical cancer in China. The study is currently in the enrollment stage.

DP303c (recombinant humanized anti-HER2 monoclonal antibody–MMAE conjugate for injection)

- In November 2023, a phase II clinical study for the treatment of third-line and above HER2-positive breast cancer in China met its predefined endpoint.

JMT101 (recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection)

- In January 2024, a phase II clinical study for the treatment of second-line and above EGFR exon 20 insertion mutations in non-small cell lung cancer in China met its predefined endpoint.

Publication of Major Clinical Trial Results

Mingfule (recombinant human TNK tissue-type plasminogen activator for injection)

- In February 2023, the results of a phase III clinical trial study (TRACE-2) for the treatment of acute ischemic stroke were published in *The Lancet* (IF: 202.731), an international medical journal, demonstrating that Mingfule is non-inferior to alteplase in efficacy and has a good safety profile. This is the first time that the registration trial of a Chinese neurological and cerebrovascular drug was published in a top international journal, marking a major breakthrough in the treatment of cerebral infarction in China.

- In April 2023, the *National Clinical Guideline for Stroke for the UK and Ireland (2023 Edition)* cited the clinical study results of TRACE-2 as an important reference for updating thrombolytic treatment in the acute phase of ischemic stroke, which heralds the influence of clinical research independently designed in China on thrombolytic drugs locally developed in China on international diagnosis and treatment standards.

JMT101 (recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection)

- In June 2023, the results of a phase Ib clinical study on EGFR resistance mutations in lung cancer were published in the international journal *Nature Communications* (IF: 17.69), demonstrating that JMT101 in combination with osimertinib has good efficacy and a good safety profile for the treatment of EGFR 20ins non-small cell lung cancer.

- In March 2024, the results of a phase II clinical trial (BECOME) of JMT101 in combination with osimertinib for the treatment of patients with locally advanced or metastatic non-small cell lung cancer carrying EGFR exon 20 insertion mutations were orally presented at the European Lung Cancer Congress 2024 (2024 ELCC), demonstrating the high potential efficacy of JMT101 in combination with osimertinib in patients with non-small cell lung cancer with EGFR exon 20 insertion mutations, and that the overall safety is controllable.

Duentai (SARS-CoV-2 mRNA vaccine)

- From November 2023 to February 2024, multiple clinical study results of the first-generation COVID-19 mRNA vaccine were published in *Human Vaccines & Immunotherapeutics* and other international journals, demonstrating that the vaccine has good protective efficacy and immunogenicity as well as a good safety profile, and that it has a certain protective effect against XBB mutant strains.

- In March 2024, the results of a phase I clinical study of the bivalent COVID-19 mRNA vaccine (XBB.1.5/BQ.1) (SYS6006.32) were published in the international journal *Vaccine*, demonstrating that the vaccine has a good safety profile and good immunogenicity, and can produce cross-immunity against multiple mutant strains.

Ouyuexin (desvenlafaxine succinate extended-release tablets)

- In February 2023, the results of a phase III clinical study for the treatment of depression were published in the international journal *Journal of Affective Disorders*, demonstrating that Ouyuexin can comprehensively improve symptoms of depression, anxiety and pain, its efficacy is non-inferior to the active control drug Duloxetine Hydrochloride Enteric Capsules, and its overall safety profile is good.

TG103 injection (GLP-1 receptor agonists)

- In April 2023, the results of a phase Ia study initiated in healthy subjects in China were published in the international journal *European Journal of Pharmaceutical Science*, demonstrating the safety and tolerance of TG103.

SYSA1801 (CLDN18.2 ADC)

- In June 2023, the results of a phase I clinical study for the treatment of advanced malignant solid tumors with CLDN18.2 expression were presented during a poster session at the 2023 American Society of Clinical Oncology (ASCO) Annual Meeting. Preliminary results indicate that SYSA1801 demonstrates promising anti-tumor efficacy in treating advanced malignant solid tumors with CLDN18.2 expression, especially in gastric cancer.

ALMB-0168 (Cx43 hemichannel antibody agonist)

- In June 2023, the clinical data in a phase I dose-escalation trial for the treatment of osteosarcoma were presented during a poster session at the 2023 ASCO Annual Meeting. Preliminary results indicate that ALMB-0168 demonstrates encouraging efficacy and tolerable safety in patients with metastatic or unresectable osteosarcoma after receiving standard chemotherapy.

SYS6002 (Anti-Nectin-4 monoclonal antibody–drug conjugate for injection)

- In January 2024, the results of a phase I clinical study for the treatment of advanced solid tumors were presented at the 2024 ASCO-GU Conference (No. B622). Preliminary results indicate that SYS6002 demonstrates clear efficacy signals and good tolerability in advanced solid tumors such as cervical cancer and urothelial cancer.

SYHA1813 (VEGFR/CSF1R inhibitor)

- In October 2023, the results of a phase I clinical study for treating patients with recurrent or advanced solid tumors were orally presented at the European Society for Medical Oncology (ESMO) Congress 2023 (No. 506MO). The preliminary results indicate that SYHA1813 demonstrates an encouraging objective response and good tolerability in subjects with recurrent meningioma.

Prusogliptin Tablets (DBPR108)

- In January 2024, the results of a phase III clinical study of the monotherapy for the treatment of diabetes were published in the international journal *Diabetes, Obesity & Metabolism*. The results demonstrate that the hypoglycemic efficacy of DBPR108 tablets is significantly better than that of the placebo group and non-inferior to the active group of sitagliptin phosphate tablets. In addition, the safety profile of DBPR108 tablets is similar to that of the placebo group and that of the active group of sitagliptin phosphate tablets.

Clinical Pipeline Overview

Registration and Pivotal Trial Stage

Drug candidate	Type	Target	Indication	Status
Enlonstobart (SG001)	Biological drug (monoclonal antibody)	PD-1	Cervical cancer	Submission of marketing application
Prusogliptin tablets (DBPR108)	Chemical drug	DPP-4 inhibitor	Type 2 diabetes	Submission of marketing application
Recombinant anti-IgE monoclonal antibody for injection	Biological drug (monoclonal antibody)	IgE	Chronic spontaneous urticaria	Submission of marketing application
Meloxicam nanocrystal injection	Nanodrug	COX-2	Moderate-to-severe pain in adults	Submission of marketing application
Amphotericin B liposome for injection	Nanodrug	Anti-infective, nonspecific drug	Invasive fungal infection	Submission of marketing application
Batoclimab (HBM9161)	Biological drug (monoclonal antibody)	FcRn	Myasthenia gravis	Pivotal trial
Recombinant humanized anti-HER2 monoclonal antibody–MMAE conjugate for injection (DP303c) (SYSA1501 for injection)	Biological drugs (ADC)	HER2 ADC	Breast cancer	Pivotal trial
Recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection (JMT101)	Biological drug (monoclonal antibody)	EGFR	Non-small cell lung cancer	Pivotal trial
KN026 for injection	Biological drug (bispecific antibody)	HER2 bispecific antibody	Gastric cancer	Pivotal trial
KN026 for injection	Biological drug (bispecific antibody)	HER2 bispecific antibody	Breast cancer	Pivotal trial
Pertuzumab for injection	Biological drug (monoclonal antibody)	HER2	Breast cancer	Pivotal trial
TG103 injection	Biological drug (monoclonal antibody)	GLP1-Fc	Weight loss	Pivotal trial

Drug candidate	Type	Target	Indication	Status
TG103 injection	Biological drug (monoclonal antibody)	GLP1-Fc	Diabetes	Pivotal trial
CM310 for injection	Biological drug (monoclonal antibody)	IL-4R α	Asthma	Pivotal trial
Ustekinumab injection (SYSA1902)	Biological drug (monoclonal antibody)	IL-12, IL-23	Psoriasis	Pivotal trial
Clevidipine injectable emulsion	Nanodrug	Calcium channel blocker	Hypertension	Pivotal trial
SYHX2011	Nanodrug	Microtubule inhibitor	Breast cancer	Pivotal trial
Daunorubicin cytarabine liposome for injection	Nanodrug	DNA polymerase inhibitor	Leukemia	Pivotal trial
Docetaxel for injection (albumin-bound)	Nanodrug	Microtubule inhibitor	Gastric cancer	Pivotal trial
Docetaxel for injection (albumin-bound)	Nanodrug	Microtubule inhibitor	Pancreatic cancer	Pivotal trial
Semaglutide injection	Chemical drug	GLP-1 receptor agonist	Diabetes	Pivotal trial
Mitoxantrone hydrochloride liposome injection	Nanodrug	Cell-cycle nonspecific drug	Nasopharyngeal cancer	Pivotal trial
Narlumosbart for injection (recombinant fully human anti-RANKL monoclonal antibody for injection) (JMT103)	Biological drug (monoclonal antibody)	RANKL	Bone metastasis of malignant solid tumors	Pivotal trial

Other products in clinical stage

Drug candidate	Type	Therapeutic area
Ammuxetine hydrochloride enteric tablets	Chemical drug	Psychiatry
ALMB0166 for injection	Biological drug (monoclonal antibody)	Central nervous system
SYHA1402 tablets, SYHA1805 tablets, SYH2053 injection	Chemical drug	Metabolism
Octreotide long-acting injection	Chemical drug	Endocrine
SYHX1901 tablets	Chemical drug	Immunity
CM326 for injection, NBL-012 for injection (China and US), Secukinumab injection	Biological drug (monoclonal antibody)	Immunity
Prostaglandin liposome for injection	Nanodrug	Cardiovascular
Simmitinib hydrochloride tablets, SYHA1801 capsules, SYHA1803 capsules, SYHA1807 capsules, SYHA1811 tablets, SYHA1813 oral liquid, SYHA1815 tablets, SYHX1903 tablets, SYHX2001 tablets, SYHX2005 tablets, SYHX2009 tablets, SYHX2043 tablets, SYHX2045 tablets, SYH2051 tablets	Chemical drug	Oncology
ALMB0168 for injection, NBL-015 for injection (China and US), NBL-020 for injection (China and US), JMT203, SYS6011 for injection, NBL-028 for injection (China and US)	Biological drug (monoclonal antibody)	Oncology
JMT601 for injection (China and US)	Biological drug (bispecific antibody)	Oncology
SYS6002 for injection, SYSA1801 for injection, SYS6010 (ADC) (China and US)	Biological drug (ADC)	Oncology
Paclitaxel cationic liposome for injection, sirolimus for injection (albumin-bound), SYHA1908 for injection, cisplatin micelle injection	Nanodrug	Oncology

Awards and Patents

- In March 2023, the integration and reorganisation of the National Key Laboratory for New Pharmaceutical Preparations and Excipients of the Group was approved. It is one of the three national key laboratories in Hebei Province.

- In September 2023, the Group was rated number one in the pharmaceutical industry in the evaluation results of the 2022 National Enterprise Technology Center.

- In September 2023, the National Nano Intelligent Manufacturing Industry Innovation Center co-established by the Group obtained approval, becoming the only one in the nanofield and the tenth national-level industrial innovation center approved.

- In October 2023, the Group was rated by the Ministry of Industry and Information Technology as a key company in the pharmaceutical industry chain responsible for the two key tasks of complex injectables and nucleic acid drugs.

- During the year, 27 international PCT applications and 238 patent applications (143 domestic and 95 overseas) were filed, and 81 patents (38 domestic and 43 overseas) were granted.

The Group is expected to file marketing approval application for more than 50 innovative and new-formulation drugs, and to launch over 60 generic drugs within the next five years. Leveraging the Group's superior technology platforms, it has been actively engaging in product and indication planning. Our nanotechnology platform focuses on technologies such as liposomes, nanoemulsions, nanocrystals and albumin with more than 30 products under development, including daunorubicin cytarabine liposome for injection, docetaxel for injection (albumin-bound), meloxicannarine crystals, clevidipine injectable emulsion and paclitaxel cationic liposome for injection, covering therapeutic areas of anti-tumor, cardiovascular and analgesia. Our mRNA technology platform focuses on expansion in (i) the field of infectious diseases, with the ongoing development of new preventive mRNA vaccines against infectious pathogens; (ii) the field of anti-tumor, with the development of therapeutic tumor vaccines, including HPV and EBV vaccines; and (iii) the applications of cell therapy, such as CAR-T cell therapy based on LNP transfection. Our small nucleic acid platform has been deeply engaged in the field of metabolic chronic diseases, with PCSK9 siRNA products already in clinical trials, as well as a number of preclinical small nucleic acid products under rapid development. Our R&D in small molecule drugs focuses on building PROTAC, LYTAC and AI-based screening platforms. In addition, several advanced technology platforms, including the monoclonal antibody platform, bispecific antibody platform and ADC platform, have rich product pipelines in many fields including anti-tumor, respiratory and autoimmune, and psychiatric and neurological, thus providing strong support to the Group's high-quality growth in the future.

Business Development

While continuing to enhance in-house innovation and R&D capabilities, the Group is also driving forward its business development efforts. We will seek to further strengthen our product pipelines and create new growth drivers through cooperation with biotech companies having high-quality drug candidates. In addition, we will actively promote internationalisation of the business by out-licensing the Group's innovative products.

In-Licensing

- In March 2023, Haiyitan (glumetinib tablets), an oral, potent, highly-selective MET tyrosine kinase inhibitor (TKI) and Class 1 new chemical drug, received conditional approval for marketing in China. It was also successfully included in the NRDL through price negotiation in December of the same year. The Group has obtained the commercialisation rights to promote the product in Greater China (including Hong Kong, Macau and Taiwan) through a licencing.

- In June 2023, the Group and Pfizer signed a strategic partnership agreement to launch a local brand of the COVID-19 oral antiviral therapeutic treatment Nirmatrelvir/Ritonavir in China.

Out-Licensing

- In January 2023, the Group entered into an exclusive licence agreement with Corbus Pharmaceuticals, Inc. in the U.S. to out-license the development and commercialisation rights of the Group's SYS6002 (Nectin-4 ADC) in the US, EU countries, the UK, Canada, Australia, Iceland, Liechtenstein, Norway and Switzerland. The Group will receive upfront payments of US$7.5 million and is also entitled to receive up to US$130 million in potential development and regulatory milestone payments and up to US$555 million in potential sales milestone payments, as well as tiered sales royalties.

Financial Review

Financial Results

Revenue and Gross Profit Margin

Revenue for the year amounted to RMB31,450 million, an increase of 1.7% compared to RMB30,937 million in 2022. The increase was mainly due to the growth in the finished drug business. Gross profit margin for the year decreased by 1.4 percentage point to 70.5%, which was mainly attributable to the change in revenue mix and decline in selling prices of vitamin C products.

Other Income

Other income for the year amounted to RMB626 million (2022: RMB604 million), mainly consisting of interest income of RMB260 million (2022: RMB243 million) and government grant income of RMB216 million (2022: RMB195 million).

Other gains or losses, net

A net loss of RMB105 million was recorded for the year (2022: net gain of RMB291 million), mainly consisting of fair value loss on financial assets measured at FVTPL of RMB211 million (2022: gain of RMB101 million) and net foreign exchange gain of RMB103 million (2022: net gain of RMB118 million).

Operating Expenses

Selling and distribution expenses for the year amounted to RMB9,141 million, a decrease of 11.6% compared to RMB10,337 million in 2022. During the year, the Group continued to expand the market coverage of each product and to actively promote the newly launched products. With strengthened control over expenses and enhanced efficiency of marketing activities, a lower expense ratio was achieved.

Administrative expenses for the year amounted to RMB1,190 million, an increase of 1.4% compared to RMB1,173 million in 2022. The expense ratio remained stable.

R&D expenses for the year amounted to RMB4,830 million, an increase of 21.2% compared to RMB3,987 million in 2022. The increase was primarily attributable to the increased spending on ongoing and newly initiated clinical trials.

Income tax expense

Income tax expenses for the year amounted to RMB1,317 million (2022: RMB1,350 million), which represented provision of income tax expense based on the taxable income of each subsidiary and PRC withholding tax on dividend distributions by certain subsidiaries. The effective tax rate, being the ratio of tax expenses to pre-tax profit for the year, was 17.8%, which remained at the same level as that in 2022.

Non-HKFRS Measure

For the purpose of assessing the performance of the Group, the Company has also presented the underlying profit attributable to shareholders as an additional financial measure, which is not required by, or presented in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"). The Group believes that this non-HKFRS financial measure better reflects the underlying operational performance of the Group by eliminating certain non-operating items which the Group does not consider indicative of the Group's operational performance. However, the presentation of this non-HKFRS financial measure is not intended to be a substitute for, or superior to, the financial information prepared and presented in accordance with HKFRS.

Additional information is provided below to reconcile the profit attributable to shareholders as reported and the underlying profit attributable to shareholders:

	2023 ***(RMB'000)***	2022 *(RMB'000)*
Profit attributable to shareholders	**5,873,325**	6,091,390
Adjustment for:		
– Fair value loss (gain) on financial assets measured at FVTPL *(note a)*	210,712	(100,905)
– Employee share-based compensation expense *(note b)*	235,092	160,726
– Gains on deemed disposal of partial interests in an associate and a joint venture	(32,861)	(48,065)
– Effect of corresponding income tax	(11,015)	2,579
Underlying profit attributable to shareholders	**6,275,253**	6,105,725

Notes:

(a) Fair value changes on financial assets measured at FVTPL arises from the measurement of the Group's investments in certain partnerships, funds and listed equity securities at fair value.

(b) Out of the total employee share-based compensation expense recognised during the year, RMB193,952,000 (2022: RMB149,780,000) was in respect of share awards granted to selected employees of the Group by Key Honesty Limited (a shareholder of the Company).

Liquidity and Financial Position

In 2023, the Group's operating activities generated a cash inflow of RMB4,179 million (2022: RMB7,627 million). Turnover days of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) were 63 days, higher than 44 days in 2022. This was mainly due to the slower settlement by customers during the year, but which was still within the normal credit period. The Group will strengthen its control and management in this aspect. Turnover days of inventories (ratio of balance of inventories to cost of sales) were 124 days, higher than 107 days in 2022. Current ratio was 2.6 as of 31 December 2023, slightly lower than the ratio of 2.7 in the previous year. Capital expenditure for the year amounted to RMB1,863 million, which was mainly used to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As of 31 December 2023, the Group had bank deposits, balances and cash of RMB12,755 million (2022: RMB10,498 million), structured bank deposits of RMB1,077 million (2022: RMB3,575 million) and bank borrowings of RMB450 million (2022: RMB182 million). As of 31 December 2023, gearing ratio (ratio of bank borrowings to total equity) was 1.3% (2022: 0.6%).

The Group's sales are primarily denominated in Renminbi for domestic sales in China and US dollars for export sales. The Group manages its foreign exchange risks by closely monitoring its foreign exchange exposures and mitigating the impact of foreign currency fluctuations by using appropriate hedging arrangements when considered necessary.

Pledge of Assets

As of 31 December 2023, properties with a carrying amount of RMB71 million and bank deposits of RMB17 million were pledged to secure banking facilities granted to the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as of 31 December 2023.

Employees

The Group employed a total of approximately 23,500 employees as of 31 December 2023, with a majority of them employed in mainland China. The Group continues to offer competitive remuneration packages, discretionary share options, share awards and bonuses to eligible staff, based on the performance of the Group and the individual employee.

In order to retain and motivate employees for the Group's continual operation and development, Key Honesty Limited, a shareholder of the Company which is wholly-owned by Mr. Cai Dongchen, Chairman of the Board, granted conditional share awards to selected employees of the Group during 2022 in respect of the existing issued shares of the Company held by Key Honesty Limited.

Corporate Governance Report

Corporate Governance Practices

The Board believes that good corporate governance practices are essential to the sustainable development of the Company and the enhancement of shareholders' value. The Company is committed to achieving high standard of corporate governance and will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the investors.

The Company has complied with all the code provisions in the Corporate Governance Code (the "Code") set out in Appendix C1 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2023.

Board of Directors

As at the date of this report, the Board comprises nine executive directors and six independent non-executive directors. Two of the independent non-executive directors have the appropriate professional accounting qualification and experience. The biographical details of the directors are set out on pages 46 to 49 of this annual report. There is no financial, business, family or other material/relevant relationship between Board members.

The Company has complied with Rule 3.10 of the Listing Rules in relation to the requirement of independent non-executive directors. All independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received annual confirmation of independence from each of the independent non-executive directors and they are considered to be independent.

The Board is responsible for establishing strategic directions, setting objectives and business plans, and overseeing financial and operational performance. The management of the Company's subsidiaries are responsible for the day-to-day management and operation of the respective individual business units.

Chairman and Chief Executive Officer

The Chairman of the Board, Mr. Cai Dongchen, is responsible for providing leadership and guidance to the Board in formulating and executing business plans and objectives, and overseeing the functioning of the Board. The CEO, Mr. Zhang Cuilong, assisted by other executive directors, is responsible for managing the businesses of the Group, formulating and implementing the business plans and objectives. Their functions have been clearly divided to ensure a balanced distribution of power and authority.

Board, Board Committee and General Meetings

The Board meets regularly to review the financial and operating performance of the Group. Four regular Board meetings were held at approximately quarterly interval in 2023.

Attendance record of directors in 2023 is as follows:

Directors	AGM	Adjourned EGM	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of Meetings	**1**	**2**	**4**	**4**	**2**	**1**
Executive Directors						
Cai Dongchen	1/1	0/2	4/4			1/1
Zhang Cuilong	1/1	1/2	4/4			
Wang Zhenguo	1/1	0/2	4/4			
Pan Weidong	1/1	1/2	4/4			
Wang Huaiyu	1/1	1/2	4/4			
Li Chunlei	0/1	1/2	4/4			
Wang Qingxi	1/1	1/2	4/4			
Chak Kin Man	1/1	2/2	4/4			
Jiang Hao	1/1	0/2	3/4			
Independent Non-Executive Directors						
Wang Bo	1/1	1/2	4/4	4/4	2/2	1/1
Chen Chuan	1/1	1/2	4/4	4/4	2/2	1/1
Wang Hongguang	1/1	1/2	4/4			
Au Chun Kwok Alan	1/1	2/2	4/4	4/4	2/2	
Law Cheuk Kin Stephen	0/1	0/2	3/4			
Li Quan	1/1	2/2	4/4			

Non-Executive Directors

Each of the independent non-executive directors has entered into a service contract with the Company subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

The Board consists of a diverse mix of members in terms of age, gender, skills, expertise and professional experience. Currently, the Board has 14 male members and 1 female member. The Company is committed to improving the diversity of the Board based on its needs and as and when suitable candidates are identified.

As of 31 December 2023, the Group has 23,480 employees in total comprising 11,308 females and 12,172 males (a female-to-male ratio of 0.93), reflecting a gender equality principle generally adhered by the Company.

During the year under review, the Nomination Committee has considered and reviewed the board diversity policy and considered that the policy is suitable and effective.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Au Chun Kwok Alan (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

The responsibilities of the Remuneration Committee include, but not limited to, making recommendations to the Board on (i) the policy and structure for the remuneration of directors and senior management; (ii) the establishment of a formal and transparent procedure for developing remuneration policy; (iii) the remuneration packages of individual executive directors and senior management having regard to the individual performance and responsibilities, the Company's operating results, return to shareholders and comparable market statistics; (iv) the remuneration of non-executive directors; and (v) reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules. By providing remuneration at competitive market level, the Company seeks to attract, motivate and retain key executives essential to its future development and growth.

The Remuneration Committee held two meetings in 2023 to consider and make recommendations to the Board on the existing policy and structure for the remuneration of directors and senior management, the remuneration packages of existing directors and the granting of share options to directors.

During the year, the remuneration committee has approved the conditional grant of a total of 50,000,000 share options to the executive directors of the Company. The committee is of the view that the vesting conditions and vesting period are appropriate in the circumstances taking into account that the conditional grant of share options is for the purpose of providing incentives and rewards to the executive directors for their continuous contributions to the growth and development of the Group.

The Group's business is under the direct responsibility of the executive directors who are the senior management of the Company. Details of the amount of directors' emoluments for the year ended 31 December 2023 are set out in note 9 to the consolidated financial statements.

Nomination Committee

The Nomination Committee comprises a majority of independent non-executive directors. Its current members include Mr. Cai Dongchen (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

The responsibilities of the Nomination Committee include, but not limited to, (i) reviewing the structure, size, and composition (including the skills, knowledge, experience and diversity profile) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identifying suitable director candidates and selecting or making recommendation to the Board on the selection of individuals nominated for directorships; (iii) assessing the independence of independent non-executive directors; and (iv) reviewing the nomination policy and board diversity policy of the Company periodically and make recommendation on any proposed revisions to the Board.

The Nomination Committee held one meeting in 2023 to review the structure, size and composition of the Board, assess the independence of independent non-executive directors and make recommendation to the Board on the re-appointment of directors in accordance with the nomination policy. The Company has adopted a nomination policy which sets out the selection criteria (including but not limited to work experience, cultural and education background, reputation, professional experience, length of service, gender and age of the candidate) and nomination process of directors.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Au Chun Kwok Alan (Chairman), Mr. Wang Bo and Mr. Chen Chuan.

The responsibilities of the Audit Committee include, but not limited to, (i) assisting the Board in providing an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group; (ii) overseeing the audit process; (iii) reviewing the completeness, accuracy, clarity and fairness of the Company's financial statements; (iv) reviewing and monitoring connected transactions; (v) making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; (vi) approving the remuneration and terms of engagement of the external auditor; and (vii) assessing the independence and objectivity of the external auditor.

The Audit Committee held four meetings in 2023 and performed the duties summarised below:

- review and make recommendations to the Board for the approval of the quarterly, interim and annual financial statements of the Group;
- review the connected transactions of the Group;
- assess the performance of the external auditor and approve its remuneration;
- assess the independence and objectivity of the external auditor; and
- review the effectiveness of risk management and internal control systems of the Group.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 of the Listing Rules. In response to specific enquires made, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

Directors' Continuous Professional Development

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All directors have been updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

Details of the participation in continuous professional development of the existing directors in 2023 are summarised in the table below:

	Attending training course/ seminar/forum relating to the Group's businesses or directors' duties	Reading materials relating to the Group's businesses or directors' duties
Executive Directors		
Cai Dongchen	✓	✓
Zhang Cuilong	✓	✓
Wang Zhenguo	✓	✓
Pan Weidong	✓	✓
Wang Huaiyu	✓	✓
Li Chunlei	✓	✓
Wang Qingxi	✓	✓
Chak Kin Man	✓	✓
Jiang Hao	✓	✓
Independent Non-Executive Directors		
Wang Bo	✓	✓
Chen Chuan	✓	✓
Wang Hongguang	✓	✓
Au Chun Kwok Alan	✓	✓
Law Cheuk Kin Stephen	✓	✓
Li Quan	✓	✓

Mechanism on Independent Views to the Board

The Board has adopted effective mechanism to ensure independent views and input are available to the Board. Subject to approval of the Chairman of the Board, directors may seek, at the Company's expense, independent legal, financial or other professional advice from advisors independent to those advising the Company as and when necessary to enable them to discharge their responsibilities effectively. The Board will review the implementation and effectiveness of such mechanism on an annual basis.

The Board has reviewed the validity of implementation of such mechanism during the year and considered that such mechanism is effective.

Risk Management and Internal Controls

The Board has overall responsibility for overseeing the Group's risk management and internal control systems, and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Effective risk management is the key to sustainable business success. As a major pharmaceutical group based in mainland China, the Group faces a diverse range of risks and uncertainties that could have a materially adverse impact on the business or results of operations. The Group's approach to risk management is therefore an ongoing process of identification, evaluation and management of the principal risks affecting the business.

Risk Management Framework

1. Each business unit is responsible for identifying, assessing and managing risks within its business, ensuring that appropriate internal controls for effective risk management are implemented - principal risks are identified and assessed in the yearly business planning process with action plans to manage those risks;

2. The management is responsible for overseeing the risk management and internal control activities of the Group - regular meetings with each business unit to ensure principal risks are properly managed, and new or changing risks are identified;

3. The Board is responsible for reviewing and approving the effectiveness and adequacy of the Group's risk management and internal control systems - review of the annual review report and consideration of the Audit Committee's recommendation.

The risk management framework, coupled with our internal controls, ensures that the risks associated with our different business units are effectively controlled in line with the Group's risk appetite.

Internal Control System

The internal control system of the Group is designed to facilitate effective and efficient operations, ensure the maintenance of proper accounting records, ensure compliance with applicable laws and regulations, identify and manage potential risks and safeguard assets of the Group. The management is responsible for the design, implementation and maintenance of internal controls, while the Audit Committee and the Board review the effectiveness of the Group's systems of internal controls and risk management through the assistance of the internal audit function.

During 2023, the Group's internal audit function (undertaken by the Internal Audit Department, and Supervision and Security Department) has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group, covering all material financial, operational and compliance controls, and risk management. In addition, the review has considered the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting functions. The review report was submitted to the Audit Committee and the Board for their review.

Apart from review of the annual review report submitted by the internal audit function, the Audit Committee also had regular meetings with the external auditor and reviewed the reports provided by the external auditor of any control issues or findings identified in the course of their work. The Audit Committee has also requested the management to follow up the recommendations given by the external auditor to remedy the control issues identified or to further improve the internal control systems.

The Board formed its own view on the effectiveness of the risk management and internal control systems based on the review of the annual review report and the recommendation of the Audit Committee.

In respect of the year ended 31 December 2023, the Board considered the risk management and internal control systems of the Group effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management of the Group have been identified. The Board also considered the resources, qualification and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions adequate. Nevertheless, the Group would take further steps to continually improve its risk management and internal control systems.

Anti-corruption Policy and Whistleblowing Policy

The Company has adopted an anti-corruption policy to govern acceptance of advantages by employees and a whistleblowing policy to provide guidance to employees and external stakeholders to report concerns about any suspected or actual improprieties relating to the Group.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out below:

- develop and review the Company's policies and practices on corporate governance including shareholders' communication policy, board diversity policy and mechanism on independent views to the Board, and make recommendations;
- review and monitor the training and continuous professional development of directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix C1 to the Listing Rules.

The Board has performed the above duties during the year.

External Auditor

The Company has engaged Deloitte Touche Tohmatsu as its external auditor. The remuneration for audit and non-audit services provided by Deloitte Touche Tohmatsu to the Group in 2023 are as follows:

Nature of services	*RMB'000*
Audit and assurance services	6,882
Tax advisory and compliance	611
Total	7,493

The remuneration of the external auditor for audit and non-audit services has been reviewed by the Audit Committee to ensure the independence of the external auditor. During the year, the Audit Committee has received confirmation from and discussed with Deloitte Touche Tohmatsu on its independence. Deloittee Touche Tohmatsu has adopted a seven-year rotation policy regarding engagement partner. As the current engagement partner has served on the audit of the Company since 2021, a new engagement partner will be assigned to the Company in 2028.

Financial Reporting

The Directors' responsibilities for the financial statements and the responsibilities of the external auditor are set out on page 60 of this annual report.

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Company Secretary

Mr. Lo Tai On, the Company Secretary, is a member of The Hong Kong Institute of Certified Public Accountants. He is a director of Fair Wind Secretarial Services Limited, a company rendering secretarial services, and is not a full-time employee of the Company. He reports to the Board and the primary contact person of the Company with Mr. Lo is Mr. Chak Kin Man, an executive director of the Company. During 2023, Mr. Lo has confirmed that he has taken no less than 15 hours of relevant professional training.

Communications with Shareholders

The objective of communications with shareholders is to provide them with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner. The Company uses a range of communication tools to ensure its shareholders and investors are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars.

The Company also actively attends different forms of investors' communication activities, including meetings with investors, telephone conferences, activities organized by sell side institutions and non-deal roadshows, with the aim to enhance corporate transparency so that investors can have a better understanding of the business model and latest development strategy of the Group. During 2023, management of the Company has attended around 300 one-on-one and group meetings.

In addition, the Company maintains a website at www.cspc.com.hk as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other key information are available for public access.

In order to enable shareholders and investors to exercise their rights in an informed manner and to allow them to engage actively with the Company, a shareholders' communication policy of the Company has been established. Shareholders and investors may at any time send their enquiries and concerns to the Company via the Company's website. Shareholders may also make enquiries with the Board at the general meetings of the Company.

The Board has reviewed the validity of implementation of the shareholders' communication policy during the year and considered that it remained effective in enhancing timely, transparent, accurate and open communication between the Company and the shareholders.

General Meeting on Requisition by Shareholders

Pursuant to Sections 566-568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) representing at least 5% of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting. The request, which may be sent in hard copy form or electronic form, must state the general nature of the business to be dealt with at the meeting and must be authenticated by the person or persons making it. The request may consist of several documents in like form and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting.

The directors must call a general meeting within 21 days after the date on which they become subject to the requirement, and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting, but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a meeting. The Company must reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call the meeting.

Procedures for Putting Forward Proposal at Annual General Meeting ("AGM")

Pursuant to Section 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders may make a request to circulate a resolution at an AGM if they represent at least 2.5% of the total voting rights of all shareholders having a right to vote on the resolution at the AGM to which the request relates; or are at least 50 shareholders having a right to vote on the resolution at the AGM to which the request relates.

The request, which may be sent in hard copy form or electronic form, must (i) identify the resolution of which notice is to be given; (ii) be authenticated by the person or persons making it; and (iii) be received by the Company not later than 6 weeks before the AGM to which the request relates or if later, the time at which notice is given of that AGM.

Procedures for Nominating a Person for Election as a Director

The procedures for shareholders to nominate a person for election as a director have been published on the Company's website.

2023 General Meeting and Adjourned Extraordinary General Meetings

At the annual general meeting and two adjourned extraordinary general meetings held in 2023, separate resolutions were proposed by the chairman in respect of each separate issue, including re-election of directors and granting of share options to directors. All the resolutions were voted by way of poll, and the results of the poll were announced in the manner prescribed under the Listing Rules. Mr. Cai Dognchen (chairman of the Board and Nomination Committee) has attended the annual general meeting, and Mr. Au Chun Kwok Alan (chairman of the Audit Committee and Remuneration Committee) has attended the annual general meeting and adjourned extraordinary general meetings to ensure effective communication with shareholders.

Constitutional Documents

There was no change in the Company's constitutional documents during 2023.

Directors' Report

The board of directors of the Company (the "Board") is pleased to present this annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023.

Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 44 to the consolidated financial statements, respectively.

Business Review

Overview

A fair review of the business of the Group, a discussion and analysis of the Group's performance, an indication of likely future development in the Group's business and particulars of important events affecting the Group that have occurred since the end of the financial year are provided in the sections of this annual report headed Chairman's Statement, Management Discussion and Analysis, and in the Notes to the Consolidated Financial Statements.

Principal risks and uncertainties

The Group faces certain risks and uncertainties which may affect its results and operations, some of which are inherent to pharmaceutical sector and beyond its control. These risks and uncertainties include, but not limited to, the followings:

(i) Drug approval process

The actual timing of market launch of our products under development could vary significantly from our estimates due to a number of factors including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process and the uncertainties of the outcome. Any delay or failure in the process could adversely affect the timing of market launch of our products. The Group is committed to investing in research and development of new drugs to ensure a rich product pipeline.

(ii) Results of drug tenders and centralised procurements

Our sales and profitability depend on our ability to win in drug tenders and centralised procurements for our products at a desirable price in China. We may fail to win due to various factors, including uncompetitive bidding price. If our products fail to win or the new prices are significantly cut, the market share, sales and profitability of the products concerned could be adversely impacted. We have a team of staff handling drug tenders and centralised procurements of our products. The Group is also committed to investing in research and development of new drugs to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to the PRC laws, rules and regulations concerning environmental and safety protection. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits or shutdown of production facilities. We have established a designated department to inspect and monitor the environmental performance of the Group. The department will make recommendations to correct environmental issues identified and improve the environmental performance of the Group.

(iv) Exclusion of products from drug reimbursement list

Under the PRC medical insurance scheme, patients can obtain reimbursement of all or a portion of the cost of drugs listed in the National Reimbursement Drug List (the "NRDL"). The NRDL is reviewed and updated from time to time. There is no assurance that our products will be or continue to be listed in the NRDL. The removal of any of our products from the NRDL may have an adverse impact on the sales of the products concerned. In addition, product prices may have to be cut in order to be listed in the NRDL.

(v) Illegal practice of employees or third-party distributors

The Group prohibits our employees and third-party distributors from engaging in corruption practices to influence the procurement decision of hospitals. However, we may not be able to effectively ensure that every employee or third-party distributor complies at all times with our policies. If such illegal practices or improper conduct occur, this may harm our reputation or expose us to regulatory investigations and potential punishment. The employee handbook and sales contracts entered into with third-party distributors contain specific rules to prohibit illegal practices in order to prevent misconduct from occurring.

(vi) Side effects of products

Our products may cause severe side effects due to a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical studies, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by our customers. In addition, our products may be perceived to cause severe side effects if products of other companies containing the same or similar active pharmaceutical ingredients, raw materials or delivery technologies as our products cause or are perceived to have caused severe side effects. If our products cause or are perceived to cause severe side effects, our sales and profitability could be adversely affected. We have adopted a product recall procedure to ensure that our products could be quickly recalled in case of safety or quality concerns.

(vii) Product liability

Claims for product liability and product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated, or if we are alleged to have engaged in practices such as insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. Product liability claims may attract negative publicity which may adversely affect our reputation and business. We are committed to maintaining a high technical and quality standard to ensure that the products meet the requirements in all aspects.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees.

The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills. The Group provides on-the-job training and development opportunities to our staff members. In addition, the Group offers competitive remuneration packages to our employees. The Group has also adopted share option scheme and share award scheme to recognise and reward the contribution of the employees for the Group's operations and future development.

(ii) Suppliers

We have developed long-standing relationships with a number of suppliers and take great care to ensure that they share our commitment to quality and ethics. We carefully select our suppliers and require them to satisfy certain assessment criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Distributors

We sell our finished drug products mainly to distributors which will sell the products to end-user customers. We work closely with the distributors to ensure that we share the view for upholding our brand value and customer services.

(iv) Hospitals

We are committed to offer a broad and diverse range of good-quality products to hospitals. We also stay connected and maintain a close relationship with the hospitals by maintaining a database and have ongoing communications with them through various channels such as visits, marketing materials and meetings.

Environmental policies

We are subject to certain PRC laws, rules and regulations concerning environmental protection, including those in relation to the discharge of gaseous waste, liquid waste and solid waste and noise pollution during our manufacturing processes. The Group attaches importance to compliance with the relevant environmental laws and regulations. We have established designated departments to inspect and monitor the environmental performance of the Group. In addition, the departments will make recommendations to remedy the environmental issues identified and improve the environmental performance of the Group. Discussions on the Group's environmental policies and performance are set out in the ESG Report which will be published separately.

Compliance with laws and regulations

The Group's operations are mainly carried out by the Company's subsidiaries established in the mainland China and the U.S. while the Company itself is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. In addition, the shares of a subsidiary of the Company are listed on the ChiNext of Shenzhen Stock Exchange. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, the U.S. and Hong Kong. During the year ended 31 December 2023 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China, the U.S. and Hong Kong that have a significant impact on the Group.

Results and Appropriations

The results of the Group for the year ended 31 December 2023 are set out on page 63 of this annual report.

The Board recommends a final dividend of HK14 cents per share which, together with the interim dividend of HK14 cents paid on 12 October 2023, makes a total of HK28 cents per share in respect of the year ended 31 December 2023. Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on 26 June 2024 to shareholders whose names appear on the register of members on 5 June 2024.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2023 amounted to RMB1,991,701,000.

Major Customers and Suppliers

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total revenue and purchases for the year, respectively.

Donations

During the year, the Group made donations for charitable purposes of RMB97,401,000.

Fixed Assets

During the year, the Group continued to expand its business and acquired buildings, plant and equipment of RMB1,863,280,000. Details of the movements in fixed assets of the Group during the year are set out in note 13 to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company are set out in note 35 to the consolidated financial statements.

Five-Year Financial Summary

A summary of the Group's results, assets and liabilities for the last five financial years is set out on page 156 of this annual report.

Equity-Linked Agreements

Save for the long-term incentive program of the Group, no equity-linked agreement was entered into during the year or subsisted at the end of the year.

Permitted Indemnity

The Articles of Association of the Company provides that every director shall be indemnified out of the assets of the Company against any losses or liability (to the extent permitted by the Companies Ordinance) which he/she may sustain or incur in or about the execution of the duties of his/her office. The Directors and Officers Liability Insurance undertaken by the Company provides such indemnities to all the directors of the Company and its subsidiaries.

Directors

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

Executive directors:

Cai Dongchen *(Chairman)*
Zhang Cuilong *(Vice-Chairman and CEO)*
Wang Zhenguo
Pan Weidong
Wang Huaiyu
Li Chunlei
Wang Qingxi
Chak Kin Man
Jiang Hao

Independent non-executive directors:

Wang Bo
Chen Chuan
Wang Hongguang
Au Chun Kwok Alan
Law Cheuk Kin Stephen
Li Quan

In accordance with Article 101 of the Company's Articles of Association, Mr. Cai Dongchen, Dr. Li Chunlei, Dr. Wang Qingxi, Mr. Chak Kin Man and Mr. Law Cheuk Kin Stephen shall retire by rotation at the forthcoming annual general meeting. Dr. Wang Qingxi and Mr. Chak Kin Man will not be seeking re-election while all other retiring directors, being eligible, will offer themselves for re-election.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract not terminable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and considers all the independent non-executive directors to be independent.

Biographical Details of Directors and Senior Management

CAI Dongchen

Mr. Cai, aged 70, Chairman of the Company, has been an executive director of the Company since April 1997. Mr. Cai is also the chairman of the Nomination Committee and a director of certain subsidiaries of the Company. Mr. Cai holds an MBA degree from Nankai University and has extensive technical and management experience in the pharmaceutical industry.

Mr. Cai is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). Mr. Cai is also a director of True Ally Holdings Limited and Massive Giant Group Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO.

ZHANG Cuilong

Mr. Zhang, aged 55, Vice-Chairman and Chief Executive Officer of the Company, has been an executive director of the Company since July 2018. Mr. Zhang is also a director of certain subsidiaries of the Company. Mr. Zhang holds a Bachelor's degree in Pharmacology from Hebei Medical College (now known as Hebei Medical University) and has extensive technical, marketing and management experience in the pharmaceutical industry.

WANG Zhenguo

Mr. Wang, aged 54, has been an executive director of the Company since January 2012. Mr. Wang is also a director of certain subsidiaries of the Company. Mr. Wang holds a Bachelor's degree in Chemistry from Nankai University and has extensive technical, marketing and management experience in the pharmaceutical industry.

PAN Weidong

Mr. Pan, aged 54, has been an executive director of the Company since October 2006. Mr. Pan is also a director of certain subsidiaries of the Company. Mr. Pan holds an EMBA degree from Tsinghua University and has extensive finance, accounting and investment experience in the pharmaceutical industry.

Mr. Pan is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

WANG Huaiyu

Mr. Wang, aged 60, has been an executive director of the Company since October 2010. Mr. Wang is also a director of certain subsidiaries of the Company. Mr. Wang holds a Bachelor's degree in Microbiology and Biochemistry from Hebei University and has extensive technical and management experience in the pharmaceutical industry.

LI Chunlei

Dr. Li, aged 47, has been an executive director of the Company since December 2017. Dr. Li is currently the Chief Scientist of the Group in charge of research and development. Dr. Li is also the general manager of a subsidiary of the Company, deputy director of the Novel Pharmaceutical Preparations and Excipients State Key Laboratory and director of the Hebei Pharmaceutical Engineering Technology Centre. Dr. Li holds a Bachelor's degree in Engineering (Biological Pharmaceutics) from Jilin University and Shenyang Pharmaceutical University, a Master's degree in Science (Microbial and Biochemical Pharmaceutics) from Jilin University and a Doctorate in Science (Pharmaceutical Science) from Shenyang Pharmaceutical University.

WANG Qingxi

Dr. Wang, aged 58, has been an executive director of the Company since August 2018. Dr. Wang is also a director of certain subsidiaries of the Company. Prior to joining the Group, Dr. Wang worked at Merck & Co., Inc. in the U.S. for 20 years where he held senior positions including director of pharmaceutical R&D and director of business development and operation. Dr. Wang holds a Bachelor's degree in Science (Chemistry) and a Master's degree in Science (Chemistry) from Nankai University in China, a Master's degree in Science (Polymer Science) and a Doctorate in Chemistry from University of Connecticut in the U.S. and a MBA degree from Temple University in the U.S.

CHAK Kin Man

Mr. Chak, aged 58, has been an executive director of the Company since December 2005. Mr. Chak is also a director of certain subsidiaries of the Company. Mr. Chak is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chak holds a Bachelor of Social Sciences degree from The University of Hong Kong and has extensive experience in finance, accounting and investor relations.

Mr. Chak is a director of Common Success International Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

JIANG Hao

Dr. Jiang, aged 40, has been an executive director of the Company since November 2020. Prior to joining the Group in August 2020, Dr. Jiang has worked at Fastenal Company as general manager (north and central China) in the U.S., Tianjin Kesun Technology Company (marketing and sales centre of Baidu in Tianjin) as general manager and 3H Health Investment Management Ltd. as assistant to chairman and chief operation officer. Dr. Jiang holds a Bachelor's degree in Management from Hebei University of Technology, a Master's degree in Management, Economics and Industrial Engineering from Politecnico di Milano and a Doctorate in Management (Technology Economics and Management) from Hebei University of Technology.

WANG Bo

Mr. Wang, aged 63, has been as an independent non-executive director of the Company since December 2012. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Wang is currently the CEO of Beijing CHNMED Pharmaceutical Technology Development Co., Ltd and managing director of Beijing CHNMED Pharmaceutical Consulting Co., Ltd. Mr. Wang graduated from Beijing Institute of Iron and Steel and has extensive experience in pharmaceutical policy research and consulting. Mr. Wang is currently the distinguished researcher of the Research Center of National Drug Policy & Ecosystem.

Mr. Wang is also an independent director of Youcare Pharmaceutical Group Co., Ltd. (listed on Shanghai Stock Exchange).

CHEN Chuan

Mr. Chen, aged 60, has been as an independent non-executive director of the Company since June 2016. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Chen holds a Bachelor's degree in Medicine from Norman Bethune University of Medical Science and a Master's degree in Science from Albert Einstein College of Medicine at Yeshiva University.

Mr. Chen resigned as an independent director of Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange) and Shanghai Kehua Bio-Engineering Co., Ltd. (listed on Shanghai Stock Exchange) in 2023.

WANG Hongguang

Prof. Wang, aged 61, has been as an independent non-executive director of the Company since January 2021. Prof. Wang is a director and professor of International Center for Bioeconomy, Institute of Multidisciplinary Biomedical Research of Tsinghua University (National Institute of Biological Sciences, Beijing), executive director and adjunct professor of Peking University's China Center for Strategic Studies, adjunct professor of Tianjin University and China Pharmaceutical University. Prof. Wang has previously served as a director of Center of Biotechnology Development of China of the Ministry of Science and Technology. Prof. Wang has long been engaged in the research on technology and economic strategy, and has conducted in-depth research on domestic and foreign biotechnology development and industry policies. Prof. Wang was the founder of "Disparity Economics" and has published 21 books including "Bio-economic of China" and more than 110 theses. Prof. Wang holds a Bachelor's degree in Agriculture from Gansu Agricultural University, a Master's degree in Agriculture and a Doctorate in Agriculture from China Agricultural University.

Prof. Wang is also an independent director of Beijing Tiantan Biological Products Corporation Limited (listed on Shanghai Stock Exchange).

AU Chun Kwok Alan

Mr. Au, aged 51, has been an independent non-executive director of the Company since January 2021. He is also the chairman of the Audit Committee and Remuneration Committee of the Company. Mr. Au is the founder and managing director of GT Healthcare Group, a private equity platform focusing on cross border healthcare investments. Prior to that, Mr. Au served as the head of the Asia Healthcare Investment Banking of Deutsche Bank Group, advising healthcare IPO and M&A in the region, an executive director at JAFCO Asia Investment Group, responsible for healthcare investments in China, and an investment director of Morningside Group in charge of healthcare investments in Asia. Mr. Au received a Bachelor's degree in Psychology from Chinese University of Hong Kong and a Master's degree in Management from Columbia Business School in New York. Mr. Au is a certified public accountant (CPA) in the U.S. and a chartered financial analyst (CFA), and an associate member of the Hong Kong Institute of Financial Analysts and member of the American Institute of Certified Public Accountants.

Mr. Au is also an independent director of I-Mab Biopharma Co., Ltd. (listed on Nasdaq).

Law Cheuk Kin Stephen, *JP*

Mr. Law, aged 61, has been an independent non-executive director of the Company since March 2021. Mr. Law is currently the Managing Director of ANS Capital Limited. He previously served as the Finance Director and a member of the Executive Directorate of MTR Corporation Limited, CFO of Guoco Group Limited, Hong Kong and Managing Director of TPG Growth Capital (Asia) Limited, and held various senior positions in the Morningside Group and Wheelock Group. He is also a member of the board of directors of SOW (Asia) Foundation, Vice-President of the Hong Kong Institute of Certified Public Accountants, council member of Hong Kong Business Accountants Association and member of the Institute of Chartered Accountants in England and Wales. Mr. Law holds a Bachelor's degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and a Master's degree in Business Administration from the University of Hull, the United Kingdom.

Mr. Law was appointed as a member of the 14th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China in January 2023. He has also been appointed by the Ministry of Finance of the People's Republic of China as an expert consultant to provide advice on finance and management accounting.

Mr. Law is also an independent non-executive director of China Everbright Limited, Somerley Capital Holdings Limited, China Galaxy Securities Co., Ltd., and Keymed Biosciences Inc., all of which are listed on The Stock Exchange of Hong Kong Limited.

LI Quan

Ms. Li, aged 43, was has been an independent non-executive director of the Company since November 2022. Ms. Li has over ten years of experience in investment management. She is currently the Operating Partner of CDH Investments Management (Hong Kong) Limited. Ms. Li holds a Bachelor of Cell Biology & Genetics and Economics double degree from Peking University, and a Master of Science degree from National University of Singapore School of Computing.

Directors of Subsidiaries

The list of directors of the Company's subsidiaries (other than those listed as directors of the Company) is kept at the registered office of the Company and available for inspection by shareholders of the Company during office hours.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Details of the continuing connected transactions of the Group during the year are set out in the section headed Continuing Connected Transactions.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2023, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Name of director	Capacity	Number of shares held	Number of underlying shares held	Total interests in shares/ underlying shares	Approximate % of the issued shares of the Company
Cai Dongchen	Beneficial owner	225,386,960	18,000,000 (3)	2,844,255,670	23.89%
	Interest of controlled corporation	2,600,868,710 (1)	–		
Zhang Cuilong	Beneficial owner	–	8,000,000 (3)	8,000,000	0.07%
Li Chunlei	Beneficial owner	–	6,000,000 (3)	6,000,000	0.05%
Wang Zhenguo	Beneficial owner	–	3,000,000 (3)	3,000,000	0.03%
Pan Weidong	Beneficial owner	–	3,000,000 (3)	3,000,000	0.03%
Wang Huaiyu	Beneficial owner	–	3,000,000 (3)	3,000,000	0.03%
Wang Qingxi	Beneficial owner	–	6,000,000 (2)	6,000,000	0.05%
Chak Kin Man	Beneficial owner	3,847,680	3,000,000 (3)	6,847,680	0.06%
Jiang Hao	Beneficial owner	–	3,000,000 (3)	3,000,000	0.03%

Notes:

(1) Mr. Cai Dongchen is deemed to be interested in 2,600,868,710 shares, comprising (i) 406,904,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally Holdings Limited ("True Ally"), (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Beijing Zhongyihe Hezhong Investment Management Centre (Limited Partnership) (北京中宜和合眾投資管理中心(有限合夥)) ("Zhongyihe") and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

(2) The interests comprise 3,000,000 unvested awarded shares granted by Key Honesty Limited, a shareholder of the Company; and 3,000,000 share options granted under the Share Option Scheme of the Company. Details of which are set out in note 37 to the consolidated financial statements.

(3) The interests represent share options granted under the Share Option Scheme of the Company. Details of which are set out in note 37 to the consolidated financial statements.

Other than as disclosed above, none of the directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2023.

Arrangements to Purchase Shares or Debentures

Other than the long-term incentive program of the Group, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate at any time during the year.

Long-Term Incentive Program

(i) Share Option Scheme

The Company has adopted a share option scheme on 9 December 2015 (the "Share Option Scheme"), details of which are set out in note 37 to the consolidated financial statements.

On 4 September 2023, the Company has conditionally granted share options (the "Share Options") to the directors of the Company set out in the table below (the "Management Grantees") to subscribe for an aggregate of 50,000,000 shares of the Company (the "Share Option Shares") under the Share Option Scheme.

The exercise of the Share Options by the Management Grantees in full (the "Exercise of the Share Options") will cause the aggregate shareholding interests in the total number of issued shares held by the Management Grantees and parties acting in concert with any of them (collectively, the "Management Group") to increase from approximately 29.90% of the total number of issued shares of the Company as at the date of this annual report to approximately 30.19% of the total number of issued shares of the Company as enlarged by the issuance of the Share Option Shares. Accordingly, the Management Grantees would be obliged to make a mandatory general offer pursuant to Rule 26.1 of the Takeovers Code to the shareholders of the Company for all the issued shares not already owned or agreed to be acquired by the Management Group as a result of the allotment and issuance of the Share Option Shares to the Management Grantees, unless a whitewash waiver is granted by the Securities and Futures Commission ("SFC"). The Management Grantees have applied to the SFC for, and the SFC has granted, a waiver pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code from the obligations of the Management Grantees to make a mandatory general offer for all of the shares and other securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company (if any) not already owned or agreed to be acquired by the Management Group which would otherwise arise as a result of the completion of the Exercise of the Share Options (the "Whitewash Waiver").

The resolutions approving the Whitewash Waiver and the conditional grant of the Share Options and the Exercise of the Share Options and the transactions contemplated thereunder were duly passed at the extraordinary general meeting held by the Company on 29 November 2023. Details of the Whitewash Waiver and the shareholding structure of the Company immediately after the issuance of the Share Option Shares upon Exercise of the Share Options (assuming that there will be no other change in the total number of issued shares and the number of issued shares held by the Management Group prior to completion of the Exercise of the Share Options) are set out in the circular of the Company dated 9 October 2023 and the announcement of the Company dated 29 November 2023.

The table below shows details of movements of the Share Options during the year:

					Number of share options				
Name of grantees	**Date of grant**	**Exercise period**	**Vesting period**	**Exercise price**	**Outstanding as of 1 Jan**	**Granted during year**	**Exercised during the year**	**Cancelled/ lapsed during the year**	**Outstanding as of 31 Dec**
Directors:									
Cai Dongchen	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	18,000,000	–	–	18,000,000
Zhang Cuilong	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	8,000,000	–	–	8,000,000
Li Chunlei	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	6,000,000	–	–	6,000,000
Wang Zhenguo	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
Pan Weidong	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
Wang Huaiyu	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
Wang Qingxi	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
Chak Kin Man	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
Jiang Hao	4 Sep 2023	*(1)*	*(2)*	HK$5.98	–	3,000,000	–	–	3,000,000
					–	50,000,000	–	–	50,000,000

Notes:

1. Subject to the fulfillment of the conditions for the grant and exercise of the share options, the vesting conditions and the vesting period, the exercise period of the share options is 10 years from the date of grant (i.e. 4 September 2023 to 3 September 2033, both days inclusive).

2. Conditional upon the Group having achieved a single-digit percentage growth on the amount of the underlying profit attributable to shareholders (i.e. the profit attributable to shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2023 as compared to that for the year ended 31 December 2022, 50% of the share options shall be vested on 1 April 2024, and such condition has already been satisfied. The remaining 50% of the share options shall be vested on 1 April 2025 conditional upon the Group having achieved a double-digit percentage growth on the amount of the underlying profit attributable to shareholders (i.e. the profit attributable to shareholders after excluding certain non-operating items as determined by the Board) for the year ended 31 December 2024 as compared to that for the year ended 31 December 2023.

(2) Share Award Scheme

The Company has adopted a share award scheme on 20 August 2018. In addition, a shareholder of the Company has granted share awards to selected employees of the Group. Details of the Company's share awards scheme and the share awards granted by the shareholder are set out in note 37 to the consolidated financial statements.

Substantial Shareholders' Interests

As at 31 December 2023, the interests and short positions of the following persons in the shares and underlying shares of the Company as recorded in the register maintained by the Company under Section 336 of the SFO were as follows:

Long Positions

Name of substantial shareholder	Capacity	Number of shares held	Number of underlying shares held	Total interests in shares/ underlying shares	Approximate % of the issued shares of the Company
Cai Dongchen	Beneficial owner	225,386,960	18,000,000 (2)	2,844,255,670	23.89%
	Interest of controlled corporation	2,600,868,710 (1)	–		
True Ally Holdings Limited	Beneficial owner	948,249,600	–	2,600,868,710	21.85%
	Interest of controlled corporation	1,652,619,110 (1)	–		
Massive Giant Group Limited	Beneficial owner	1,218,834,470	–	1,218,834,470	10.24%
Common Success International Limited	Beneficial owner	728,796,313	–	728,796,313	6.12%
UBS Group AG	Interest in controlled corporation	971,000,624	–	971,000,624	8.16%

Short Positions

Name of substantial shareholder	Capacity	Number of shares held	Approximate % of the issued shares of the Company
UBS Group AG	Interest in controlled corporation	212,310,028	1.78%

Note:

(1) Mr. Cai Dongchen is deemed to be interested in 2,600,868,710 shares, comprising (i) 406,904,640 shares directly held by Key Honesty Limited, a direct wholly-owned subsidiary of True Ally, (ii) 1,218,834,470 shares directly held by Massive Giant Group Limited, a direct wholly-owned subsidiary of True Ally, (iii) 948,249,600 shares directly held by True Ally, which is directly wholly-owned by Mr. Cai Dongchen and (iv) 26,880,000 shares directly held by Harmonic Choice Limited by virtue of his interests in a chain of corporations holding Harmonic Choice Limited, namely Massive Top Limited, of which March Rise Limited, Zhongyihe and True Ally own 75%, 15% and 10%, respectively. March Rise Limited in turn is owned as to 40% by True Ally and 60% by Zhongyihe, the general partner of which is Mr. Cai Dongchen.

(2) The interests represent share options granted under the Share Option Scheme of the Company. Details of which are set out in note 37 to the consolidated financial statements.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 31 December 2023.

Continuing Connected Transactions

During the year ended 31 December 2023, the Group has entered into certain transactions which constituted continuing connected transactions (as defined in the Listing Rules) of the Company and details of these transactions are set out below:

Name of company	Nature of transactions	Transaction amount *RMB'000*
CHL and its subsidiaries	Sales of pharmaceutical products *(note a)*	845,539
(the "CHL Group")	Purchase of pharmaceutical products *(note b)*	21,991

Notes:

(a) On 22 November 2021, the Company entered into a master sales agreement with CHL for the sale of pharmaceutical products to the CHL Group for a terms of three years commencing on 1 November 2021.

(b) On 22 December 2021, the Company entered into a master purchase agreement with CHL for the purchase of medicines, raw materials, equipment, low-cost consumables and other products from the CHL Group for a terms of three years commencing on 1 January 2022.

Mr. Cai Dongchen, an executive director and a substantial shareholder of the Company, is indirectly interested in more than 30% of CHL through a series of corporations. Therefore, CHL is an associate of a substantial shareholder of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. In addition, each of Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao, all being executive directors of the Company, is also indirectly interested in CHL.

The Company has engaged its external auditor, Deloitte Touche Tohmatsu, to report on the continuing connected transactions of the Group 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. Based on the work performed, the external auditor has confirmed in its letter to the Board that nothing has come to its attention which causes it to believe that the continuing connected transactions:

(i) have not been approved by the Board;
(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
(iii) were not, in all material respects, in accordance with the relevant agreements governing such transactions; and
(iv) have exceeded the annual cap for 2023 as disclosed in the announcements.

The independent non-executive directors have reviewed the continuing connected transactions and the auditor's letter and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of business of the Group;
(ii) on normal commercial terms or better; and
(iii) according to the respective agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Related Party Transactions

Significant related party transactions which were undertaken in the normal course of business of the Group are set out in note 42 to the consolidated financial statements. Those related party transactions which constituted exempted connected transactions or continuing connected transactions under the Listing Rules are not disclosed in the section headed "Continuing Connected Transactions".

Directors' Interests in Competing Business

CHL holds certain equity interest in CSPC Jiangxi Jinfurong Pharmaceutical Co., Ltd, a company principally engaged in the manufacture and sales of traditional Chinese medicines in the PRC and which may compete with the Group in certain aspects of its business. Each of Mr. Cai Dongchen, Mr. Zhang Cuilong, Mr. Wang Zhenguo, Mr. Pan Weidong, Mr. Wang Huaiyu, Dr. Li Chunlei and Dr. Jiang Hao, all being directors of the Company, has an indirect interest in CHL.

Emolument Policy

The emoluments of the directors of the Company are determined with reference to the expertise, experience, responsibilities and performance of the directors, financial and operational performance of the Group as well benchmarks from peer companies and prevailing market conditions.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, the Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Date	Number of shares repurchased	Highest purchase price per share	Lowest purchase price per share	Aggregate consideration (before expenses)	
		HK$	*HK$*	*HK$*	*RMB* (equivalent)
March 2023	24,560,000	7.80	7.41	187,202,000	163,877,000
April 2023	5,440,000	7.75	7.61	41,673,000	36,481,000
	30,000,000			228,875,000	200,358,000

All the shares repurchased were cancelled upon delivery of the share certificates in April 2023. The Board considered that the repurchases were made for the benefit of the shareholders with a view to enhancing the earnings per share as well as maximizing shareholders' return.

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2023.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
CAI Dongchen
Chairman

Hong Kong, 20 March 2024

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF CSPC PHARMACEUTICAL GROUP LIMITED
石藥集團有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of CSPC Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 155, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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 matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2023, the Group's net trade receivables amounted to RMB5,869,223,000 representing approximately 13% of total assets of the Group, and RMB597,134,000 of which were past due. As disclosed in note 40 to the consolidated financial statements, the management of the Group estimated the amount of lifetime ECL of trade receivables, other than major customers and credit-impaired balances, based on provision matrix through grouping of various debtors that have similar loss patterns, after considering aging, repayment history and/or past due status of respective trade receivables. Estimated loss rates were based on historical observed default rates over the expected life of the debtors and were adjusted for forward-looking information. Trade receivables with major customers and credit-impaired balances were assessed for ECL individually. The loss allowance of the credit-impaired trade receivables was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 40 to the consolidated financial statements, the Group's lifetime ECL recognised on trade receivables as at 31 December 2023 amounted to RMB42,137,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer; • Involving our internal valuation specialists to assess the appropriateness of valuation methodology and assumptions adopted; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2023, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents; and • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2023, including their identification of major customers and credit-impaired balances, the reasonableness of management's grouping of the remaining debtors into different categories in the provision matrix, and the basis of estimated loss rates applied for each individual trade debtor and each category in the provision matrix (with reference to historical default rates and forward-looking information).

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 HKFRSs issued by the HKICPA and 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 section 405 of the Hong Kong Companies Ordinance, 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.

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.

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 Ms. Fung, Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 March 2024

Consolidated Income Statement

For the year ended 31 December 2023

	Note	**2023**	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**31,450,109**	30,936,904
Cost of sales		**(9,273,423)**	(8,680,490)
Gross profit		**22,176,686**	22,256,414
Other income		**626,271**	603,799
Other gains or losses, net		**(104,936)**	291,383
Selling and distribution expenses		**(9,140,652)**	(10,337,423)
Administrative expenses		**(1,189,648)**	(1,172,842)
Research and development expenses		**(4,830,375)**	(3,986,516)
Other expenses		**(100,743)**	(80,333)
Share of results of associates	*18*	**(41,065)**	(42,509)
Share of results of joint ventures	*19*	**(13,131)**	27,114
Gains on deemed disposal of partial interests in an associate and a joint venture		**32,861**	48,065
Finance costs	*6*	**(25,896)**	(24,891)
Profit before tax		**7,389,372**	7,582,261
Income tax expenses	*8*	**(1,316,679)**	(1,350,211)
Profit for the year	*7*	**6,072,693**	6,232,050
Profit for the year attributable to:			
Owners of the Company		**5,873,325**	6,091,390
Non-controlling interests		**199,368**	140,660
		6,072,693	6,232,050
		RMB cents	*RMB cents*
Earnings per share	*11*		
– Basic		**49.47**	51.11
– Diluted		**49.47**	51.11

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 *RMB'000*	2022 *RMB'000*
Profit for the year	**6,072,693**	6,232,050
Other comprehensive (expense)/income:		
Item that will not be reclassified to profit or loss:		
Fair value (loss)/gain on financial assets measured at fair value through other comprehensive income, net of income tax	**(6,003)**	13,013
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(17,544)**	50,493
Other comprehensive (expense)/income for the year, net of income tax	**(23,547)**	63,506
Total comprehensive income for the year	**6,049,146**	6,295,556
Total comprehensive income for the year attributable to:		
Owners of the Company	**5,849,778**	6,154,896
Non-controlling interests	**199,368**	140,660
	6,049,146	6,295,556

Consolidated Statement of Financial Position

At 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	13	**10,416,599**	9,582,060
Right-of-use assets	14	**1,226,293**	1,394,859
Investment property	15	**59,432**	62,737
Goodwill	16	**234,904**	234,904
Intangible assets	17	**2,198,549**	1,908,112
Interests in associates	18	**786,085**	685,290
Interests in joint ventures	19	**682,351**	709,482
Other financial assets	20	**2,387,159**	2,125,574
Deferred tax assets	33	**186,776**	113,026
Deposits, prepayments and other receivables	23	**619,077**	796,570
Bank deposits	26	**740,000**	200,000
		19,537,225	17,812,614
Current assets			
Inventories	21	**3,138,664**	2,554,861
Trade receivables	22	**5,869,223**	3,937,967
Deposits, prepayments and other receivables	23	**672,655**	693,224
Bills receivables	24	**3,685,282**	2,602,551
Amounts due from related companies	42	**157,313**	195,643
Amounts due from joint ventures	42	**129,531**	100,048
Structured bank deposits	25	**1,077,054**	3,574,859
Bank deposits, balances and cash	26	**12,015,223**	10,298,007
		26,744,945	23,957,160

Consolidated Statement of Financial Position

At 31 December 2023

	Note	**2023** **RMB'000**	2022 RMB'000
Current liabilities			
Trade payables	27	**2,426,115**	1,507,986
Other payables	28	**5,978,313**	5,355,516
Contract liabilities	31	**326,205**	799,458
Bills payables	29	**415,624**	502,079
Amounts due to related companies	42	**21,436**	104,938
Amounts due to joint ventures	42	**35,587**	130,860
Lease liabilities	32	**149,627**	142,071
Tax liabilities		**379,450**	261,608
Bank borrowings	30	**450,216**	153,484
		10,182,573	8,958,000
Net current assets		**16,562,372**	14,999,160
Total assets less current liabilities		**36,099,597**	32,811,774
Non-current liabilities			
Other payables	28	**399,684**	270,917
Lease liabilities	32	**107,058**	258,039
Deferred tax liabilities	33	**574,843**	611,993
Bank borrowings	30	**–**	28,950
		1,081,585	1,169,899
Net assets		**35,018,012**	31,641,875
Capital and reserves			
Share capital	35	**10,899,412**	10,899,412
Reserves		**22,303,796**	19,298,122
Equity attributable to owners of the Company		**33,203,208**	30,197,534
Non-controlling interests		**1,814,804**	1,444,341
Total equity		**35,018,012**	31,641,875

The consolidated financial statements on pages 63 to 155 were approved and authorised for issue by the Board of Directors on 20 March 2024 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Equity attributable to owners of the Company									Equity attributable to non-controlling interests			
	Share capital RMB'000	Treasury share reserve RMB'000	Employee share-based compensation reserve RMB'000	Other reserve RMB'000 (note a)	Statutory reserves RMB'000 (note b)	Capital contribution reserve RMB'000 (note c)	Translation reserve RMB'000	Accumulated profits RMB'000	Sub-total RMB'000	Employee share-based compensation reserve of a subsidiary RMB'000	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At 1 January 2022	10,899,412	(85,600)	17,671	(4,050,831)	1,917,652	46,794	(28,446)	17,270,020	25,986,672	3,570	837,989	841,559	26,828,231
Profit for the year	–	–	–	–	–	–	–	6,091,390	6,091,390	–	140,660	140,660	6,232,050
Other comprehensive income for the year, net of income tax	–	–	–	13,013	–	–	50,493	–	63,506	–	–	–	63,506
Total comprehensive income for the year	–	–	–	13,013	–	–	50,493	6,091,390	6,154,896	–	140,660	140,660	6,295,556
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(20,475)	(20,475)	(20,475)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	51,868	51,868	51,868
Dividends recognised as distribution	–	–	–	–	–	–	–	(2,096,961)	(2,096,961)	–	–	–	(2,096,961)
Repurchase and cancellation of issued shares	–	–	–	–	–	–	–	(14,211)	(14,211)	–	–	–	(14,211)
Transfer to statutory reserves	–	–	–	–	138,005	–	–	(138,005)	–	–	–	–	–
Recognition of employee share-based compensation expense	–	–	6,904	–	–	149,780	–	–	156,684	4,042	–	4,042	160,726
Acquisition of a subsidiary and additional interests in subsidiaries	–	–	–	–	–	–	–	10,454	10,454	–	426,687	426,687	437,141
Vesting of shares under share award scheme	–	1,890	(15,100)	–	–	–	–	13,210	–	–	–	–	–
At 31 December 2022	10,899,412	(83,710)	9,475	(4,037,818)	2,055,657	196,574	22,047	21,135,897	30,197,534	7,612	1,436,729	1,444,341	31,641,875
At 1 January 2023	**10,899,412**	**(83,710)**	**9,475**	**(4,037,818)**	**2,055,657**	**196,574**	**22,047**	**21,135,897**	**30,197,534**	**7,612**	**1,436,729**	**1,444,341**	**31,641,875**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,873,325**	**5,873,325**	**-**	**199,368**	**199,368**	**6,072,693**
Other comprehensive expense for the year, net of income tax	**-**	**-**	**-**	**(6,003)**	**-**	**-**	**(17,544)**	**-**	**(23,547)**	**-**	**-**	**-**	**(23,547)**
Total comprehensive (expense)/income for the year	**-**	**-**	**-**	**(6,003)**	**-**	**-**	**(17,544)**	**5,873,325**	**5,849,778**	**-**	**199,368**	**199,368**	**6,049,146**
Dividends paid to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26,003)**	**(26,003)**	**(26,003)**
Capital contribution from non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206,688**	**206,688**	**-**	**317,304**	**317,304**	**523,992**
Purchase of shares under share award scheme	**-**	**(254,348)**	**-**	**(4,248)**	**-**	**-**	**-**	**-**	**(258,596)**	**-**	**-**	**-**	**(258,596)**
Dividends recognised as distribution	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,726,253)**	**(2,726,253)**	**-**	**-**	**-**	**(2,726,253)**
Repurchase and cancellation of issued shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,358)**	**(200,358)**	**-**	**-**	**-**	**(200,358)**
Transfer to statutory reserves	**-**	**-**	**-**	**-**	**154,187**	**-**	**-**	**(154,187)**	**-**	**-**	**-**	**-**	**-**
Recognition of employee share-based compensation expense	**-**	**-**	**42,030**	**-**	**-**	**193,952**	**-**	**-**	**235,982**	**(890)**	**-**	**(890)**	**235,092**
Acquisition of additional interests in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(101,567)**	**(101,567)**	**-**	**(119,316)**	**(119,316)**	**(220,883)**
Vesting of shares under share award scheme	**-**	**21,844**	**(23,159)**	**-**	**-**	**-**	**-**	**1,315**	**-**	**-**	**-**	**-**	**-**
At 31 December 2023	**10,899,412**	**(316,214)**	**28,346**	**(4,048,069)**	**2,209,844**	**390,526**	**4,503**	**24,034,860**	**33,203,208**	**6,722**	**1,808,082**	**1,814,804**	**35,018,012**

Notes:

(a) The balance in other reserve mainly included an amount of RMB4,030,633,000 which represents the difference between the fair value of the deemed consideration under the reverse acquisition of RMB2,631,198,000 and the fair value of the consideration paid by the Company of RMB6,661,831,000 in a reverse acquisition on 29 October 2012, and the accumulated changes in fair value of financial assets designated at fair value through other comprehensive income ("FVTOCI").

(b) The statutory reserves are appropriated from profit after tax of the Company's subsidiaries in the People's Republic of China (the "PRC") under the laws and regulations of the PRC.

(c) The balance in capital contribution reserve mainly included the deemed contribution by CSPC Holdings Company Limited ("CHL"), a related company as defined in note 42, which comprises (i) the difference between the carrying amount of the net assets of entities comprising Robust Sun Holdings Limited ("Robust Sun") and its subsidiaries (collectively referred to as the "Robust Sun Group") and the consideration paid to CHL and its subsidiaries during group reorganisation under Robust Sun Group in 2012; (ii) the imputed interest on a non-interest bearing loan from CHL in 2012; and (iii) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co., Ltd. from CHL in 2016; and (iv) deemed capital contribution arising from the grant of share awards to employees of the Group in 2022 by a shareholder.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
Operating activities		
Profit before tax	**7,389,372**	7,582,261
Adjustments for:		
Depreciation of property, plant and equipment	**867,252**	802,592
Depreciation of right-of-use assets	**164,077**	152,869
Depreciation of investment property	**3,305**	2,126
Amortisation of intangible assets	**82,856**	90,352
Gain on lease termination	**(188)**	–
Finance costs	**25,896**	24,891
Government grant income	**(215,702)**	(195,005)
Fair value loss/(gain) on financial assets measured at fair value through profit or loss	**210,712**	(100,905)
Fair value gain on structured bank deposits	**(87,228)**	(117,435)
Interest income	**(259,881)**	(242,528)
Imputed interest income on amount due from a joint venture	**–**	(16,308)
Loss on disposal of property, plant and equipment	**22,226**	7,361
Impairment loss recognised on intangible assets	**42,315**	72,105
Impairment loss recognised/(reversed) under expected credit loss model	**18,412**	(25,734)
Reversal of write-down of inventories	**(57)**	(1,170)
Employee share-based compensation expenses	**235,092**	160,726
Share of results of associates	**41,065**	42,509
Share of results of joint ventures	**13,131**	(27,114)
Gains on deemed disposal of partial interests in an associate and a joint venture	**(32,861)**	(48,065)
Operating cash flows before movements in working capital	**8,519,794**	8,163,528
Increase in inventories	**(583,746)**	(42,750)
Increase in trade receivables	**(1,973,267)**	(566,548)
Decrease/(increase) in deposits, prepayments and other receivables	**20,569**	(62,648)
(Increase)/decrease in bills receivables	**(1,327,959)**	270,202
Decrease/(increase) in amounts due from related companies	**38,330**	(95,508)
Increase in amounts due from joint ventures	**(29,483)**	(60,265)
Decrease in amount due from an associate	**–**	400
Increase in trade payables	**918,129**	18,445
(Decrease)/increase in contract liabilities	**(473,253)**	371,014
(Decrease)/increase in bills payables	**(86,455)**	360,821
Increase in other payables	**445,900**	466,580
Increase in deferred government grants	**198,180**	97,616
Decrease in amounts due to joint ventures	**(95,273)**	(5,267)
(Decrease)/increase in amounts due to related companies	**(83,502)**	46,028
Cash generated from operations	**5,487,964**	8,961,648
Income tax paid	**(1,309,149)**	(1,334,584)
Net cash from operating activities	**4,178,815**	7,627,064

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Note	2023 RMB'000	2022 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(1,623,688)**	(2,220,218)
Purchase of right-of-use assets		**(247)**	(17,937)
Refund of deposits paid for acquisition of right-of-use assets		**–**	24,000
Placement of deposits paid for acquisition of right-of-use assets		**(3,700)**	–
Purchase of intangible assets		**(265,432)**	(484,537)
Purchase of other financial assets		**(532,818)**	(103,165)
Capital injection to an associate		**(109,000)**	(51,000)
Capital injection to a joint venture		**(6,000)**	(159,891)
Receipts of government grants		**114,788**	41,803
Placement of structured bank deposits		**(1,890,000)**	(5,210,000)
Withdrawal of structured bank deposits		**4,475,033**	3,195,989
Placement of pledged and restricted bank deposits		**(79,489)**	(53,222)
Withdrawal of pledged and restricted bank deposits		**132,266**	–
Placement of bank deposits		**(2,040,000)**	(1,970,000)
Withdrawal of bank deposits		**2,220,000**	150,000
Interest received		**259,881**	242,528
Dividend received from a joint venture		**20,000**	65,509
Dividend received from an associate		**–**	6,054
Proceeds from distribution of other financial assets		**54,277**	73,177
Acquisition of subsidiaries	36	**–**	(341,907)
Proceeds from disposal of property, plant and equipment		**139,992**	16,833
Purchase of shares under share award scheme		**(258,596)**	–
Net cash from/(used in) investing activities		**607,267**	(6,795,984)
Financing activities			
Dividends paid		**(2,726,253)**	(2,096,961)
Dividends paid to non-controlling interests		**(26,003)**	(20,475)
Repurchase and cancellation of issued shares		**(200,358)**	(14,211)
Interest on lease liabilities		**(13,635)**	(13,451)
Interest on bank borrowings		**(2,356)**	(8,087)
Payment of lease liabilities		**(138,590)**	(125,239)
New bank borrowings raised		**–**	485,712
Repayment of bank borrowings		**(27,840)**	(495,712)
Advances drawn on bills discounted with recourse		**530,945**	368,726
Capital contribution from non-controlling interests		**523,992**	51,868
Acquisition of additional interests in subsidiaries		**(220,883)**	(36,243)
Net cash used in financing activities		**(2,300,981)**	(1,904,073)
Net increase/(decrease) in cash and cash equivalents		**2,485,101**	(1,072,993)
Cash and cash equivalents at 1 January		**8,000,852**	9,059,709
Effect of foreign exchange rate changes		**4,892**	14,136
Cash and cash equivalents at 31 December, represented by bank balances and cash	26	**10,490,845**	8,000,852

1. General Information

CSPC Pharmaceutical Group Limited (the "Company") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the "Corporate Information" section of this annual report.

The Company acts as an investment holding company and its subsidiaries (hereinafter together with the Company referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products. Details of the subsidiaries are set out in note 45.

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

2. Application of New and Amendments to HKFRSs

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	Income Taxes International Tax Reform-Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and other amendments to HKFRSs in the current year has had 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 HKFRSs *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Impacts on application of Amendments to HKAS 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 HKAS 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 and changes in accounting policies on application of Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

(ii) the Group also, as at 1 January 2022, recognised a deferred tax asset (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 deductible and taxable temporary difference associated with lease liabilities and right-of-use-assets.

The application of the amendments has had no material impact on the Group's financial position and performance, except that the Group disclose the related deferred tax assets of RMB23,511,000 and deferred tax liabilities of RMB23,511,000 on a gross basis as at 1 January 2022 in note 33 but it has no impact on the retained earnings at the earliest period presented.

2. Application of New and Amendments to HKFRSs *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Impacts on application of Amendments to HKAS 12 *Income Taxes International Tax Reform Pillar Two model Rules*

HKAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is within the scope of the Organisation for Economic Co-operation and Development's Pillar Two model rules. Pillar Two legislation was enacted and will come into effect from 1 January 2024 in one of the jurisdictions in which the Group operates (the "Enacted Jurisdiction"). Since the Pillar Two legislation was not effective at the reporting date, the Group has no related current tax exposure. The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to HKAS 12 issued in July 2023. The Group is in the process of assessing its exposure to the Pillar Two legislation for the Enacted Jurisdiction when it comes into effect, based on management's preliminary assessment, the average effective tax rate (calculated in accordance with paragraph 86 of HKAS12) of the entity operating in the Enacted Jurisdiction exceeds 15%.

Due to the complexities in applying the legislation and calculating Global Anti-Base Erosion income, the quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable. Thus, even the entity with an accounting effective tax rate above 15%, there may still be Pillar Two tax implications. The Company is currently engaged with tax specialists to assist with applying the legislation.

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

The Group has applied the amendments for the first time in the current year. HKAS 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.

2. Application of New and Amendments to HKFRSs *(continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* *(continued)*

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.

HKFRS 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.

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[1]
Amendments to HKAS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 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 (the "Directors") anticipate that the application of all amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Material Accounting Policy Information

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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 and the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. Material Accounting Policy Information *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations or asset acquisitions

Optional concentration test

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

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

The identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 or HK(IFRIC) — Int 21, in which the Group applies HKAS 37 or HK(IFRIC) — Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

3. Material Accounting Policy Information *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

3. Material Accounting Policy Information *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combinations *(continued)*

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that does not qualify as measurement period adjustment depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"s) (or group of CGUs) 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 CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) 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 CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, 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 CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

3. Material Accounting Policy Information *(continued)*

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associate and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Material Accounting Policy Information *(continued)*

Investments in associates and joint ventures *(continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/ partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the consolidated financial statements only to the extent of interest in the associate or joint venture that is not related to the Group.

Changes in the Group's interests in associates and joint ventures

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in note 5.

Leases

Definition of a lease

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

3. Material Accounting Policy Information *(continued)*

Leases *(continued)*

The Group as a lessee

Allocation of consideration to components of a contract

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

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Lease liabilities

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

3. Material Accounting Policy Information *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Lease liabilities (continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

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

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

Employment benefits

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

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

3. Material Accounting Policy Information *(continued)*

Share-based payments *(continued)*

Equity-settled share-based payments transactions *(continued)*

Share options granted to employees (continued)

The fair value of the share options determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve). At the end of the reporting period, the Group revises its estimate of the number of share options expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimate, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

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

Awarded shares granted to employees

For grants of awarded shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of awarded shares at the grant date and is expensed on a straight-line basis over the vesting period, based on the Group's estimate of awarded shares that will eventually vest, with a corresponding increase in equity (employee share-based compensation reserve).

At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity (employee share-based compensation reserve).

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is deducted from total equity and is presented as treasury share reserve. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from the treasury share reserve and the related expense of the granted shares vested is reversed from employee share-based compensation reserve. The difference arising from such transfer is debited/credited to accumulated profits.

Taxation

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

3. Material Accounting Policy Information *(continued)*

Taxation *(continued)*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax 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 differences 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates or joint ventures, 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 and interests 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 each 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 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 rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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

3. Material Accounting Policy Information *(continued)*

Taxation *(continued)*

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

Deferred tax assets and liabilities are offset when there is 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 is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and 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) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings 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 include 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" in the consolidated statement of financial position. 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.

A property becomes an investment property because its use has changed as evidenced by end of owner-occupation.

3. Material Accounting Policy Information *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost of assets 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 included in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives 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 not yet available for use that are acquired separately are not amortised but tested individually for impairment annually and carried at cost less any subsequent accumulated impairment losses.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

3. Material Accounting Policy Information *(continued)*

Intangible assets *(continued)*

Internally-generated intangible assets — research and development expenditure *(continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

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. Intangible assets acquired in a business combination not yet available for use or with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

Bank deposits, balances and cash

Bank balances and cash 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 and restricted deposits. 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 balance and cash as defined above.

3. Material Accounting Policy Information *(continued)*

Bank deposits, balances and cash *(continued)*

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 26.

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.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 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 FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Material Accounting Policy Information *(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) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in other reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI 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 excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, other receivables, bills receivables, amounts due from related companies and joint ventures, structured bank deposits, bank deposits, pledged and restricted bank deposits and bank balances) which are subject to impairment assessment under HKFRS 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. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and trade receivables due from related companies.

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

(i) Significant increase in credit risk

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

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

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

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

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

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

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL *(continued)*

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

Lifetime ECL for certain trade receivables are considered based on provision matrix taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and trade receivables due from related companies, 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.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the other reserve is not reclassified to profit or loss, but is transferred to accumulated profits.

3. Material Accounting Policy Information *(continued)*

Financial instruments *(continued)*

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.

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, other payables, bills payables, amounts due to related companies and joint ventures and bank borrowings) 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 are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Provision of ECL for trade receivables

Trade receivables with major customers and credit-impaired are assessed for ECL individually.

In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using a provision matrix. The provision rates are based on debtors' aging as groupings of various debtors taking into consideration the Group's historical default rates and forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

As at 31 December 2023, the carrying amount of trade receivables amounting to RMB5,869,223,000 (2022: RMB3,937,967,000) were net of impairment allowance under ECL model. The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 40.

Estimated impairment assessment of intangible assets not yet available for use

For intangible assets not yet available for use, the Group would assess the assets individually for impairment annually. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the assets belong, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2023, the carrying amounts of intangible assets not yet available for use amounted to RMB1,406,354,000 (2022: RMB1,513,848,000). The information of the assessment of impairment of intangible assets not yet available for use is disclosed in note 17.

5. Revenue and Segment Information

	2023	2022
	RMB'000	*RMB'000*
Sale of goods	**31,415,409**	30,751,087
Licence fee income	**34,700**	185,817
	31,450,109	30,936,904

Information reported to executive directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

(a) Finished drugs — research and development, manufacture and sale of pharmaceutical products and licence fee income;

(b) Bulk products — manufacture and sale of vitamin C, and antibiotic products in bulk powder form; and

(c) Functional food and others — manufacture and sale of functional food products (including caffeine food additives, anhydrous glucose, acarbose and vitamin C buccal tablets), provision of healthcare service and others.

Bulk products of anhydrous glucose and acarbose were included in the segment of bulk products (antibiotics and others) segment in prior years. With the aim of strengthening synergy in business development, the Group's operating segments have been reorganised. Bulk products of anhydrous glucose and acarbose are now being managed and reported in the segment of functional food and others. Comparative figures have been restated to conform with current year's presentation.

Sale of goods

Revenue is recognised at a point in time upon control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 90 days upon delivery.

The transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

As at 31 December 2023, all outstanding sales contracts are expected to be fulfilled within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. Revenue and Segment Information *(continued)*

Licence fee income

The Group provides licence of its patented intellectual property ("IP") or commercialisation licence to customers and revenue is recognised when the customers obtain rights to access or use the underlying IP or licence. Licence fee income is recognised at a point in time upon the customer obtains control of IP.

The consideration for licence comprises a fixed element (the upfront payment) and variable elements (including but not limited to development milestones and royalties).

For licence associated with customers' right to use, upfront fee received is recorded under contract liabilities and recognised as revenue only when customers have ability to use the licence and variable consideration is recognised only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future.

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2023

	Finished drugs	Bulk products		Functional food and others	Segment total	Eliminations	Consolidated
		Vitamin C	Antibiotics				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	25,602,434	1,929,406	1,711,922	2,171,647	31,415,409	–	31,415,409
Inter-segment sales	–	11,960	299,812	300,250	612,022	(612,022)	–
Licence fee income	34,700	–	–	–	34,700	–	34,700
TOTAL REVENUE	25,637,134	1,941,366	2,011,734	2,471,897	32,062,131	(612,022)	31,450,109
SEGMENT PROFIT	6,699,897	4,950	154,346	561,525	7,420,718		7,420,718
Unallocated income							414,636
Unallocated expenses							(398,751)
Share of results of associates							(41,065)
Share of results of joint ventures							(13,131)
Gains on deemed disposal of partial interests in an associate and a joint venture							32,861
Finance costs							(25,896)
Profit before tax							7,389,372

5. Revenue and Segment Information *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2022 (restated)

	Finished drugs	Bulk products		Functional food and others	Segment total	Eliminations	Consolidated
		Vitamin C	Antibiotics				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	24,334,250	2,529,126	1,502,821	2,384,890	30,751,087	–	30,751,087
Inter-segment sales	–	4,285	200,632	182,338	387,255	(387,255)	–
Licence fee income	185,817	–	–	–	185,817	–	185,817
TOTAL REVENUE	24,520,067	2,533,411	1,703,453	2,567,228	31,324,159	(387,255)	30,936,904
SEGMENT PROFIT	6,067,844	442,574	114,155	647,424	7,271,997		7,271,997
Unallocated income							535,440
Unallocated expenses							(232,955)
Share of results of associates							(42,509)
Share of results of joint ventures							27,114
Gains on deemed disposal of partial interests in an associate and a joint venture							48,065
Finance costs							(24,891)
Profit before tax							7,582,261

Segment profit represents the profit earned by each segment without allocation of interest income, fair value changes on structured bank deposits, fair value changes on financial assets measured at FVTPL, central administrative expenses, share of results of associates and joint ventures, gains on deemed disposal of partial interests in an associate and a joint venture and finance costs. This is the measure reported to the executive directors for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The executive directors make decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the executive directors do not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

5. Revenue and Segment Information *(continued)*

Other segment information

For the year ended 31 December 2023

	Finished drugs	Bulk products		Functional food and others	Segment total	Unallocated	Consolidated
		Vitamin C	Antibiotics				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation and amortisation	**802,101**	**154,794**	**76,625**	**74,107**	**1,107,627**	**9,863**	**1,117,490**

For the year ended 31 December 2022 (restated)

	Finished drugs	Bulk products		Functional food and others	Segment total	Unallocated	Consolidated
		Vitamin C	Antibiotics				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation and amortisation	751,084	123,182	99,933	64,033	1,038,232	9,707	1,047,939

Geographical information

Revenue from the external customers by geographical market (irrespective of the origin of the goods) based on the location of customers is presented below:

	2023	2022
	RMB'000	*RMB'000*
Mainland China (place of domicile)	**27,183,715**	26,139,499
Other Asian regions	**1,582,878**	1,735,668
North America	**881,801**	1,176,218
Europe	**1,276,883**	1,268,015
Others	**524,832**	617,504
	31,450,109	30,936,904

The Group's operations are substantially based in Mainland China and substantially all non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

None of the Group's customers contributed over 10% of the total revenue of the Group for both years.

6. Finance Costs

	2023 **RMB'000**	2022 RMB'000
Interest on discounted bills receivables	**9,905**	3,353
Interest on lease liabilities	**13,635**	13,451
Interest on bank borrowings	**2,356**	8,087
	25,896	24,891

7. Profit for the Year

	2023 **RMB'000**	2022 RMB'000
Profit for the year has been arrived at after charging/(crediting):		
Staff costs, including directors' and chief executive's remuneration		
— salaries, wages and other benefits	**4,230,760**	4,307,962
— contribution to retirement benefit schemes	**241,560**	254,686
— employee share-based compensation expenses *(note a)*	**235,092**	160,726
Total staff costs	**4,707,412**	4,723,374
Depreciation of property, plant and equipment	**867,252**	802,592
Depreciation of right-of-use assets	**164,077**	152,869
Depreciation of investment property	**3,305**	2,126
Amortisation of intangible assets	**82,856**	90,352
Total depreciation and amortisation	**1,117,490**	1,047,939
Auditor's remuneration	**7,493**	7,806
Government grant income (included in other income) *(note 34)*	**(215,702)**	(195,005)
Impairment losses recognised/(reversed) under ECL model (included in other gains or losses)	**18,412**	(25,734)
Impairment losses recognised on intangible assets (included in other gains or losses)	**42,315**	72,105
Interest income (included in other income)	**(259,881)**	(242,528)
Fair value loss/(gain) on financial assets measured at FVTPL (included in other gains or losses)	**210,712**	(100,905)
Fair value gain on structured bank deposits (included in other gains or losses)	**(87,228)**	(117,435)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**22,226**	7,361
Net foreign exchange gains (included in other gains or losses)	**(102,531)**	(118,127)

Notes:

(a) The amount mainly included employee share-based compensation expenses of RMB42,030,000 (2022: RMB6,904,000) in respect of share options and share awards granted by the Company and RMB193,952,000 (2022: RMB149,780,000) in respect of share awards granted by a shareholder of the Company involving the existing shares of the Company held by the shareholder.

(b) Cost of inventories recognised as an expense approximated cost of sales as shown in the consolidated income statement for the both years.

8. Income Tax Expense

	2023	2022
	RMB'000	*RMB'000*
Current taxation:		
— PRC Corporate Income Tax ("PRC CIT")	**1,279,724**	1,189,308
— PRC withholding tax on dividends distributed by subsidiaries	**136,017**	133,187
— Overseas taxation	**11,250**	12,965
	1,426,991	1,335,460
Deferred taxation *(note 33)*	**(110,312)**	14,751
	1,316,679	1,350,211

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits for both years.

The standard tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "EIT Law") and implementation regulations of the EIT Law. Certain subsidiaries of the Company are qualified as High and New Technology Enterprises, and they are subject to a preferential tax rate of 15% for a period of 3 years up to 2026.

Under the EIT Law, dividends distributed by a company established in the PRC to foreign investor with respect to profits earned from 1 January 2008 onwards are subject to a withholding tax of 10%. The tax rate will be reduced to 5% if such foreign investors meet certain conditions specified in the relevant tax regulations.

Taxation arising in other jurisdictions is calculated at the rates prevailing in relevant jurisdictions.

8. Income Tax Expense *(continued)*

The income tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**7,389,372**	7,582,261
Tax at the PRC CIT rate of 25%	**1,847,343**	1,895,565
Tax effect of expenses not deductible for tax purpose	**336,924**	236,938
Tax effect of income not taxable for tax purpose	**(12,652)**	(48,207)
Tax effect of share of results of associates	**10,266**	10,627
Tax effect of share of results of joint ventures	**3,283**	(6,779)
Utilisation of previously unrecognised tax losses	**(7,083)**	—
Tax effect of tax losses not recognised	**362,922**	298,981
Effect of tax relief and concessions granted to certain PRC subsidiaries	**(1,358,863)**	(1,220,045)
PRC withholding tax on dividends of subsidiaries	**134,539**	183,131
Income tax expense for the year	**1,316,679**	1,350,211

Details of deferred taxation and unused tax losses are set out in note 33.

9. Directors' Emoluments

The emoluments paid or payable to the Directors of the Company during the year are as follows:

2023	Fees	Salaries and allowances	Employee share-based compensation expenses (iii)	Performance-related bonuses	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Cai Dongchen	57	4,539	8,161	13,503	419	26,679
Zhang Cuilong	57	693	3,627	9,002	93	13,472
Wang Zhenguo	57	693	1,360	2,701	93	4,904
Pan Weidong	57	695	1,360	2,701	108	4,921
Wang Huaiyu	57	693	1,360	3,601	26	5,737
Li Chunlei	57	704	2,720	5,851	88	9,420
Wang Qingxi	57	1,850	4,346	1,080	106	7,439
Chak Kin Man	57	2,128	1,360	2,521	196	6,262
Jiang Hao	57	720	1,360	1,800	85	4,022
Independent non-executive directors:						
Wang Bo	142	–	–	–	–	142
Chen Chuan	142	–	–	–	–	142
Wang Hongguang	142	–	–	–	–	142
Au Chun Kwok Alan	340	–	–	–	–	340
Law Cheuk Kin Stephen	284	–	–	–	–	284
Li Quan	142	–	–	–	–	142
	1,705	12,715	25,654	42,760	1,214	84,048

9. Directors' Emoluments *(continued)*

2022	Fees	Salaries and allowances	Employee share-based compensation expenses (iii)	Performance-related bonuses	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Cai Dongchen *(i)*	54	3,795	–	15,460	350	19,659
Zhang Cuilong *(ii)*	54	693	–	9,877	60	10,684
Wang Zhenguo	54	693	–	4,724	60	5,531
Pan Weidong	54	686	–	4,724	100	5,564
Wang Huaiyu	54	693	–	5,583	60	6,390
Li Chunlei	54	693	–	6,871	60	7,678
Wang Qingxi	54	1,820	2,214	2,577	109	6,774
Chak Kin Man	54	2,030	–	3,006	187	5,277
Jiang Hao	54	644	–	4,295	77	5,070
Independent non-executive directors:						
Wang Bo	135	–	–	–	–	135
Chen Chuan	135	–	–	–	–	135
Wang Hongguang	135	–	–	–	–	135
Au Chun Kwok Alan	325	–	–	–	–	325
Law Cheuk Kin Stephen	271	–	–	–	–	271
Li Quan *(iv)*	20	–	–	–	–	20
Wu Guizhen *(v)*	–	–	–	–	–	–
	1,507	11,747	2,214	57,117	1,063	73,648

9. Directors' Emoluments *(continued)*

Notes:

(i) Mr. Cai ceased to serve as the CEO on 27 May 2022.

(ii) Mr. Zhang was appointed as the CEO on 27 May 2022. Before this appointment, he was the Rotating CEO.

(iii) The amount represents the fair value of share options granted under the Company's share option scheme and share awards granted by a shareholder recognised in the consolidated income statement during the year (notes 37a and 37c).

(iv) Ms. Li was appointed as an independent non-executive director on 8 November 2022.

(v) Ms. Wu was appointed as an independent non-executive director on 27 May 2022 and resigned on 1 August 2022.

Directors' emoluments comprise payments to directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries.

The performance-related incentive payment was determined by the remuneration committee having regard to the performance of the Group, performance and responsibilities of individuals as well as prevailing market practices. No remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no Director has waived any emoluments in both years.

10. Five Highest Paid Employees

The five highest paid employees of the Group included five (2022: four) Directors, details of whose emoluments are set out in note 9 above. The remuneration of the remaining one highest paid employee in 2022, which is within the band of HK$7,500,001 to HK$8,000,000, are as follows:

	2022 *RMB'000*
Salaries and allowances	384
Performance-related bonus	3,865
Contributions to retirement benefit schemes	61
Employee share-based compensation benefits	2,214
	6,524

No emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office in both years.

11. Earnings Per Share

The calculation of the basic and diluted earnings per share is as follows:

	2023	2022
Profit attributable to owners of the Company *(RMB'000)*	**5,873,325**	6,091,390
Weighted average number of ordinary shares for the purpose of basic earnings per share *(in '000)*	**11,872,021**	11,917,204
Effect of dilutive potential ordinary shares:		
Share awards *(in '000)*	**1,010**	1,319
Weighted average number of ordinary shares for the purpose of diluted earnings per share *(in '000)*	**11,873,031**	11,918,523

The weighted average number of ordinary shares for the calculation of basic earnings per share for both years has been adjusted for the effects of the shares held by the trustee under the share award scheme of the Company.

12. Dividends

	2023 ***RMB'000***	2022 *RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend paid:		
2023: HK14 cents (approximately RMB12.8 cents) (2022: HK10 cents (approximately RMB9.0 cents)) per share	**1,529,135**	1,079,240
Final dividend paid:		
2022: HK11 cents (approximately RMB10.1 cents) (2021: HK10 cents (approximately RMB8.6 cents)) per share	**1,207,225**	1,020,529
Less: dividend for shares held by share award scheme	**(10,107)**	(2,808)
	2,726,253	2,096,961

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HK14 cents per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting. This proposed dividend has not yet been recognised as a liability in the consolidated financial statements.

13. Property, Plant and Equipment

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2022	4,135,317	6,268,632	438,043	15,981	1,534,093	12,392,066
Additions	24,086	105,853	37,513	5,543	1,650,298	1,823,293
Transfer to investment property	(35,528)	–	–	–	–	(35,528)
Transfers	443,923	475,630	21,520	–	(941,073)	–
Acquisition of subsidiaries	68,894	9,098	3,634	48	1,604	83,278
Disposals	–	(52,506)	(13,469)	(1,122)	–	(67,097)
Exchange adjustments	2,580	2,442	196	145	–	5,363
At 31 December 2022	**4,639,272**	**6,809,149**	**487,437**	**20,595**	**2,244,922**	**14,201,375**
Additions	**37,584**	**179,104**	**84,289**	**7,057**	**1,555,246**	**1,863,280**
Transfers	**712,330**	**1,677,655**	**163,676**	**202**	**(2,553,863)**	**–**
Disposals	**(1,320)**	**(195,763)**	**(36,660)**	**(3,393)**	**–**	**(237,136)**
Exchange adjustments	**716**	**547**	**15**	**23**	**–**	**1,301**
At 31 December 2023	**5,388,582**	**8,470,692**	**698,757**	**24,484**	**1,246,305**	**15,828,820**
DEPRECIATION						
At 1 January 2022	1,066,629	2,576,280	206,148	13,639	–	3,862,696
Provided for the year	213,714	528,232	55,160	5,486	–	802,592
Transfer to investment property	(4,352)	–	–	–	–	(4,352)
Disposals	–	(31,992)	(9,912)	(999)	–	(42,903)
Exchange adjustments	260	773	125	124	–	1,282
At 31 December 2022	**1,276,251**	**3,073,293**	**251,521**	**18,250**	**–**	**4,619,315**
Provided for the year	**226,740**	**551,243**	**86,769**	**2,500**	**–**	**867,252**
Disposals	**(20)**	**(50,427)**	**(21,986)**	**(2,485)**	**–**	**(74,918)**
Exchange adjustments	**320**	**222**	**13**	**17**	**–**	**572**
At 31 December 2023	**1,503,291**	**3,574,331**	**316,317**	**18,282**	**–**	**5,412,221**
CARRYING VALUES						
At 31 December 2023	3,885,291	4,896,361	382,440	6,202	1,246,305	10,416,599
At 31 December 2022	3,363,021	3,735,856	235,916	2,345	2,244,922	9,582,060

13. Property, Plant and Equipment *(continued)*

The Group has obtained the formal title for all buildings in the PRC except for buildings with carrying amount of RMB312,645,000 (2022: RMB545,170,000) being in the process of obtaining.

The above items of property, plant and equipment, other than construction in progress, after taking account their residual values, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the lease term or 20 to 25 years
Plant and machinery	5% - 10%
Furniture, fixtures and equipment	20% - 33.33%
Motor vehicles	20%

14. Right-of-use Assets

	Land and buildings *RMB'000*
CARRYING AMOUNT	
As at 1 January 2022	1,034,549
Additions	443,792
Acquisition of subsidiaries	64,026
Depreciation provided for the year	(152,869)
Exchange adjustments	5,361
As at 31 December 2022	**1,394,859**
Additions	**247**
Disposals	**(6,430)**
Depreciation provided for the year	**(164,077)**
Exchange adjustments	**1,694**
As at 31 December 2023	**1,226,293**

	2023 ***RMB'000***	2022 *RMB'000*
Total cash outflows for leases	**152,225**	156,627

14. Right-of-use Assets *(continued)*

The Group has entered into contracts to lease certain land and buildings for its operations for a fixed term of one year to twenty 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.

In addition, lease liabilities of RMB256,685,000 (2022: RMB400,110,000) are recognised with related right-of-use assets of RMB243,520,000 as at 31 December 2023 (2022: RMB388,309,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15. Investment Property

	RMB'000
COST	
At 1 January 2022	37,125
Transfer from property, plant and equipment	35,528
At 31 December 2022 and 2023	**72,653**
DEPRECIATION	
At 1 January 2022	3,438
Provided for the year	2,126
Transfer from property, plant and equipment	4,352
At 31 December 2022	**9,916**
Provided for the year	**3,305**
At 31 December 2023	**13,221**
CARRYING VALUES	
At 31 December 2023	**59,432**
At 31 December 2022	62,737

The investment property is depreciated on a straight-line basis over the shorter of lease terms of the leasehold land or 5% per annum.

The fair value of the investment property at 31 December 2023 was approximately RMB110,986,000 (2022: RMB117,460,000). The fair value was determined by the Directors with reference to recent market evidence of transaction prices for similar properties in similar locations and conditions. In estimating the fair value at level 3 hierarchy of the property, the highest and best use of the property is its current use.

16. Goodwill

	RMB'000
COST	
At 1 January 2022	**149,983**
Acquisition of subsidiaries *(note 36)*	**84,921**
At 31 December 2022 and 2023	**234,904**

For the purpose of impairment testing, goodwill has been allocated to four individual CGUs as at 31 December 2023 (2022: four). The carrying amount of goodwill allocated to these units is as follows:

	2023 *RMB'000*	2022 *RMB'000*
Ouyi Group *(note a)*	**82,172**	82,172
Yong Shun Group *(note b)*	**48,212**	48,212
Zhifan Group *(note c)*	**71,608**	71,608
Others *(note a)*	**32,912**	32,912
	234,904	234,904

Notes:

(a) The recoverable amounts of Ouyi (as defined in note 44) and its subsidiaries (collectively referred to as "Ouyi Group"), and others have been determined based on value-in-use calculations with certain key assumptions. The calculations use cash flow projections based on financial forecasts approved by management and pre-tax discount rates of 14% to 15% (2022: 12% to 15%). Cash flows beyond the forecasted period are extrapolated using a steady 2% growth rate (2022: 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. Other key assumptions include forecast sales based on past performance and management's expectation of the market development.

(b) The recoverable amount of Yong Shun Technology Development Limited ("Yong Shun") and its subsidiaries (collectively referred to as "Yong Shun Group") has been determined based on value-in-use calculation with certain key assumptions. The calculation uses cash flow projection based on financial forecast approved by management and pre-tax discount rate of 19% (2022: 21%). Cash flows beyond the forecasted period are extrapolated using a steady 2% growth rate (2022: 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. Other key assumptions include forecast sales based on management's expectations of the market development. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amount to exceed the recoverable amount.

(c) The recoverable amount of Zhifan Group (as defined in note 36) has been determined based on value-in-use calculation with certain key assumptions. The calculation uses cash flow projection based on financial forecast approved by management and pre-tax discount rate of 18% (2022: 22%). Cash flows beyond the forecasted period are extrapolated using a steady 2% growth rate (2022: 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. Other key assumptions include forecast sales based on management's expectations of the market development.

The Directors considered that there was no impairment of any of its CGUs containing goodwill for the years ended 31 December 2022 and 2023.

17. Intangible Assets

	Development costs	Research and development projects	Product licences and patents	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
COST				
At 1 January 2022	157,895	281,114	288,345	727,354
Additions	28,610	—	610,216	638,826
Acquisition of subsidiaries	3	962,574	—	962,577
Written-off	—	—	(2,018)	(2,018)
Exchange adjustments	20	—	2,756	2,776
At 31 December 2022	**186,528**	**1,243,688**	**899,299**	**2,329,515**
Additions	**18,078**	**—**	**397,354**	**415,432**
Exchange adjustments	**10**	**—**	**532**	**542**
At 31 December 2023	**204,616**	**1,243,688**	**1,297,185**	**2,745,489**
AMORTISATION AND IMPAIRMENT				
At 1 January 2022	115,912	—	143,588	259,500
Provided for the year	19,135	24,316	46,901	90,352
Impairment loss recognised	15,657	—	56,448	72,105
Written-off	—	—	(2,018)	(2,018)
Exchange adjustments	10	—	1,454	1,464
At 31 December 2022	**150,714**	**24,316**	**246,373**	**421,403**
Provided for the year	**1,367**	**33,572**	**47,917**	**82,856**
Impairment loss recognised	**—**	**—**	**42,315**	**42,315**
Exchange adjustments	**1**	**—**	**365**	**366**
At 31 December 2023	**152,082**	**57,888**	**336,970**	**546,940**
CARRYING VALUES				
At 31 December 2023	**52,534**	**1,185,800**	**960,215**	**2,198,549**
At 31 December 2022	35,814	1,219,372	652,926	1,908,112

17. Intangible Assets *(continued)*

Notes:

Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology while the research and development projects are acquired through business combination. The product licences and patents represent consideration paid by the Group for obtaining product licences and patents of drugs or drug candidates.

During the year ended 31 December 2023, the management of the Group concluded there was indication of negative changes in the market conditions of an intangible asset with finite useful live and recognised an impairment loss of RMB42,315,000 (2022: RMB72,105,000) after conducting an impairment test. The recoverable amount of this intangible asset of RMB33,713,000 (2022: RMB85,928,000) has been determined based on value-in-use calculations. The calculations use cash flow projections based on financial forecast approved by management covering useful lives and pre-tax discount rate of 18% (2022: 18%).

The management determined that there is no impairment on the development costs, and research and development projects not yet available for use and believes that any reasonably possible change in any of the key assumptions would not cause the recoverable amounts to be lower than their carrying amounts.

Except for certain intangible assets not yet available for use, the above intangible assets having finite useful lives are amortised on a straight-line basis over their estimated useful lives:

Development costs	1 to 10 years
Research and development projects	3 to 15 years
Product licences and patents	3 to 10 years

18. Interests in Associates

	2023	2022
	RMB'000	*RMB'000*
Cost of investments in associates	**842,675**	733,675
Share of post-acquisition reserves	**(56,590)**	(48,385)
	786,085	685,290

The associates are accounted for using equity method in the consolidated financial statements. The interests in associates included listed investments with a fair value of approximately RMB436,224,000 (2022: nil), which was determined based on the quoted market bid price multiplied by the quantity of shares held by the Group. As at 31 December 2022 and 2023, there is no individual associate material to the Group.

18. Interests in Associates *(continued)*

Aggregate information of associates that are not individually material:

	2023	2022
	RMB'000	*RMB'000*
The Group's share of losses and total comprehensive expense	**41,065**	42,509

19. Interests in Joint Ventures

	2023	2022
	RMB'000	*RMB'000*
Cost of investments in joint ventures	**626,611**	620,611
Share of post-acquisition reserves	**55,740**	88,871
	682,351	709,482

The joint ventures are accounted for using equity method in the consolidated financial statements. As at 31 December 2022 and 2023, there is no individual joint venture material to the Group.

Aggregate information of joint ventures that are not individually material:

	2023	2022
	RMB'000	*RMB'000*
The Group's share of (losses)/profits and total comprehensive (expense)/income	**(13,131)**	27,114
Unrecognised share of losses of the joint ventures for the year	**(2,843)**	(23,752)
Cumulative unrecognised share of losses of the joint ventures	**(54,722)**	(51,879)

20. Other Financial Assets

	2023	2022
	RMB'000	*RMB'000*
Unlisted investments in partnerships and funds	**1,593,287**	1,767,743
Listed equity securities	**88,236**	100,457
Unlisted equity securities	**705,636**	257,374
	2,387,159	2,125,574
Analysed as:		
Financial assets measured at FVTPL	**1,661,791**	1,843,961
Financial assets measured at FVTOCI *(Note)*	**725,368**	281,613
	2,387,159	2,125,574

Note: The above investments are mainly focused on the healthcare industry. The Directors have elected to designate these investments to be measured at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Directors consider that the Group does not have any control nor significant influence to affect the variable returns through its investment in those enterprises.

In the current year, the Group received RMB54,277,000 (2022: RMB73,177,000) upon distribution by the partnerships and funds, which was also the fair value as at the date of distribution.

21. Inventories

	2023	2022
	RMB'000	*RMB'000*
Raw materials	**922,634**	810,800
Work in progress	**251,966**	284,283
Finished goods	**1,964,064**	1,459,778
	3,138,664	2,554,861

The inventories are net of a provision of RMB4,295,000 as at 31 December 2023 (2022: RMB4,352,000).

22. Trade Receivables

	2023 RMB'000	2022 RMB'000
Trade receivables	**5,911,360**	3,961,692
Less: allowance for ECL	**(42,137)**	(23,725)
	5,869,223	3,937,967

As at 1 January 2022, trade receivables (net of allowance under ECL model) from contracts with customers amounted to RMB3,309,148,000.

The Group allows a general credit period of 90 days to its trade customers. The following is an ageing analysis of trade receivables (net of allowance under ECL model) at the end of the reporting period presented based on the invoice dates which approximated the respective revenue recognition dates:

	2023 RMB'000	2022 RMB'000
0 to 90 days	**5,272,089**	3,664,707
91 to 180 days	**564,976**	261,185
181 to 365 days	**29,364**	9,562
More than 365 days	**2,794**	2,513
	5,869,223	3,937,967

Trade receivables with aggregate carrying amount of RMB597,134,000 (2022: RMB273,260,000) are past due as at the reporting date. Out of the past due balances, RMB32,158,000 (2022: RMB12,075,000) has been past due 90 days or more and is not considered as in default because there has not been significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Details of impairment assessment of trade receivables are set out in note 40.

23. Deposits, Prepayments and Other Receivables

	2023	2022
	RMB'000	*RMB'000*
Prepayments for raw materials and research and development expenses	**175,305**	207,224
Prepayment for acquisition of intangible assets	**–**	150,000
Deposits paid for acquisition of property, plant and equipment and right-of-use assets	**619,077**	646,570
Other taxes recoverable	**210,162**	189,037
Others	**287,188**	296,963
	1,291,732	1,489,794
Analysed as:		
Current	**672,655**	693,224
Non-current	**619,077**	796,570
	1,291,732	1,489,794

24. Bills Receivables

The bills receivables of the Group are with a maturity period of less than 365 days (2022: less than 365 days) and not yet due at the end of the reporting period. The management considers the default risk is low based on historical information, experience and forward-looking information that is available without undue cost of effort.

As at 31 December 2023, the amount included RMB2,211,169,000 (2022: RMB1,561,531,000) of bills receivables measured at FVTOCI.

As at 31 December 2023, bills receivables of the Group of RMB441,266,000 (2022: RMB145,644,000) were discounted to banks on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the cash received of RMB441,266,000 (2022: RMB145,644,000) from the discount of bills receivables as borrowings as disclosed in note 30.

As at 31 December 2023, bills receivables of the Group of RMB413,321,000 (2022: RMB370,707,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the trade payable of RMB413,321,000 (2022: RMB370,707,000) as included in note 27.

25. Structured Bank Deposits

The structured bank deposits carry guaranteed return up to 1.75% (2022: 1.00%) per annum and have a total expected return up to 3.00% (2022: 3.50%) per annum, depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

The structured bank deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives.

26. Bank Deposits, Balances and Cash

	2023	2022
	RMB'000	*RMB'000*
Time deposits	**2,240,000**	2,420,000
Pledged and restricted bank balances	**24,378**	77,155
Bank balances and cash	**10,490,845**	8,000,852
	12,755,223	10,498,007
Analysed as:		
Current	**12,015,223**	10,298,007
Non-current	**740,000**	200,000
	12,755,223	10,498,007

The bank deposits and balances carry interest at market rates ranging from 2.70% to 5.60% (2022: 2.85% to 4.13%) per annum.

The pledged and restricted bank balances represent amounts required to be placed in banks for securing short-term banking facilities of the Group, and are classified as current assets.

27. Trade Payables

The following is an ageing analysis of trade payables at the end of the reporting period presented based on the invoice dates:

	2023	2022
	RMB'000	*RMB'000*
0 to 90 days	**1,994,671**	1,333,746
91 to 180 days	**203,696**	51,978
More than 180 days	**227,748**	122,262
	2,426,115	1,507,986

The general credit period on purchases of goods is up to 90 days (2022: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

28. Other Payables

	2023	2022
	RMB'000	*RMB'000*
Other tax payable	**181,502**	181,238
Payables arising from construction and acquisition of property, plant and equipment	**1,027,366**	818,967
Deferred government grants *(note 34)*	**509,226**	411,959
Salaries, wages and staff welfare payable	**660,299**	546,927
Selling expense payable	**3,293,158**	3,049,003
Research and development expense payable	**264,913**	126,516
Others	**441,533**	491,823
	6,377,997	5,626,433
Analysed as:		
Current	**5,978,313**	5,355,516
Non-current	**399,684**	270,917
	6,377,997	5,626,433

29. Bills Payables

The bills payables of the Group are aged within 365 days (2022: 365 days) and not yet due at the end of the reporting period.

30. Bank Borrowings

	2023	2022
	RMB'000	*RMB'000*
Discount of bills receivables *(note a)*	**441,266**	145,644
Variable-rate unsecured RMB bank loans *(note b)*	**8,950**	36,790
	450,216	182,434

	2023	2022
	RMB'000	*RMB'000*
The carrying amounts of the above borrowings are repayable as follows:		
Within one year, classified as current liabilities	**450,216**	153,484
Within a period of more than one year, but not exceeding two years, classified as non-current liabilities	**–**	28,950
	450,216	182,434

Notes:

(a) The amount represents borrowings secured by the bill receivables discounted to banks with recourse and the amount is repayable within one year.

During the year ended 31 December 2023, the Group discounted bills receivables with recourse of RMB530,945,000 (2022: RMB368,726,000), net of interest, among which RMB245,228,000 (2022: RMB226,435,000) matured before year ended.

(b) The bank loans carry interest rates of 5.3% (2022: 3.7% to 5.5%) per annum.

As of 31 December 2023, a bank loan of RMB8,950,000 (2022: RMB9,000,000) was secured by certain properties with a net carrying amount of RMB71,000,000 (2022: RMB64,000,000), and bank deposits of RMB17,000,000 (2022: RMB30,000,000) have been pledged to banks for the guarantee of bills payables.

31. Contract Liabilities

Contract liabilities represent deposits received by the Group in advance of delivery of products.

As at 1 January 2022, contract liabilities amounted to RMB428,404,000. Revenue recognised in the current year relating to brought-forward contract liabilities amounted to RMB799,458,000 (2022: RMB428,404,000).

32. Lease Liabilities

	2023	2022
	RMB'000	*RMB'000*
The lease liabilities are payable as follows:		
Within one year	**149,627**	142,071
Within a period of more than one year but not more than two years	**57,879**	146,455
Within a period of more than two years but not more than five years	**44,970**	94,132
Within a period of more than five years	**4,209**	17,452
	256,685	400,110
Less: Amount due for settlement within one year shown under current liabilities	**(149,627)**	(142,071)
Amount due for settlement after one year shown under non-current liabilities	**107,058**	258,039

The weighted average incremental borrowing rate applied to lease liabilities was 4.35% (2022: 4.35%) per annum.

33. 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	**186,776**	113,026
Deferred tax liabilities	**(574,843)**	(611,993)
	(388,067)	(498,967)

33. Deferred Taxation *(continued)*

The following are the major deferred tax assets/(liabilities) recognised and their movements:

	Inventories	Property, plant and equipment	Right-of-use assets	Lease liabilities	Other intangible assets	Withholding tax on undistributed profits	Fair value change on financial assets	Research and development expenses	Unutilised tax losses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022	42,488	(21,454)	(27,779)	23,511	(46,415)	(257,624)	(51,211)	–	–	–	(338,484)
(Charge)/credit to profit or loss	(21,030)	(38,090)	(79,425)	75,154	5,979	(49,944)	1,673	57,783	–	33,149	(14,751)
Charge to other comprehensive income	–	–	–	–	–	–	(2,323)	–	–	–	(2,323)
Acquisition of subsidiaries	–	124	(4,104)	–	(126,158)	–	–	–	–	(13,907)	(144,045)
Exchange adjustments	636	–	(1,362)	1,362	–	–	–	–	–	–	636
At 31 December 2022	**22,094**	**(59,420)**	**(112,670)**	**100,027**	**(166,594)**	**(307,568)**	**(51,861)**	**57,783**	**–**	**19,242**	**(498,967)**
(Charge)/credit to profit or loss	**(580)**	**14,237**	**36,827**	**(36,302)**	**21,432**	**1,478**	**18,394**	**(7,075)**	**67,720**	**(5,819)**	**110,312**
Charge to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**242**	**–**	**–**	**–**	**242**
Exchange adjustments	**340**	**–**	**(446)**	**446**	**–**	**–**	**–**	**–**	**–**	**6**	**346**
At 31 December 2023	**21,854**	**(45,183)**	**(76,289)**	**64,171**	**(145,162)**	**(306,090)**	**(33,225)**	**50,708**	**67,720**	**13,429**	**(388,067)**

At the end of the reporting period, the Group had unused tax losses of approximately RMB5,503,189,000 (2022: RMB3,650,171,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB451,467,000 (2022: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB5,051,722,000 (2022: RMB3,650,171,000) due to the unpredictability of future profit streams.

The unrecognised unused tax losses for the PRC subsidiaries of RMB3,922,646,000 (2022: RMB2,210,578,000) will be expired in one to ten years for offsetting against future taxable profits. Tax losses of RMB21,805,000 (2022: nil) have been forfeited during the year.

At the end of reporting period, the subsidiaries in the US had net operating loss of RMB1,129,076,000 (2022: RMB1,040,948,000) carried forward for federal income tax purposes which is available for offsetting against future taxable profits. As at 31 December 2023 and 2022, all tax losses may carry forward indefinitely under the Act but subject to certain limitations.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by 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 profits of the PRC subsidiaries amounting to RMB25,308,000,000 (2022: RMB18,583,000,000) 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.

There was no other significant deferred taxation for the year or at the end of the reporting period.

34. Deferred Government Grants

	2023	2022
	RMB'000	*RMB'000*
Current:		
— Other subsidies *(note a)*	**168,698**	141,042
Non-current:		
— Acquisition of property, plant and equipment *(note b)*	**340,528**	270,917
Total (included in other payables in note 28)	**509,226**	411,959

Notes:

(a) Other subsidies are generally provided for the development of pharmaceutical products or improvement of production efficiency. Such amounts are included in other payables until the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of RMB170,524,000 (2022: RMB173,921,000).

(b) Represents subsidies received for the acquisition of plant and machinery and will be transferred to profit or loss over the useful lives of the related assets upon the conditions attaching to the grants have been fulfilled. During the year, the Group recognised income of RMB45,178,000 (2022: RMB21,084,000).

35. Share Capital

	Number of shares	**Share capital**
		RMB'000
Issued and fully paid		
At 1 January 2022	**11,949,979,732**	10,899,412
Shares repurchased and cancelled	**(16,760,000)**	—
At 31 December 2022	**11,933,219,732**	**10,899,412**
Shares repurchased and cancelled	**(30,000,000)**	**—**
At 31 December 2023	**11,903,219,732**	**10,899,412**

The Company repurchased its own ordinary shares through the Stock Exchange as follows:

Date	**Number of shares repurchased**	**Highest purchase price per share**	**Lowest purchase price per share**	**Aggregation consideration (before expense)**	
		HK$	*HK$*	*HK$'000*	*RMB'000* (equivalent)
January 2022	2,054,000	8.49	8.44	17,409	14,165
March 2023	24,560,000	7.80	7.41	187,202	163,877
April 2023	5,440,000	7.75	7.61	41,673	36,481

The repurchased shares were cancelled in January 2022 and April 2023.

36. Acquisition of Subsidiaries

(a) Acquisition of Zhifan Group

In January 2022, the Group entered into an agreement with an independent third party to acquire 100% interest in Zhuhai Zhifan Enterprise Management Consultancy Centre (Limited Partnership) ("Zhuhai Zhifan", together with its subsidiary, "Zhifan Group") for a cash consideration of RMB302,904,000. Zhuhai Zhifan is principally engaged in the holding of 51% equity interest in Guangzhou Recomgen Biotech Co., Ltd. (now renamed as CSPC Recomgen Pharmaceutical (Guangzhou) Co., Ltd.) ("Recomgen"), which is principally engaged in biopharmaceutical business. The acquisition has been accounted for using acquisition method of accounting.

Fair value of identifiable net assets

The fair value of the identifiable assets and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	82,223
Right-of-use assets	34,000
Intangible assets	962,574
Deposits	4,992
Inventories	30,572
Trade receivables	5,000
Deposits, prepayments and other receivables	24,925
Bank balances	1,186
Trade payables	(8,182)
Other payables	(255,642)
Contract liabilities	(40)
Bank borrowings	(46,790)
Deferred tax liabilities	(130,138)
Total identifiable net assets at fair value	704,680

The fair value and classification of assets and liabilities were valued by an independent qualified professional valuer not connected to the Group.

Non-controlling interests

The non-controlling interests in Recomgen recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Recomgen and amounted to RMB473,384,000.

36. Acquisition of Subsidiaries *(continued)*

(a) Acquisition of Zhifan Group *(continued)*

Goodwill arising on acquisition

	RMB'000
Consideration transferred	302,904
Plus: non-controlling interests	473,384
Less: recognised amounts of net assets acquired	(704,680)
Goodwill arising on acquisition	71,608

Goodwill arose on the acquisition because the acquisition included the assembled workforce for research and development of thrombolytic drug and the associated intellectual property owned by Recomgen. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflows arising on acquisition of Zhifan Group

	RMB'000
Consideration paid in cash	302,904
Less: bank balances and cash acquired	(1,186)
	301,718

Impact of acquisition on the results of the Group

Since the acquisition, Zhifan Group has contributed RMB101,429,000 to the revenue of the Group and a loss of RMB28,864,000 to the Group for the year ended 31 December 2022.

Had the acquisition been completed on 1 January 2022, total amount of the Group's revenue and profit for the year ended 31 December 2022 would not be significantly different from those reported in the consolidated income statement.

36. Acquisition of Subsidiaries *(continued)*

(b) Acquisition of Bioworkshops Group

In July 2022, the Group entered into several agreement for the acquisition of 100% interest in Bioworkshops Limited ("Bioworkshops", together with its subsidiary, "Bioworkshops Group") for a total consideration of RMB315,573,000. Bioworkshops is principally engaged in investment holding and is in the holding of 100% and 60.67% equity interest in a subsidiary and joint venture, respectively.

The acquisition has been accounted for using the acquisition of accounting.

Fair value of identifiable net assets

The fair value of the identifiable assets and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Interest in joint venture	279,313
Amounts due from related companies	33,332
Bank balances	3,558
Other payables	(36)
Deferred tax liabilities	(13,907)
Total identifiable net assets at fair value	302,260

Goodwill arising on acquisition

	RMB'000
Consideration transferred	315,573
Less: recognised amounts of net assets acquired	(302,260)
Goodwill arising on acquisition	13,313

Net cash outflows arising on acquisition of Bioworkshops Group

	RMB'000
Consideration payable	315,573
Less: amounts due from joint ventures and related companies	(302,473)
Less: bank balances and cash acquired	(3,558)
	9,542

Consideration payable for the acquisition of Bioworkshops Group was settled through offsetting of amounts due from a joint venture of RMB269,141,000 and amounts due from related companies of RMB33,332,000, respectively.

36. Acquisition of Subsidiaries *(continued)*

(b) Acquisition of Bioworkshops Group *(continued)*

Impact of acquisition on the results of the Group

Since the acquisition, Bioworkshops Group has resulted in a loss of RMB20,872,000 to the profit of the Group for the year ended 31 December 2022.

Had the acquisition been completed on 1 January 2022, total amount of the Group's revenue and profit for the year ended 31 December 2022 would not be significantly different from those reported in the consolidated income statement.

(c) Asset acquisition through acquisition of Pengrun

In November 2022, the Group acquired 100% equity interest in Shijiazhuang Pengrun Biotechnology Limited ("Pengrun") for a cash consideration of RMB30,647,000. Pengrun is principally engaged in investment holding.

Fair value of identifiable net assets

The fair value of the identifiable assets and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	1,055
Right-of-use assets	30,026
Intangible assets	3
Deposits, prepayments and other receivables	26
Other payables	(463)
Total identifiable net assets at fair value	30,647

37. Long Term Incentive Programs

(a) Share option scheme

The share option scheme of the Company (the "Share Option Scheme") is for the purpose of providing the Company with a flexible means of giving incentive to eligible participants. Participants include any director, employee, business consultant, professional and other adviser of the Group. The Share Option Scheme was adopted on 9 December 2015 and will expire on 8 December 2025.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme shall not in aggregate exceed 10% (i.e. 591,101,840 shares) of the shares of the Company in issue at adoption the date of the Share Option Scheme. The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the share options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Share options granted have to be taken up within an acceptable period from the date of offer to such date as the Board may determine and specify in the letter of offer upon payment of HK$1. The subscription price for option granted is determined by the Board and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date which must be a business day; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Share options granted are exercisable for a period to be notified by the Board to each grantee and such period shall expire not later than 10 years from the date of grant.

During the year, a total of 50,000,000 (2022: nil) share options were granted under the Share Option Scheme.

As at 31 December 2023, the number of share options available for being further granted was 541,101,840 (1 January 2023: 591,101,840).

The following table discloses movements of share options during the year:

				Number of share options			
Grantees	Date of grant	Exercise price	Exercise period	As at 1 Jan 2023	Granted during the year	Cancelled/ lapsed during the year	As at 31 Dec 2023
Directors	4 Sep 2023	HK$5.98	4 Sep 2023 to 3 Sep 2033	–	50,000,000	–	50,000,000

Notes:

(a) Subject to the accomplishment of certain conditions in relation to the financial results of the Group, 50% of the share options will be vested on 1 April 2024 and the remaining 50% will be vested on 1 April 2025.

(b) The closing price of the shares of the Company immediately, before the date of grant was HK$5.90.

(c) The estimated fair value of the share options granted on the date of grant is RMB50,048,000.

37. Long Term Incentive Programs *(continued)*

(a) Share option scheme *(continued)*

The fair value of the share options granted was determined by using the Binomial model. The inputs into the model were as follows:

Share price on the grant date	HK$5.98
Exercise price	HK$5.98
Expected volatility	39.78%
Expected life	10 years
Risk-free rate	3.89%
Expected dividend yield	4.18%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 years. The expected life used in the model has been adjusted, based on the valuer's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The variables and assumptions used in computing the fair value of the share options are based on the valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions.

During the year ended 31 December 2023, the Group recognised share-based compensation expense of RMB22,670,000 (2022: nil) in relation to share options granted by the Company.

(b) Share award scheme

The share award scheme of the Company (the "Share Award Scheme") is for the purpose of providing the selected participants with an opportunity to acquire a proprietary interest in the Company; encouraging and retaining such individuals to work with the Company; and providing additional incentives to them to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the selected participants directly to the shareholders through ownership of shares of the Company. Participants include any director, employee, officer, agent or consultant of the Group. The Share Award Scheme was adopted on 20 August 2018 and will expire on 19 August 2028.

The maximum number of shares which may be purchased from the market or issued under the Share Award Scheme shall not in aggregate exceed 2% (i.e. 124,860,368 shares) of the shares of the Company in issue as at the adoption date of the Share Award Scheme. The maximum number of shares which may be awarded to a selected participant at any one time or in aggregate under the Share Award Scheme must not exceed 0.5% (i.e. 31,215,092 shares) of the shares of the Company in issue as at the adoption date of the Share Award Scheme.

37. Long Term Incentive Programs *(continued)*

(b) Share award scheme *(continued)*

The awarded shares held by the trustee of the Share Award Scheme shall be vested in the selected participants in accordance with the vesting conditions or vesting schedules as set out in the grant notice. Awarded shares which do not vest will be forfeited and may be re-granted to other participants selected by the Board.

During the year, a total of 3,000,000 (2022: nil) share awards were granted under the Share Award Scheme.

As at 31 December 2023, the number of share awards available for being further granted was 117,312,368 (1 January 2023: 120,304,368).

As at 31 December 2023, there were 51,460,000 shares of the Company held by the trustee of the Share Award Scheme (2022: 15,960,000 shares).

Details of movement of awarded shares during the year are as follows:

			Number of awarded shares				
Grantees	**Date of grant**	**Vesting period**	**As at 1 Jan 2023**	**Granted during the year**	**Vested during the year**	**Cancelled/ lapsed during the year**	**As at 31 Dec 2023**
Employees	**15 Jan 2019**	**15 Jan 2019 to 14 Jan 2023**	**329,000**	**–**	**(325,000)**	**(4,000)**	**–**
	15 Jan 2019	**15 Jan 2019 to 14 Jan 2024**	**329,000**	**–**	**–**	**–**	**329,000**
	16 Dec 2021	**16 Dec 2021 to 14 Jan 2023**	**329,000**	**–**	**(325,000)**	**(4,000)**	**–**
	16 Dec 2021	**16 Dec 2021 to 14 Jan 2024**	**329,000**	**–**	**–**	**–**	**329,000**
	30 May 2023	**30 May 2023 to 9 July 2023**	**–**	**3,000,000**	**(3,000,000)**	**–**	**–**
Total			**1,316,000**	**3,000,000**	**(3,650,000)**	**(8,000)**	**658,000**

Details of movement of awarded shares during the prior year are as follows:

			Number of awarded shares				
Grantees	Date of grant	Vesting period	As at 1 Jan 2022	Granted during the year	Vested during the year	Cancelled/ lapsed during the year	As at 31 Dec 2022
Employees	15 Jan 2019	15 Jan 2019 to 14 Jan 2023	815,000	–	(435,000)	(51,000)	329,000
	15 Jan 2019	15 Jan 2019 to 14 Jan 2023	815,000	–	(435,000)	(51,000)	329,000
	16 Dec 2021	16 Dec 2021 to 14 Jan 2023	815,000	–	(435,000)	(51,000)	329,000
	16 Dec 2021	16 Dec 2021 to 14 Jan 2024	815,000	–	(435,000)	(51,000)	329,000
Total			3,260,000	–	(1,740,000)	(204,000)	1,316,000

37. Long Term Incentive Programs *(continued)*

(b) Share award scheme *(continued)*

Notes:

a. The weighted average closing price of the Company's share immediately before the date on which the awarded shares were vested was HK$6.98 (2022: HK$9.6) per share.

b. The shares were awarded and vested for no consideration.

c. The estimated fair value of the share awards granted on the date of grant was RMB17,554,000.

The fair value of the share awards granted was determined by reference to the market value of the Company's share on the date of grant. During the year ended 31 December 2023, the Group recognised share-based compensation expense of RMB19,360,000 (2022: RMB6,904,000) in relation to share awards granted by the Company.

(c) Share awards granted by a shareholder

Key Honesty Limited ("Key Honesty"), a shareholder of the Company indirectly and wholly owned by Mr. Cai Dongchen, Chairman of the Company, has granted 218,250,000 and 8,900,000 share awards involving the existing shares of the Company held by Key Honesty to selected employees of the Group on 1 April 2022 and 14 September 2022, respectively. The awarded shares will be vested and transferred in batches from the third to fifth year after the grant at a transfer price of HK$2.95 per share subject to the fulfilment of certain conditions. During the year 31 December 2023, the Group recognised share-based compensation expense of RMB193,952,000 (2022: RMB149,780,000) in relation to the share awards granted by Key Honesty.

Details of movement of share awards during the year are as follows:

			Number of awarded shares				
Grantees	Date of grant	Vesting period	As at 1 Jan 2023	Granted during the year	Vested during the year	Cancelled/ lapsed during the year	As at 31 Dec 2023
Employees	1 April 2022	1 April 2022 to 1 April 2025	60,045,000	–	–	(2,460,000)	57,585,000
	1 April 2022	1 April 2022 to 1 April 2026	60,045,000	–	–	(2,460,000)	57,585,000
	1 April 2022	1 April 2022 to 1 April 2027	80,060,000	–	–	(3,280,000)	76,780,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2025	1,770,000	–	–	–	1,770,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2026	1,770,000	–	–	–	1,770,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2027	2,360,000	–	–	–	2,360,000
Total			206,050,000	–	–	(8,200,000)	197,850,000

37. Long Term Incentive Programs *(continued)*

(c) Share awards granted by a shareholder *(continued)*

Details of movement of shares awards granted by a shareholder during the prior year are as follows:

			Number of awarded shares				
Grantees	Date of grant	Vesting period	As at 1 Jan 2022	Granted during the year	Vested during the year	Cancelled/ lapsed during the year	As at 31 Dec 2022
Employees	1 April 2022	1 April 2022 to 1 April 2025	–	65,475,000	–	(5,430,000)	60,045,000
	1 April 2022	1 April 2022 to 1 April 2026	–	65,475,000	–	(5,430,000)	60,045,000
	1 April 2022	1 April 2022 to 1 April 2027	–	87,300,000	–	(7,240,000)	80,060,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2025	–	2,670,000	–	(900,000)	1,770,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2026	–	2,670,000	–	(900,000)	1,770,000
	14 Sep 2022	14 Sep 2022 to 14 Sep 2027	–	3,560,000	–	(1,200,000)	2,360,000
Total			–	227,150,000	–	(21,100,000)	206,050,000

For the year ended 31 December 2023, options and awards to subscribe for a total of 53,000,000 shares of the Company were granted under the Share Option Scheme and Share Award Scheme, representing approximately 0.45% of the weighted average number of issued shares of the Company.

38. Capital and Other Commitments

At the end of the reporting period, the Group had the following capital and other 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	**1,088,060**	1,685,261
Commitments arising from unlisted equity investments in partnerships	**531,485**	610,856

39. 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 cash, which includes the bank borrowings as disclosed in note 30 and amounts due to related companies and joint ventures in note 42, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the repayment of existing debt.

40. Financial Instruments

40a. Categories of financial instruments

	2023	2022
	RMB'000	*RMB'000*
Financial assets		
FVTPL		
— other financial assets	**1,661,791**	1,843,961
— structured bank deposits	**1,077,054**	3,574,859
FVTOCI		
— other financial assets	**725,368**	281,613
— bills receivables	**2,211,169**	1,561,531
Amortised cost	**20,385,403**	15,772,685
Financial liabilities		
Amortised cost	**8,656,717**	6,969,710

40b. Financial risk management objectives and policies

The major financial instruments of the Group include trade receivables, other receivables, bills receivables, amounts due from related companies and joint ventures, other financial assets, structured bank deposits, bank deposits, pledged and restricted bank deposits, balances and cash, trade payables, other payables, bills payables, amounts due to related companies and joint ventures, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and other price 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 in a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. However, several subsidiaries of the Company have foreign currency sales, mainly denominated in United States Dollars ("US$"), and bank balances and cash denominated in US$ and HK$, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, management will monitor foreign exchange exposure closely and consider the use of hedging instruments should the need arise.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		**Assets**	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HK$	**63,434**	1,339	**183,830**	69,570
US$	**–**	27,598	**909,656**	1,748,721

Sensitivity analysis

The Group is mainly exposed to currency risk of HK$ and US$.

The following table details the Group's sensitivity to a 5% (2022: 5%) increase and decrease in RMB against HK$ and US$. 5% (2022: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in 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 foreign currency rates. The post-tax profit would decrease by the below amounts where RMB strengthens 5% (2022: 5%) against the relevant currency. For a 5% (2022: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the post-tax profit and other equity.

	HK$ Impact (i)		**US$ Impact (ii)**	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Post-tax profit	**(4,816)**	(2,729)	**(36,226)**	(68,845)

(i) This is mainly attributable to the exposure to outstanding HK$ denominated bank balances at the end of the reporting period.

(ii) This is mainly attributable to the exposure to outstanding US$ denominated bank balances and trade receivables at the end of the reporting period.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group also invested in certain unquoted equity securities for long-term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective listed equity instruments had been 5% (2022: 5%) higher/lower:

- Other reserves would increase/decrease by RMB987,000 (2022: RMB1,212,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTOCI.

- Post-tax profit would increase/decrease by RMB3,425,000 (2022: RMB3,811,000) for the Group as a result of the changes in fair value of the listed equity investments measured at FVTPL.

Credit risk and impairment assessment

As at 31 December 2022 and 2023, the maximum exposure to credit risk by the Group which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings.

The Group's concentration of credit risk by geographical locations on trade receivables is mainly in the PRC.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

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 credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed twice a year.

Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach to measure the loss allowance at lifetime ECL. Except for trade receivables with major customers and credit-impaired balances which are assessed individually, the Group determines the ECL on the remaining balances by using a provision matrix grouped by common risk characteristic. As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group rebuts the presumption of default under ECL for trade receivables over 90 days past due based on the strong financial position with good repayment records of those customers and continuous business relationship with the Group.

Trade receivables with major customers and with an aggregate gross carrying amount of RMB3,698,625,000 as at 31 December 2023 (2022: RMB2,060,007,000) are assessed individually. These balances are from counterparties which have low risk of default and usually settle within credit period. The exposure to credit risk for these balances are assessed within lifetime ECL with an average loss rate of approximately 0.44% (2022: 0.30%), impairment allowance of RMB16,215,000 (2022: RMB6,256,000) was provided by the Group as at 31 December 2023.

The remaining trade receivables with gross carrying amount of RMB2,212,735,000 (2022: RMB1,901,685,000) are assessed based on debtors' aging. The following table provides information about the exposure to credit risk for trade receivables which are assessed within lifetime ECL (not credit-impaired) as at 31 December 2022 and 2023.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

Gross carrying amount

	Average loss rate			
	2023	2022	**2023**	2022
			RMB'000	RMB'000
Current (not past due)	**0.06%**	0.05%	**1,976,965**	1,738,343
1 — 270 days past due	**6.1%**	5.1%	**221,852**	152,076
More than 270 days past due	**79.9%**	77.7%	**13,918**	11,266
			2,212,735	1,901,685

The estimated loss rates are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific trade receivable is updated.

As at 31 December 2023, the Group provided RMB25,922,000 (2022: RMB17,469,000) impairment allowance for trade receivables based on the provision matrix other than those major customers. No impairment allowance was made on credit-impaired debtors.

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

	Lifetime ECL (not credit-impaired)
	RMB'000
As at 1 January 2022	49,459
Impairment losses reversed	(25,734)
As at 31 December 2022	**23,725**
Impairment losses recognised	**18,412**
As at 31 December 2023	**42,137**

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Trade receivables arising from contracts with customers (continued)

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 receivable is over two years past due, whichever occurs earlier.

Other receivables

The management believes that there is no significant increase in credit risk of other receivables since initial recognition and the Group provided impairment based on 12m ECL. During the year ended 31 December 2023, no impairment loss on other receivables (2022: nil) was recognied by the Group.

Bills receivables

The credit risk of bills receivables is limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2023, the gross carrying amount of bills receivables measured at amortised cost and FVTOCI are RMB1,474,113,000 and RMB2,211,169,000 respectively (2022: RMB1,041,020,000 and RMB1,561,531,000, respectively), the 12m ECL is considered immaterial for both years.

Amounts due from related companies

In order to minimise the credit risk, the Group will assess the credit quality of related companies. Other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. The Group measures the loss allowance at lifetime ECL. As at 31 December 2023, the gross carrying amounts of receivables due from related companies is RMB157,313,000 (2022: RMB195,643,000).

For the purpose of impairment assessment for trade receivables and other receivables from related companies, the lifetime ECL and 12m ECL are considered to be immaterial after considering counterparties' financial background and creditability.

Amounts due from joint ventures

The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2023, the gross carrying amount of amounts due from joint ventures is RMB129,531,000 (2022: RMB100,048,000). During the year ended 31 December 2023, no impairment loss on amounts due from joint ventures (2022: nil) was recognised by the Group.

For the purpose of impairment assessment for amounts due from joint ventures, exposure to credit risk for those balances are assessed individually with 12m ECL.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment *(continued)*

Bank deposits/bank balances/pledged and restricted bank deposits

The credit risk of bank deposits, bank balances, pledged and restricted bank deposits and structured bank deposits are limited because the counterparties are mainly banks/financial institutions with high credit ratings assigned by independent credit-rating agencies. The Group measures the loss allowance at 12m ECL as there has been no significant increase in credit risk since initial recognition. As at 31 December 2023, the gross carrying amount of bank deposits, bank balances, pledged and restricted bank deposits are RMB2,240,000,000, RMB10,490,845,000 and RMB24,378,000, respectively (2022: RMB2,420,000,000, RMB8,000,852,000 and RMB77,155,000, respectively), the 12m ECL is considered immaterial for both years.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and derivative instrument. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from rate curve at the end of the reporting period.

40. Financial Instruments *(continued)*

40b. Financial risk management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2023

	Weighted average effective interest rate %	Less than 1 month or on demand *RMB'000*	1 - 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 - 3 years *RMB'000*	More than 3 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
Non-derivative financial liabilities								
Trade payables	–	431,444	1,994,671	–	–	–	2,426,115	2,426,115
Other payables	–	5,307,733	–	–	–	–	5,307,733	5,307,733
Bills payables	–	75,175	86,619	253,830	–	–	415,624	415,624
Amounts due to related companies	–	21,436	–	–	–	–	21,436	21,436
Amounts due to joint ventures	–	35,587	–	–	–	–	35,587	35,587
Lease liabilities	4.35	12,635	25,271	113,203	83,239	37,373	271,721	256,685
Bank borrowings	5.26	75,856	217,811	160,339	–	–	454,006	450,216
		5,959,866	2,324,372	527,372	83,239	37,373	8,932,222	8,913,396

As at 31 December 2022

	Weighted average effective interest rate %	Less than 1 month or on demand *RMB'000*	1 - 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 - 3 years *RMB'000*	More than 3 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
Non-derivative financial liabilities								
Trade payables	–	174,240	1,333,746	–	–	–	1,507,986	1,507,986
Other payables	–	4,541,413	–	–	–	–	4,541,413	4,541,413
Bills payables	–	–	336,030	166,049	–	–	502,079	502,079
Amounts due to related companies	–	104,938	–	–	–	–	104,938	104,938
Amounts due to joint ventures	–	130,860	–	–	–	–	130,860	130,860
Lease liabilities	4.35	13,167	26,087	115,764	215,308	58,333	428,659	400,110
Bank borrowings	4.50	–	–	160,396	30,254	–	190,650	182,434
		4,964,618	1,695,863	442,209	245,562	58,333	7,406,585	7,369,820

40. Financial Instruments *(continued)*

40c. Fair value measurement of financial instruments

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)	Significant Unobservable input(s)	Relationship of unobservable inputs to fair value
	31 December 2023 ***RMB'000***	31 December 2022 *RMB'000*				
Equity securities listed in Hong Kong	**88,236**	100,457	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted investments	**2,298,923**	2,025,117	Level 3	Recent transaction prices of underlying investments.	N/A	N/A
				Discount cash flows – in this approach, the discounted cash flow method was used to capture the present value of future expected cash flows to be derived from the underlying assets.	Estimated discount rate	The higher the estimated discount rate, the lower the fair value, vice versa.
					Long-term pre-tax operating margin	The higher the long-term pre-tax operating margin, the higher the fair value, vice versa.
Bills receivables measured at FVTOCI	**2,211,169**	1,561,531	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of issuers	N/A	N/A
Structured bank deposits	**1,077,054**	3,574,859	Level 2	Expected yields of underlying investments in and commodities, bonds and funds invested by bank at a discount rate that reflect the credit risk of the bank	N/A	N/A

There were no transfers between levels in both years.

Unrealised fair value loss of RMB6,003,000 net of tax is included in OCI for the year ended 31 December 2023 (2022: gain of RMB13,013,000) is related to other financial assets measured at FVTOCI held at 31 December 2023 and are reported as changes of "other reserve".

40. FINANCIAL INSTRUMENTS *(continued)*

40c. Fair value measurement of financial instruments *(continued)*

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(continued)*

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The finance department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports to the Directors every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

(ii) Reconciliation of Level 3 Measurements

	Unquoted equity investments *RMB'000*
At 1 January 2022	1,912,620
Total gains	
— in other comprehensive income	18,458
— in profit or loss	64,051
Purchase of unquoted equity investments	103,165
Proceeds from distribution of unquoted equity investments	(73,177)
At 31 December 2022	**2,025,117**
Total losses	
— in other comprehensive income	**(1,737)**
— in profit or loss	**(202,998)**
Purchase of unquoted equity investments	**532,818**
Proceeds from distribution of unquoted equity investments	**(54,277)**
At 31 December 2023	**2,298,923**

(iii) Fair value of financial instruments that are recorded at amortised cost

The Directors consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

41. 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 from financing activities.

	Bank borrowings	**Dividend payable**	**Dividend payable to non-controlling interests**	**Lease liabilities**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 30)	*(note 12)*		*(note 32)*	
At 1 January 2022	—	—	—	94,044	94,044
Financing cash flows	350,639	(2,096,961)	(20,475)	(138,690)	(1,905,487)
Acquisition of a subsidiary	46,790	—	—	—	46,790
Finance costs recognised	11,440	—	—	13,451	24,891
Maturity of bills receivables discounted with recourse	(226,435)	—	—	—	(226,435)
Dividend declared	—	2,096,961	20,475	—	2,117,436
New leases entered	—	—	—	425,855	425,855
Exchange adjustments	—	—	—	5,450	5,450
At 31 December 2022	**182,434**	**—**	**—**	**400,110**	**582,544**
Financing cash flows	**500,749**	**(2,726,253)**	**(26,003)**	**(152,225)**	**(2,403,732)**
Finance costs recognised	**12,261**	**—**	**—**	**13,635**	**25,896**
Maturity of bills receivables discounted with recourse	**(245,228)**	**—**	**—**	**—**	**(245,228)**
Dividend declared	**—**	**2,726,253**	**26,003**	**—**	**2,752,256**
Lease terminated	**—**	**—**	**—**	**(13,519)**	**(13,519)**
New lease entered	**—**	**—**	**—**	**6,901**	**6,901**
Exchange adjustments	**—**	**—**	**—**	**1,783**	**1,783**
At 31 December 2023	**450,216**	**—**	**—**	**256,685**	**706,901**

42. Related Party Disclosures

During the year, the Group had significant transactions and balances with related parties. Other than those disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following significant transactions with related parties and the balances with them at the end of the reporting period are as follows:

(i) Related companies and joint ventures

Relationships	Nature of transactions/balances	2023 RMB'000	2022 RMB'000
Related companies *(note a)*	Sale of pharmaceutical products	**845,539**	734,053
	Payment of lease liabilities	**128,941**	123,065
	Purchase of pharmaceutical products	**21,991**	11,221
	Balance due from/(to) the related companies		
	— trade receivables *(note b)*		
	aged 0 — 90 days	**121,823**	150,715
	aged 91 — 180 days	**27,034**	11,912
	aged 181 — 365 days	**—**	1,503
	aged over 365 days	**1,609**	2,326
		150,466	166,456
	— other receivables *(note c)*	**6,847**	29,187
	— trade payables *(note b)*		
	aged 0 — 90 days	**(18,770)**	(32,723)
	aged 91 — 180 days	**(2)**	(468)
	aged 181 — 365 days	**(273)**	(1,904)
	aged over 365 days	**(16)**	(48,091)
		(19,061)	(83,186)
	— other payables *(note c)*	**(2,375)**	(21,752)
	— lease liabilities	**(160,558)**	(293,665)

42. Related Party Disclosures *(continued)*

(i) Related companies and joint ventures *(continued)*

Relationships	Nature of transactions/balances	2023 RMB'000	2022 RMB'000
Joint ventures	Purchase of raw materials	**183,692**	214,200
	Research and development expenses	**24,231**	22,667
	Balance due from/(to) joint ventures		
	— trade receivables *(note b)*		
	aged 0 — 90 days	**3,038**	81
	aged 91 — 180 days	**3,693**	—
		6,731	81
	— other receivables *(note c)*	**122,800**	99,967
	— trade payables *(note b)*		
	aged 0 — 90 days	**(27,179)**	(99,215)
	aged 91 — 180 days	**(589)**	(13,102)
	aged 181 — 365 days	**(186)**	—
	aged over 365 days	**(79)**	—
		(28,033)	(112,317)
	— other payables *(note c)*	**(7,554)**	(18,543)

(ii) Compensation to key management personnel

The details of the compensation paid to the executive directors of the Company during the year are set out in note 9.

Notes:

a. Mr. Cai Dongchen, executive director and the Chairman of the Company, has significant influence over the Company and exercises control over CSPC Holdings Company Limited ("CHL") through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates (the "CHL Group") are related parties of the Group.

b. The general credit period for trade receivables and payables is 90 days (2022: 90 days).

c. The amounts are unsecured, repayable on demand and non-interest bearing.

43. Employee Retirement Benefit Schemes

The Group has offered a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contributions are made by both the employer and the employee based on a certain percentage of the employees' relevant income. The Group's contributions will be fully and immediately vested in the employees' accounts as their accrued benefits in the scheme. There was no contribution forfeited by the Group during the year.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on a certain percentage of payroll costs stipulated by the local government authorities. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. Upon retirement, the local government authorities are responsible for the payment of the retirement benefits to the retired employees.

The Group established a 401(k) savings trust plan ("401(k) Plan"), a defined contribution plan funded by employers and employees, in the US that qualifies as an Inland Revenue Service ("IRS") deferred salary arrangement under Section 401(k) of the US Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to a maximum amount subject to certain IRS limitations.

During the year, the contributions made by the Group relating to the above arrangements were RMB241,560,000 (2022: RMB254,686,000), of which RMB1,022,000 (2022: RMB860,000) and RMB3,389,000 (2022: RMB3,368,000) were attributable to the Mandatory Provident Fund Scheme in Hong Kong and 401(k) Plan in the US, respectively.

44. Particulars of Subsidiaries

44.1 General information of subsidiaries

The Directors are of the opinion that a complete list of particulars of all subsidiaries will be of excessive length and therefore the following list contains only the particulars of subsidiaries as at 31 December 2022 and 2023 which principally affect the results or assets of the Group.

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activities
				2023		2022		
				Directly	**Indirectly**	Directly	Indirectly	
				%	**%**	%	%	
Dragon Merit Holdings Limited	Hong Kong	Limited liability	RMB639,800,001	**-**	**100**	–	100	Investment holding
CSPC Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	US$106,348,000	**100**	**-**	100	–	Manufacture and sale of vitamin C products
CSPC Zhongnuo Pharmaceutical Co., Ltd.	The PRC	Sino-foreign equity joint venture with limited liability	RMB678,555,900	**88.82**	**10.57**	88.82	10.57	Manufacturing and sale of pharmaceutical products
CSPC Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB39,754,680	**100**	**-**	100	–	Pharmaceutical research and development
CSPC Yinhu Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB150,000,000	**-**	**89.45**	–	89.45	Manufacture and sale of pharmaceutical products
Recomgen	The PRC	Limited liability	RMB203,341,507	**-**	**69**	–	54.83	Manufacture and sale of pharmaceutical product
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB170,000,000	**-**	**74.40**	–	77.95	Manufacture and sales of health supplement products
CSPC NBP Pharmaceutical Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB413,594,300	**54.06**	**45.94**	54.06	45.94	Manufacture and sales of pharmaceutical products
CSPC Ouyi Pharmaceutical Co., Ltd. ("Ouyi")	The PRC	Limited liability	RMB298,000,000	**-**	**100**	–	100	Manufacture and sales of pharmaceutical products

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activities
				2023		2022		
				Directly	**Indirectly**	Directly	Indirectly	
				%	**%**	%	%	
CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC Innovation")	The PRC	Limited liability	RMB1,170,742,154	**-**	**74.40**	–	77.95	Manufacture and sales of caffeine products
CSPC Baike (Shandong) Biopharmaceutical Co., Ltd.	The PRC	Limited liability	RMB734,700,000	**-**	**100**	33.62	66.38	Manufacture and sales of pharmaceutical products
CSPC Shengxue Glucose Co., Ltd.	The PRC	Limited liability	RMB500,000,000	**-**	**100**	–	100	Manufacture and sales of pharmaceutical products
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	**-**	**74.40**	–	77.95	Manufacture and sales of health supplement products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB70,000,000	**-**	**74.40**	–	77.95	Sales of health supplement products
CSPC Neimenggu Zhongnuo Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB66,867,900	**-**	**99.39**	–	99.39	Manufacture and sales of pharmaceutical products
Shijiazhang Ouyihe Medical Trading Co., Ltd.	The PRC	Foreign investment enterprise with limited liability	RMB200,000,000	**100**	**-**	100	–	Sales of pharmaceutical products
Xinshi Biopharmaceutical Limited	The PRC	Limited liability	RMB132,800,000	**-**	**100**	–	100	Pharmaceutical research and development
CSPC Shanghai Co., Ltd.	The PRC	Limited liability	RMB800,000,000	**-**	**100**	–	100	Investment holding

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activities
				2023		2022		
				Directly %	**Indirectly %**	Directly %	Indirectly %	
Shanghai Yishi Pharmaceutical Technology Co., Ltd.	The PRC	Limited liability	RMB10,000,000	**-**	**100**	–	100	Pharmaceutical research and development
Shanghai Runshi Pharmaceutical Technology Co., Ltd.	The PRC	Limited liability	RMB10,000,000	**-**	**89**	–	89	Pharmaceutical research and development
CSPC Megalith Biopharmaceutical Co., Ltd.	The PRC	Limited liability	RMB2,040,816,326	**-**	**100**	–	100	Manufacture and sales of vaccines
Beijing Kangchuanglian Biopharmaceutical Technology Research Co., Ltd.	The PRC	Limited liability	RMB5,000,000	**-**	**100**	–	100	Pharmaceutical research and development
Shanghai JMT-BIO Technology Co., Ltd.	The PRC	Limited liability	RMB70,000,000	**-**	**100**	–	100	Pharmaceutical research and development
Shanghai JMT-BIO Pharmaceutical Co., Ltd.	The PRC	Limited liability	RMB20,000,000	**-**	**100**	–	100	Pharmaceutical research and development
Shanghai Novarock Biopharmaceutical Co., Ltd.	The PRC	Limited liability	US$10,000,000	**-**	**68.73**	–	70	Pharmaceutical research and development
Shanghai Alamab Biopharmaceutical Co., Ltd.	The PRC	Limited liability	US$10,000,000	**-**	**79.69**	–	85	Pharmaceutical research and development

44. Particulars of Subsidiaries *(continued)*

44.1 General information of subsidiaries *(continued)*

Name of subsidiary	Place of incorporation/ registration and operations	Legal form	Paid up issued/ registered capital	Percentage of nominal value of issued share capital/ registered capital and voting power held by the Company				Principal activities
				2023		2022		
				Directly %	**Indirectly %**	Directly %	Indirectly %	
Conjupro Bioerapecitics Inc.	USA	Limited liability	US$1,292,900	**-**	**100**	–	100	Pharmaceutical research and development
CSPC Healthcare Inc.	USA	Limited liability	US$74,400	**-**	**100**	–	100	Sales of pharmaceutical products
CSPC Dophen Corporation	USA	Limited liability	US$10	**-**	**100**	–	100	Pharmaceutical research and development
AlaMab Therapeutics, Inc.	USA	Limited liability	US$533	**-**	**79.69**	–	85	Pharmaceutical research and development
Novarock Biotherapeutics Limited	USA	Limited liability	US$519	**-**	**68.73**	–	70	Pharmaceutical research and development
CSPC Innovation USA Inc.	USA	Limited liability	US$50,000	**-**	**74.4**	–	77.95	Sales of pharmaceutical products
CSPC Dermay Europe GMBH	Germany	Limited liability	EUR50,000	**-**	**100**	–	100	Sales of pharmaceutical products
CSPC Deryang Europe GMBH	Germany	Limited liability	EUR50,000	**-**	**74.4**	–	77.95	Sales of pharmaceutical products

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

44. Particulars of Subsidiaries *(continued)*

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	2023	2022	2023	2022
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CSPC Innovation	The PRC	25.60%	22.05%	177,353	160,342	1,303,394	872,356
Recomgen	The PRC	31.00%	45.17%	41,023	(14,327)	347,980	423,013
Individually immaterial subsidiaries with non-controlling interests				(19,008)	(5,355)	163,430	148,972
				199,368	140,660	1,814,804	1,444,341

Summarised financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

44. Particulars of Subsidiaries *(continued)*

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

CSPC Innovation

	2023	2022
	RMB'000	*RMB'000*
Current assets	**4,219,882**	3,190,593
Non-current assets	**1,412,242**	1,393,443
Current liabilities	**(510,838)**	(582,768)
Non-current liabilities	**(34,123)**	(57,073)
Equity attributable to owners of the Company	**3,781,240**	3,071,839
Non-controlling interests	**1,305,923**	872,356
Revenue	**2,450,350**	2,571,242
Cost of sales	**(1,335,906)**	(1,844,630)
Profit for the year	**755,318**	726,612
Profit and total comprehensive income attributable to owners of the Company	**577,965**	566,270
Profit and total comprehensive income attributable to the non-controlling interests	**177,353**	160,342
Profit and total comprehensive income for the year	**755,318**	726,612
Dividends paid to non-controlling interests of CSPC Innovation	**26,003**	20,475
Net cash inflow from operating activities	**927,241**	640,718
Net cash (outflow)/inflow from investing activities	**(92,986)**	311,878
Net cash inflow/(outflow) from financing activities	**365,206**	(63,006)
Effect of foreign exchange rate changes	**31,165**	57,550
Net cash inflow	**1,230,626**	947,140

44. Particulars of Subsidiaries *(continued)*

44.2 Details of non-wholly owned subsidiaries that have material non-controlling interests *(continued)*

Recomgen

	2023	2022
	RMB'000	*RMB'000*
Current assets	**164,638**	100,500
Non-current assets	**1,175,240**	1,086,471
Current liabilities	**(58,440)**	(113,016)
Non-current liabilities	**(126,581)**	(137,387)
Equity attributable to owners of the Company	**818,152**	513,555
Non-controlling interests	**336,705**	423,013
Revenue	**293,968**	101,429
Profit/(loss) for the period since acquisition	**119,875**	(29,528)
Profit/(loss) and total comprehensive income/(expense) attributable to owners of the Company	**78,852**	(15,201)
Profit/(loss) and total comprehensive income/(expense) attributable to the non-controlling interests	**41,023**	(14,327)
Profit/(loss) and total comprehensive income/(expense) for the year/the period since acquisition	**119,875**	(29,528)
Net cash inflow/(outflow) from operating activities	**49,163**	(10,995)
Net cash outflow from investing activities	**(64,534)**	(42,045)
Net cash inflow from financing activities	**48,856**	79,393
Net cash inflow/(outflow)	**33,485**	(26,353)

45. Statement of Financial Position and Reserves of the Company

	2023 RMB'000	2022 RMB'000
Non-current assets		
Property, plant and equipment	**872**	105
Investments in subsidiaries	**9,343,624**	9,316,594
Other financial assets	**19,733**	24,240
Amounts due from subsidiaries	**2,910,124**	2,885,625
Right-of-use assets	**5,199**	711
	12,279,552	12,227,275
Current assets		
Other receivables	**2,546**	1,178
Amounts due from subsidiaries	**406,970**	440,278
Bank balances and cash	**340,597**	196,541
	750,113	637,997
Current liabilities		
Other payables	**71,794**	80,282
Tax liabilities	**24,726**	24,726
Lease liabilities	**2,462**	593
	98,982	105,601
Net current assets	**651,131**	532,396
Total assets less current liabilities	**12,930,683**	12,759,671
Non-current liability		
Lease liabilities	**2,831**	144
Net assets	**12,927,852**	12,759,527
Capital and reserves		
Share capital	**10,899,412**	10,899,412
Reserves	**2,028,440**	1,860,115
Total equity	**12,927,852**	12,759,527

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 20 March 2024 and are signed on its behalf by:

CAI Dongchen
DIRECTOR

CHAK Kin Man
DIRECTOR

45. Statement of Financial Position and Reserves of the Company *(continued)*

Movement in the Company's reserves

	Investments valuation reserve	Treasury share reserve	Employee share-based compensation reserves	Capital contribution reserve	Accumulated profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022	(7,696)	(85,600)	17,671	–	2,321,086	2,245,461
Profit for the year	–	–	–	–	1,575,511	1,575,511
Other comprehensive expense for the year	(6,369)	–	–	–	–	(6,369)
Total comprehensive (expense)/ income for the year	(6,369)	–	–	–	1,575,511	1,569,142
Dividend recognised as distribution	–	–	–	–	(2,096,961)	(2,096,961)
Recognition of employee share-based compensation expense	–	–	6,904	149,780	–	156,684
Repurchase of shares	–	–	–	–	(14,211)	(14,211)
Vesting shares under share award scheme	–	1,890	(15,100)	–	13,210	–
At 31 December 2022	**(14,065)**	**(83,710)**	**9,475**	**149,780**	**1,798,635**	**1,860,115**
Profit for the year	**–**	**–**	**–**	**–**	**3,118,362**	**3,118,362**
Other comprehensive expense for the year	**(5,060)**	**–**	**–**	**–**	**–**	**(5,060)**
Total comprehensive (expense)/ income for the year	**(5,060)**	**–**	**–**	**–**	**3,118,362**	**3,113,302**
Dividend recognised as distribution	**–**	**–**	**–**	**–**	**(2,726,253)**	**(2,726,253)**
Purchase of shares under share award scheme	**–**	**(254,348)**	**–**	**–**	**–**	**(254,348)**
Recognition of employee share-based compensation expense	**–**	**–**	**42,030**	**193,952**	**–**	**235,982**
Repurchase of shares	**–**	**–**	**–**	**–**	**(200,358)**	**(200,358)**
Vesting shares under share award scheme	**–**	**21,844**	**(23,159)**	**–**	**1,315**	**–**
At 31 December 2023	**(19,125)**	**(316,214)**	**28,346**	**343,732**	**1,991,701**	**2,028,440**

Financial Summary

	For the year ended 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Results					
Revenue	22,103,192	24,942,204	27,866,870	30,936,904	**31,450,109**
Profit before tax	4,626,162	6,391,023	6,847,096	7,582,261	**7,389,372**
Income tax expense	(892,810)	(1,162,013)	(1,158,972)	(1,350,211)	**(1,316,679)**
Profit for the year	3,733,352	5,229,010	5,688,124	6,232,050	**6,072,693**
Profit for the year attributable to:					
Owners of the Company	3,714,106	5,159,655	5,605,185	6,091,390	**5,873,325**
Non-controlling interests	19,246	69,355	82,939	140,660	**199,368**
	3,733,352	5,229,010	5,688,124	6,232,050	**6,072,693**
	RMB cents (Restated) (note)	*RMB cents*	*RMB cents*	*RMB cents*	***RMB cents***
Earnings per share					
– Basic	31.07	43.16	46.89	51.11	**49.47**
– Diluted	31.07	43.16	46.89	51.11	**49.47**

	As at 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Assets and liabilities					
Total assets	26,318,322	30,070,206	34,741,576	41,769,774	**46,282,170**
Total liabilities	(6,800,157)	(6,969,133)	(7,913,345)	(10,127,899)	**(11,264,158)**
Net assets	19,518,165	23,101,073	26,828,231	31,641,875	**35,018,012**
Equity attributable to owners of the Company	18,461,723	22,332,288	25,986,672	30,197,534	**33,203,208**
Non-controlling interests	1,056,442	768,785	841,559	1,444,341	**1,814,804**
Total equity	19,518,165	23,101,073	26,828,231	31,641,875	**35,018,012**

Note: The earnings per share has been adjusted for the effect of the bonus issues on 3 July 2020 and 29 October 2020.