石藥集團有限公司

CSPC

CSPC PHARMACEUTICAL GROUP LIMITED

(Stock Code : 1093)

2022

ANNUAL REPORT

Innovation

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

Suite 3206
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

	2022	2021	Change
(in RMB'000, unless otherwise stated)			
Revenue by business units:			
Finished drugs	**24,520,067**	22,681,444	+8.1%
Bulk products	**4,450,936**	3,819,209	+16.5%
Functional food and others	**1,965,901**	1,366,217	+43.9%
Total revenue	**30,936,904**	27,866,870	+11.0%
Profit attributable to shareholders			
As reported	**6,091,390**	5,605,185	+8.7%
Underlying profit *(Note)*	**6,105,725**	5,417,900	+12.7%
Earnings per share *(RMB cents)*			
Basic	**51.11**	46.89	+9.0%
Diluted	**51.11**	46.89	+9.0%
Final dividend per share *(HK cents)*	**11.00**	10.00	+10.0%
Full-year dividend per share *(HK cents)*	**21.00**	18.00	+16.7%

Note: *Underlying profit attributable to shareholders, a non-HKFRS measure, represents profit before taking into account fair value gain on financial assets measured at fair value through profit or loss, employee share-based compensation expense, gains on deemed disposal of partial interest in an associate and a joint venture and gain on disposal of a joint venture. Reconciliation between the reported and underlying profit is provided on page 23 of this annual report.*

Chairman's Statement

Results

For the financial year ended 31 December 2022, the revenue of the Group grew by 11.0% to RMB30,937 million, and profit attributable to shareholders increased by 8.7% to RMB6,091 million. Basic earnings per share increased similarly to RMB51.11 cents.

The Group's underlying profit attributable to shareholders, excluding fair value gain on financial assets measured at fair value through profit or loss ("FVTPL"), employee share-based compensation expense, gains on deemed disposal of partial interest in an associate and a joint venture and gain on disposal of a joint venture, amounted to RMB6,106 million, an increase of 12.7% as compared to 2021.

Dividend

The Board of Directors recommended a final dividend of HK11 cents per share for 2022. Subject to the approval of shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on 28 June 2023 to shareholders whose names appear on the register of members on 9 June 2023. Together with an interim dividend of HK10 cents per share, the full-year dividend for 2022 amounted to HK21 cents per share, an increase of 16.7% as compared to 2021.

Industry Review

In 2022, amid the continuous disruption from the Covid-19 pandemic and adjustments in the prevention and control policies, the whole industry faced unprecedented difficulties and challenges and business operations were affected to a certain extent. With the continuous mutation of the virus, wave after wave of infection peaks have occurred. On the other hand, the industry has made encouraging development in its fight against the coronavirus. The mRNA technology has shown its advantages in the development of vaccines against mutant strains. The pandemic has become the catalyst for driving the industry into an era of nucleic acid drugs. The Group seized the opportunity and actively developed the nucleic acid drug platform, establishing a solid technology foundation for the long-term development in the future.

With the policies of drug approval, volume-based procurement and medical insurance gradually becoming more mature, China's pharmaceutical ecosystem is entering a positive cycle. The "14th Five-Year Plan for the Development of Pharmaceutical Industry" sets out the specific development goals of the pharmaceutical industry and establishes the development direction of innovation-driven transformation and upgrade of industry chain quality in the next five years. The positive driving force of the industry will promote the optimisation and integration as well as high-quality development of the industry. Large-scale pharmaceutical companies with integrated advantages in research and development, production and sales will benefit from the industry's integration and upgrade and continue to thrive.

Following the lifting of Covid-19 pandemic prevention and control measures, China has entered the post-pandemic era with the economy and daily life gradually returning to normal. With the revival of medical services provision and growth driver supported by innovation, the industry will embrace the recovery and development opportunities in the post-pandemic era.

Business Review

2022 was a year full of challenges and uncertainties. Pandemic, macroeconomy and international environment changes have all brought new requirements and challenges to the industry. Based on the development needs of the Group, the board of directors has put forward an operation strategy of "strong innovation, strong team, strong management and stable growth". With the ongoing enhancement of "innovation, team and management" and the efforts of all employees, the Group achieved the goal of "stable growth" and delivered satisfactory results.

The finished drug business maintained steady growth in 2022, with a continued increase in contribution from new products. Duoenda (mitoxantrone hydrochloride liposome injection), a globally exclusive innovative formulation drug, and Copiktra (duvelisib capsules), the first approved PI3K inhibitor in China, were commercially launched in January and November, respectively. Moreover, a number of newly launched generic drugs were selected at national volume-based procurements with rapid sales ramp-up. These new products brought in new sales contribution as well as a more balanced product portfolio to our business. In March 2023, COVID-19 mRNA vaccine (SYS6006) has been included for emergency use in China for the prevention of COVID-19 caused by the infection of SARS-CoV-2.

The clinical development of the Group's innovative drugs were progressing according to plan. Research and development efficiency continued to improve, the number of patients enrolled in clinical studies has exceeded that of 2021. Among the new drugs under development, over 50 are in clinical stage, of which 9 have filed application for marketing approval and 16 are in pivotal clinical trial stage. The Group has established various innovative research and development platforms, covering small molecules, large molecules, nano-formulation, antibody-drug conjugates (ADC), mRNA vaccines and siRNA drugs, providing a solid foundation for the Group's innovative research and development. Among them, the nano-formulation technology platform has established a leading position in the world. It has successfully developed 4 key nano-formulation drugs, and its current pipeline of drug candidates has more than 5 key products with global patents and great market potential.

The Group has also made good progress in its business development initiative with two projects of product license-in and acquisition completed. With support from the Group's strong capabilities in clinical development, registration and commercialisation, they will bring new momentum to the future growth. Moreover, two projects of license-out have been completed, both of which are globally competitive self-developed innovative ADC drug candidates of the Group, marking the global recognition of the Group's innovation capabilities and an important milestone for the expansion of the Group's self-developed innovative products into the overseas market.

CSPC attaches great importance to the improvement of our ESG standard and is committed to creating a green, harmonious and sustainable development path, improving corporate governance and actively giving back to society. In the most recent ESG rating of MSCI in 2022, the rating of the Company remains at A.

Outlook

2023 is the first year of fully implementing the spirit of the 20th National Congress of the Communist Party of China and a crucial year for the implementation of the "14th Five-Year Plan". It is also the year for the Group to strive for strong innovation, strong team, strong management and stable growth under the guidance of China's national policies. The Group will actively seize the opportunities from policy and adhere to the strategy of innovation and globalization, aiming to become an innovative pharmaceutical company with international influence.

Innovation

With the adoption of clinical value-oriented approach, we will continue to develop new therapeutic targets, new technology platforms and increase investment in R&D to ensure that the Group's competitive advantage remains industry-leading. Other than product innovation, we will accelerate management innovation and culture innovation to support the comprehensive needs for the Group's growth.

(i) Rapidly advance the drugs under development to pivotal clinical trial stage and strive to launch more drugs in order to achieve realization of results, and focus on major therapeutic areas and development of products for major indications to enhance product value.

(ii) Focus on cutting-edge technology, combine independent innovation and licensing-in, and attain differentiated competition. Currently, drug research and development has rapidly expanded to nucleic acid drugs. The Group will make use of its existing nanodrug platform to break through the bottleneck in nucleic acid drug technology and establish a leading position in nano-delivery technology and nucleic acid drugs. At the same time, we will also target emerging technologies such as gene therapy and cell therapy, and develop cutting-edge technologies such as in vivo reprogramming of immune cells. The Group will further integrate internal resources to develop new CAR-T cell therapies.

(iii) Strengthen the overseas research and development ("R&D") team, select projects with competitive edge for overseas development, and accelerate the approval and marketing of key innovative drugs in the U.S. and other overseas markets with new and unique development paths.

Business development

Apart from the efforts to ensure rapid development of our in-house pipelines, we will also focus on raising our business development (BD) capabilities and building an internationalised BD team and ecosystem. We will actively look for global cooperation opportunities with the aim of supplementing our product pipelines, expanding therapeutic areas and indications, and introducing cutting-edge technology platforms. We will also strengthen cooperation with European and U.S. funds focused on biotechnology/medicine to link up the Chinese market with overseas first-in-class (FIC) and best-in-class (BIC) projects. Moreover, we will strengthen the out-licensing of our in-house developed innovative products in order to develop the international market with overseas partners and achieve win-win results.

Internationalisation

The Group will continue to step up its efforts in internationalisation in the areas of R&D, business development and commercialization. Other than striving to enhance the R&D capabilities of our overseas R&D centres, we will also strengthen cooperation with overseas pharmaceutical enterprises and increase the contribution of overseas businesses, so as to improve the Group's competitiveness and industry position on the international stage.

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

22 March 2023

Management Discussion and Analysis

Overview

The Group is an innovation-driven pharmaceutical enterprise with integrated R&D, manufacture and sales capabilities. With the corporate mission of "All for Better Medicines, 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 members and five key R&D centres in Shijiazhuang, Shanghai, Beijing and the U.S., focusing on six key therapeutic areas of 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, mRNA, siRNA, monoclonal antibody, bispecific antibody and ADC, and the continuous investment will provide strong support for the research and development of innovative drugs. The Group is also actively involved in the prevention and treatment of Covid-19, with one mRNA vaccine and two therapeutic drugs approved to commence clinical trials in 2022, striving to provide vaccines and drugs for the prevention and control of the pandemic, help address the concerns of the country and alleviate difficulties for the people. Among them, the mRNA vaccine with broad-spectrum protection against variants has been granted emergency use authorization in March this year. The Group currently has over 110 innovative drug projects under development, including approximately 40 large molecule drugs, 40 small molecule drugs and 30 new-formulation drugs. Within the next 5 years, more than 40 innovative drugs are expected to be approved, which will provide continuous momentum for the Group's development.

The Group has strong commercialisation capabilities. Its professional sales force currently has over 10,000 team members, covering more than 35,000 medical institutions across the country, with coverage rate of over 90% in Class III hospitals and over 70% in Class II hospitals. We are also actively strengthening our efforts in lower-tier market penetration and developing the potential of 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 market-leading core products such as NBP, Duomeisu, Jinyouli, Keaili and Xuanning. Leveraging on the strong sales team and successful commercialisation experience, the Group will be able to ensure the rapid sales ramp-up and sales performance of innovative drugs to be commercially launched in the future. In addition, the Group has been actively strengthening the retail sales channel and internet medicine platform, and exploring the promotion model for chronic disease management.

Business Review

Finished Drug Business

In 2022, the finished drug business maintained stable growth. The Group continued to adopt strategies of professional academic promotion, hospital development, lower-tier market penetration and expansion of indications to drive the growth of key finished drug products. During the year, market development activities of the newly launched innovative drugs were initiated and a number of newly launched generic drugs were selected at volume-based procurement with rapid sales ramp-up, which has brought in new sales contribution and a more balanced product portfolio.

The finished drug business recorded revenue of RMB24,520 million (including licence fee income of RMB186 million) for the year, an increase of 8.1% compared to last year. Sales by major therapeutic areas are as follows:

Therapeutic Area	**Sales** *(RMB' million)*	**Change**
Nervous system	8,108	+7.5%
Oncology	7,415	-3.8%
Anti-infectives	3,540	+20.1%
Cardiovascular	2,889	+4.5%
Respiratory system	621	+54.5%
Digestion and metabolism	755	+51.9%
Others	1,006	+31.5%

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/tablets), Enxi (恩悉®) (pramipexole dihydrochloride tablets) and Oulaining (歐來寧®) (oxiracetam capsules and oxiracetam for injection).

- NBP is a Class 1 new chemical drug in China and a patent-protected exclusive product mainly used for the treatment of acute ischemic stroke. It is a recommended drug in the guidelines of various professional organisations such as the Chinese Medical Association and the Chinese Stroke Association for the treatment of acute ischemic stroke, and is also listed in more than twenty domestic authoritative clinical guidelines and expert consensuses. In 2022, NBP maintained a stable sales growth. With the new NRDL renewal price to be implemented in March 2023, accessibility of the product will be further improved. The ongoing efforts to develop new indications will bring new growth opportunities for butylphthalide.

- Shuanling is a non-selective phosphodiesterase inhibitor that can comprehensively improve microcirculation through multiple mechanisms of action. In 2022, Shuanling continued to record rapid sales growth, and was listed in the Catalogue of Off-label Usage (2022 Edition) of Jilin, Liaoning and Heilongjiang provinces, the Male Infertility Guideline (2022) and the Consensus of Multi-disciplinary Chinese Experts on Diabetes Complicated with Male Erectile Dysfunction (2022).

Oncology

On top of the three existing core products, namely Duomeisu (多美素®) (doxorubicin hydrochloride liposome injection), Jinyouli (津優力®) (PEG-rhGCSF injection) and Keaili (克艾力®) (paclitaxel for injection (albumin-bound), the Group continuously enriches the product portfolio by adding new products such as Duoenda (多恩達®) (mitoxantrone hydrochloride liposome injection) and Copiktra (克必妥®) (duvelisib capsules), bringing in new business growth drivers to this therapeutic area.

- Duomeisu is a product 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 U.S. 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 and is the first to pass the consistency evaluation in May 2021. Affected by the pandemic prevention and control measures and the adjustment of reimbursement drug list in certain provinces, sales of Duomeisu decreased in 2022. The Group will vigorously expand the broad market of prefecture-level cities and counties, with the target of increasing the proportion of sales from this broad market to 40%, providing more opportunities for patients to use Duomeisu and driving product's growth.

- Jinyouli is the first long-acting white blood cell booster drug developed in China. It is used to prevent and treat incidence of infection and pyrexia due to low neutrophil count in patients receiving chemotherapy, thus ensuring the administration of standardised dosage of chemotherapy. It earns unanimous recommendations in domestic and foreign guidelines. In 2022, the growth rate of Jinyouli has slowed down due to certain factors such as pandemic prevention and control. Currently, short-acting white blood cell booster drugs still have a rather significant market share in China, especially in cities other than the provincial capital. The Group will continue to promote the use of long-acting white blood cell booster drugs and further expand the coverage of core hospitals in prefecture-level cities and county-level markets. Jinyouli was selected at the volume-based procurement of Guangdong Alliance in 2022. We will leverage the advantage from the policy to increase the market share of Jinyouli in those procurement regions.

- Keaili is the first-to-market generic of new generation paclitaxel chemotherapy drug in China with the consistency evaluation passed. It has been unanimously recommended by domestic and foreign guidelines and expert consensus for breast cancer, lung cancer, gastric cancer and gynaecological tumours. In 2022, Keaili has completed contract renewal at the volume-based procurement of Henan Alliance with a significant price reduction, leading to a decrease in sales. With the volume-based procurement renewal price being fully implemented in other provinces in 2023, sales of Keaili will be under further pressure. Other than continued effort to promote the replacement of conventional paclitaxel drugs, the Group will vigorously expand the presence of Keaili in those provinces where it has not been selected at procurement before.

- Duoenda is a class 2 new drug developed by the Group with patents in several countries. The product obtained official marketing approval for the treatment of relapsed/refractory peripheral T-cell lymphoma in January 2022. It 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 (Grade 2A) and NKT lymphoma (Grade 2B). The newly established haematology sales team of the Group is responsible for the sales and promotion of Duoenda, which has now covered more than 500 hospitals.

- 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, with recommendation by many domestic and foreign guidelines. After approval, sale and promotion of Copiktra has been incorporated into the haematology product pipeline. With the synergy from Duoenda, the product is entering into market rapidly.

Anti-infective products

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

- Anfulike is recommended jointly by the State Ministry of Industry and Health Care Commission as a "clinically urgent, market-deficient" product. It was granted drug registration approval with priority review in March 2021 for the treatment of patients with invasive fungal infections. With modification of the product's lipid structure, the metabolism and distribution characteristics of amphotericin B have been altered to reduce the incidence of nephrotoxicity and hypokalaemia. It can be used for the treatment of 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. The drug accessibility of Anfulike is improved with its inclusion into the NRDL in December 2021. In the first year of its launch, the Group was dedicated to promoting the knowledge of the clinical benefits of the product among doctors. We are currently making every effort to expand the product's market coverage and expand the clinical application in blood/infection/respiration diseases to accelerate the product's growth.

Cardiovascular

Major products include Xuanning (玄寧®) (maleate levamlodipine tablets and dispersible tablets), Mingfule (銘復樂®) (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) and Meiluolin (美洛林®) (ticagrelor tablets).

- 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. It is listed in the Guidelines for the Prevention and Treatment of Hypertension in China, Guidelines for the Rational Use of Drugs in Hypertension and other authoritative guidelines in China. Xuanning has obtained marketing approval from the U.S. Food and Drug Administration (FDA) in December 2019, becoming the first Chinese innovative drug to be granted full approval by the FDA. The sales team of Xuanning adopts an integrated sales model of direct, cooperative and retail sales. It is also developing e-commerce sales channel in order to accelerate sales growth. In 2022, the sales of Xuanning remained stable.

- Mingfule is a third-generation thrombolytic drug with proprietary intellectual property mainly used for the thrombolysis treatment in patients with acute myocardial infarction. It has been listed as a recommended thrombolytic drug in the Chinese Expert Consensus on Pre-hospital Thrombolysis, Guidelines for Rational Use of Drugs for STEMI (201902) and other authoritative guidelines. Moreover, the Chinese Expert Consensus on Teneplase Intravenous Thrombolytic Therapy for Acute Ischemic Stroke published in December 2022 provides a basis for the clinical promotion of TNK as a thrombolytic drug. In 2022, the new indication application for marketing approval of Mingfule for the thrombolytic treatment in patients with acute ischemic stroke was submitted. The approval of this indication will greatly expand the market potential for the product.

Respiratory

Major products include Qixiao (琦效®) (arbidol hydrochloride tablets), Zhongnuo Like (中諾立克®) (ambroxol hydrochloride oral solution), Zhongnuoping (中諾平®) (ambroxol hydrochloride extendedrelease tablets), Qixin (琦昕®) (Oseltamivir phosphate capsules) and Nuoyian (諾一安®) (montelukast sodium tablets/chewable tablets).

Digestion and metabolism

Major products include Linmeixin (林美欣®) (glimepiride dispersible tablets), Shuanglexin (雙樂欣®) (metformin hydrochloride tablets/extended-release tablets) and Xinweiping (欣維平®) (acarbose tablets).

Other therapeutic areas

Major products include Gubang (固邦®) (alendronate sodium tablets/enteric tablets), Xianpai (先派®) (omeprazole injections) and Qimaite (奇邁特®) (tramadol hydrochloride tablets).

Bulk Product Business

Vitamin C

Sales amounted to RMB2,529 million in 2022, representing an increase of 17.7%. During the year, both the production volume and sales volume have increased, with the global market share further expanded. However, product price has decreased due to changes in market environment. The Group will continue to develop new market, optimise customer structure, expand overseas sales channel and focus on brand building to enhance its overall competitive strength.

Antibiotics and Others

Sales amounted to RMB1,922 million in 2022, representing an increase of 15.1%, which was mainly attributable to the increase in sales volume and prices of certain products. The Group will continue to enhance product chain and product complementarity, promote registration in high-end market and steadily improve product quality.

Functional Food and Other Businesses

Sales from the business amounted to RMB1,966 million in 2022, representing an increase of 43.9%. During the year, caffeine products recorded a satisfactory growth in both sales volume and average selling price, while sales of Guoweikang (vitamin C health supplement product) declined to a certain extent. The Group will maintain stable business growth through technology enhancement, cost control and market development.

Research and Development

The Group strongly believes that innovative research and development is the most important driver for future development and continues to increase its investment in research and development. R&D expenses for the year 2022 amounted to RMB3,987 million (charged to income statement), representing an increase of 16.1% over 2021 and accounting for approximately 16.3% of the revenue of the finished drug business. Currently, more than 50 key drug candidates have entered clinical trial or registration stage, of which 9 have filed application for marketing approval, 16 have entered pivotal clinical trial or about to file application for marketing approval.

Regulatory Updates:

China

- In January 2022, Duoenda (多恩達®) (mitoxantrone hydrochloride liposome injection), a self-developed oncology nanodrug of the Group, obtained marketing approval for the treatment of peripheral T-cell lymphoma (PTCL). Clinical studies have indicated that it has a significantly better efficacy than other drugs in treating patients with relapsed or refractory PTCL.

- In March 2022, Copiktra (克必妥®) (duvelisib capsules) obtained marketing approval for the treatment of adult patients with relapsed or refractory follicular lymphoma (FL) after at least two prior systemic therapies. The product is the first approved orally available dual PI3K-δ and PI3K-γ inhibitor worldwide, and is also the first approved PI3K selective inhibitor in China.

- In March 2023, COVID-19 mRNA vaccine (SYS6006) was included for emergency use in China for the prevention of COVID-19 caused by the infection of SARS-CoV-2.

- In January 2022, application for marketing approval of desvenlafaxine extended-release tablets for the treatment of depression was submitted (being the first submission of this product type in China).

- In April 2022, application for marketing approval of nanodrug irinotecan liposome for injection for the treatment of metastatic pancreatic cancer was submitted.

- In June 2022, application for marketing approval of narlumosbart for injection (JMT103) (recombinant fully human anti-RANKL monoclonal antibody for injection) for the treatment of unresectable or surgically difficult giant cell tumor of bone was submitted with priority review granted. The product is the first IgG4 subtype fully human monoclonal antibody against RANKL filing BLA in the world.

- In October 2022, application for marketing approval of paclitaxel for injection (albumin-bound) (II) for the treatment of breast cancer was submitted.

- In November 2022, new indication application for marketing approval of Mingfule (銘復樂®) (recombinant human TNK tissue-type plasminogen activator for injection) for the thrombolytic treatment in patients with acute ischemic stroke was submitted.

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

- In March 2023, application for marketing approval of amphotericin B liposome for injection for the treatment of invasive fungal infection was submitted.

- In March 2023, pre-NDA meeting with Centre for Drug Evaluation (CDE) of prusogliptin tablets (DBPR108) for the treatment of type 2 diabetes was completed.

- In March 2023, application for pre-BLA meeting of recombinant anti-IgE monoclonal antibody for injection (SYSA1903) for the treatment of chronic spontaneous urticaria was submitted.

- Since the beginning of 2022, 14 innovative drugs candidates have obtained clinical trial approval for their first indications and 10 additional indications have obtained clinical trial approval.

First indication:

Drug candidate	Indication
SYHA1908 for injection	Advanced solid tumors
Daunorubicin cytarabine liposome for injection	Acute myeloid leukemia
Ustekinumab injection	Psoriasis
SYS6006 for injection (SARS-COV-2 mRNA vaccine)	Prevention of Covid-19 infection
Cisplatin micelle injection	Advanced solid tumors
SYHX2005 tablets (FGFR4)	Advanced solid tumors
SYHX2009 tablets (NTRK, ROS1)	Advanced solid tumors
SYS6002 injection (Nectin-4 ADC)	Advanced solid tumors
SYH2055 tablets (3CL)	Covid-19 infection
SYH2043 tablets (CDK2/4/6)	Advanced solid tumors
SYH2045 tablets (PRMT5)	Advanced solid tumors
Meloxicam nanocrystal injection	Postoperative analgesics
Clevidipine injectable emulsion	Hypertension
Octreotide long-acting injection	Acromegaly/NET

Additional indication:

Drug candidate	Indication
Prostaglandin liposome for injection	Contrast-induced acute kidney injury
Mitoxantrone hydrochloride liposome injection	Neuromyelitis optica spectrum disorder
Mitoxantrone hydrochloride liposome injection	Advanced nasopharyngeal cancer
TG103 injection	Non-alcoholic steatohepatitis
TG103 injection	Alzheimer's disease
Recombinant humanized anti-HER2 monoclonal antibody-MMAE conjugate for injection (DP303c)	Salivary gland carcinomas
SYHX1901 tablets	Severe COVID-19
ALMB-0166 injection	Osteoarthritis
Enlonstobart for injection (Recombinant fully human anti-PD-1 monoclonal antibody)	First-line treatment of cervical cancer
Docetaxel for injection (albumin-bound)	Combined therapy with SG001 and platinum agents (carboplatin/cisplatin) for perioperative treatment of NSCLC

- Since the beginning of 2022, 16 generic drugs have obtained drug registration approvals, including lenvatinib mesilate capsules, donepezil hydrochloride tablets, vortioxetine hydrobromide tablets, nifedipine controlled-release tablets, pramipexole dihydrochloride sustained-release tablets, lacosamide injection, zoledronic acid injection, doxofylline injection, tenofovir alafenamide fumarate tablets, esomeprazole sodium for injection, gabapentin capsules, moxifloxacin hydrochloride and sodium chloride injection, lenalidomide capsules, baloxavir marboxil tablets, tofacitinib citrate extended-release tablets and argatroban injection.

The U.S.

- In January 2022, JMT601 (CPO107) was granted fast track designation for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma. The drug candidate is the world's first bispecific SIRPα fusion protein with synergised target binding effect which has entered clinical stage of development. Therapeutic targets include CD20 and CD47.

- In July 2022, docetaxel for injection (albumin-bound) was granted orphan-drug designation for the treatment of gastric cancer including cancer of gastroesophageal junction.

- Since the beginning of 2022, 2 innovative drug candidates, namely SYS6002 injection (Nectin-4 ADC) and NBL-020 injection (TNFR2), have obtained clinical trial approval.

Major Clinical Trials Progress:

SARS-CoV-2 mRNA vaccine (SYS6006)

- Phase I, II clinical studies and a heterologous booster immunization clinical study in China have been completed. With more than 5,500 people enrolled, the clinical studies have demonstrated its efficacy and safety. The Group has built a GMP-compliant production plant. Key raw materials and excipients are produced by the Group, which enables independent control in the supply chain and significantly lower production cost.

Duoenda (多恩達®) (mitoxantrone hydrochloride liposome injection)

- At the annual meeting of the American Society of Clinical Oncology (ASCO) in June 2022, the results of a Phase Ib clinical trial for the treatment of platinum-refractory or platinum-resistant recurrent ovarian cancer were presented in E-poster; and the results of a Phase Ib clinical trial for the treatment of recurrent/metastatic squamous cell carcinoma of head and neck were presented online. Preliminary results indicate that Duoenda has a controllable safety profile and observable efficacy in both indications.

- At the annual meeting of the European Society for Medical Oncology (ESMO) in September 2022, the results of a "dose escalation and dose expansion study of mitoxantrone hydrochloride liposome injection in combination with pegaspargase for the treatment of extranodal NK/T-cell lymphoma (ENKTCL)" were presented in the Mini Oral session. Preliminary results indicate that Duoenda in combination with pegaspargase has significant efficacy, especially for patients with primary ENKTCL, with controllable safety risks.

- A number of clinical trials in hematological tumors and solid tumors are currently underway. Of which, the first patient has been dosed in a phase III clinical trial for the treatment of patients with recurrent metastatic nasopharyngeal carcinoma who have failed platinum-based therapy.

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

- In July 2022, Mingfule has met its predefined primary endpoint (the proportion of subjects with a mRS of 0 to 1 at 90 days) in a Phase III clinical study for the treatment of acute ischemic stroke, demonstrating that Mingfule is non-inferior to alteplase in efficacy and has a trend of enhancement in efficacy, while the safety profile is similar to alteplase. The study results were published at the World Stroke Congress in Singapore in October 2022 and in The Lancet (IF202.731), a top international medical journal, in February 2023. This marked the first time for a cerebrovascular drug of a Chinese company with independent intellectual property rights to be reported in a top international medical journal.

- A number of investigational studies initiated by experts in China are currently underway for the treatment of cerebral infarction, including bridging therapy, anti-bridging therapy, and therapy of extended thrombolytic time window. It is expected that results of these studies and the Phase III clinical trial will be able to change the relevant diagnosis and treatment guidelines.

Narlumosbart for injection (JMT103)

- In March 2022, JMT103 has met its predefined endpoint in a pivotal trial for the treatment of unresectable or surgically difficult giant cell tumor of bone, demonstrating that JMT103 has a better clinical efficacy with a tumor response rate of 93.5%, and a trend higher than that of the denosumab group. Moreover, JMT103 showed a good safety profile with controllable safety risks.

Prusogliptin tablets (DBPR108)

- In August 2022, DBPR108 has met its predefined endpoints in two Phase III pivotal clinical trials for the treatment of type 2 diabetes. Results of the monotherapy trial demonstrated that in respect of the primary efficacy endpoint of the change in HbA1c between the end of 24 weeks and the baseline period, the DBPR108 group was significantly superior to the placebo group and was non-inferior to the active group of sitagliptin. Results of the combination trial demonstrated that in respect of the primary efficacy endpoint of the change in HbA1c between the end of 24 weeks and the baseline period, the DBPR108 group was significantly superior to the placebo group. In addition, safety profile of the DBPR108 group in the study was similar to the sitagliptin group and placebo group.

SYHA1813 oral liquid

- At the annual meeting of the European Society of Medical Oncology (ESMO) in September 2022, the results of a dose escalation study of "Phase I clinical trial to evaluate the safety, tolerability, pharmacokinetics and preliminary efficacy of SYHA1813 oral liquid in treating patients with relapsed or advanced solid tumors" were presented in E-poster. Preliminary results indicated acceptable tolerability and preliminary antitumor activity for patients with relapsed high-grade glioma taking 15mg SYHA1813 oral liquid once every day.

Recombinant anti-IgE monoclonal antibody for injection (SYSA1903)

- In March 2023, a phase III therapeutic bioequivalence study in comparison to the originator drug for the treatment of patients with chronic spontaneous urticaria who remain symptomatic despite H1 antihistamine treatment has met its predefined endpoint.

Clinical Pipeline Overview:

Registration and pivotal trial stage:

Drug candidate	Type	Target	Indication	Status
Narlumosbart for injection (Recombinant fully human anti-RANKL monoclonal antibody for injection)	Biological drug (monoclonal antibody)	RANKL	Giant cell tumor of bone	BLA submitted
Irinotecan liposome for injection	Nanodrug	DNA topoisomerase inhibitors	Pancreatic cancer	NDA submitted
Desvenlafaxine succinate extended release tablets	Chemical drug	5-Hydroxytryptamine and norepinephrine reuptake inhibitors	Depression	NDA submitted
Rezetinib mesylate capsules	Chemical drug	EGFR	Non-small cell lung cancer	NDA submitted
Recombinant human TNK tissue-type plasminogen activator for injection (rhTNK-tPA)	Biological drug (recombinant protein)	Plasminogen	Acute ischemic stroke	BLA submitted
Paclitaxel for injection (albumin-bound) (II)	Nanodrug	Microtubule inhibitor	Breast cancer	NDA submitted
Amphotericin B liposome for injection	Nanodrug	Anti-infective, nonspecific drug	Invasive fungal infection	NDA submitted
Enlonstobart (recombinant fully human anti-PD-1 monoclonal antibody for injection)	Biological drug (monoclonal antibody)	PD-1	Cervical cancer	BLA submitted
Prusogliptin tablets (DBPR108)	Chemical drug	DPP-4 inhibitor	Diabetes	Pre-NDA submitted
Recombinant anti-IgE monoclonal antibody for injection	Biological drug (monoclonal antibody)	IgE	Urticaria	Pre-BLA submitted
Batoclimab (HBM9161)	Biological drug (monoclonal antibody)	FcRn	Myasthenia gravis	Pre-BLA submitted
Recombinant humanized anti-epidermal growth factor receptor monoclonal antibody for injection (JMT101)	Biological drug (monoclonal antibody)	EGFR	EGFR exon 20 insertion mutation in non-small cell lung cancer	Pivotal trial
KN026 for injection	Biological drug (bispecific antibody)	HER2 bispecific antibody	Gastric cancer	Pivotal trial
Recombinant humanized anti-HER2 monoclonal antibody-MMAE conjugate for injection (DP303c) SYSA1501 for injection SYSA1801 for injection	Biological drugs (ADC)	HER2 ADC	Breast cancer	Pivotal trial

Drug candidate	Type	Target	Indication	Status
Pertuzumab for injection	Biological drug (monoclonal antibody)	HER2	HER2 positive breast cancer	Pivotal trial
SKLB1028 capsules	Chemical drug	FLT3, Abl, Lyn, EGFR	Acute myeloid leukaemia	Pivotal trial
HA121-28 tablets	Chemical drug	RET, EGFR, VEGFR, FGFR	Non-small cell lung cancer with RET gene fusion mutation	Pivotal trial
SYH2055 tablets	Chemical drug	3CL protease inhibitor	High risk COVID-19	Pivotal trial
Daunorubicin cytarabine liposome for injection	Nanodrug	RNA polymerase inhibitor DNA polymerase inhibitor	Leukemia	Pivotal trial
Docetaxel for injection (albumin-bound)	Nanodrug	Microtubule inhibitor	Pancreatic cancer, head and neck squamous cell carcinoma	Pivotal trial
TG103 injection	Biological drug (monoclonal antibody)	GLP1-Fc	Weight loss	Pivotal trial
Butylphthalide soft capsules	Chemical drug		Vascular dementia	Pivotal trial
Clevidipine injectable emulsion	Nanodrug	Calcium channel blocker	Hypertension	Pivotal trial
Meloxicam nanocrystal injection	Nanodrug	Cyclooxygenase-2 (COX-2) inhibitor	Chronic pain	Pivotal trial

Products in other clinical stage:

Drug candidate	Type	Therapeutic Area
Ammuxetine hydrochloride enteric tablets	Chemical drug	Psychiatry
Butylphthalide soft capsules (China and US)	Chemical drug	Neurology
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	Chemical drug	Oncology
SYHA1402 tablets, SYHA1805 tablets	Chemical drug	Metabolism
SYHX1901 tablets	Chemical drug	Immunity
Octreotide long-acting injection	Chemical drug	Endocrine
JMT601 for injection (China and US)	Biological drug (bispecific antibody)	Oncology
SYS6002 for injection, SYSA1801 for injection (China and US)	Biological drug (ADC)	Oncology
ALMB0168 for injection, NBL-015 for injection (China and US), NBL-020 for injection (China and US)	Biological drug (monoclonal antibody)	Oncology
ALMB0166 for injection	Biological drug (monoclonal antibody)	Central nervous system
CM310 for injection, CM326 for injection, NBL-012 for injection (China and US), ustekinumab injection	Biological drug (monoclonal antibody)	Immunity
Paclitaxel cationic liposome for injection, sirolimus for injection (albumin-bound), SYHA1908 for injection, cisplatin micelle injection	Nanodrug	Oncology
Prostaglandin liposome for injection	Nanodrug	Cardiovascular

Awards and Patents:

- In January 2022, CSPC was rated excellent with number six in overall ranking and number one in the pharmaceutical industry in the evaluation results of the 2021 National Enterprise Technology Center released by the National Development and Reform Commission.

- In April 2022, the project “Key Technology and Industrialization Research of Albumin-bound Nanodrug Delivery” once again won the Science and Technology Progress First Class Award of Hebei Province (河北省科技進步一等獎), winning the highest honour of provincial science and technology award for two consecutive years.

- 41 international PCT applications and 214 patent applications (148 domestic and 66 overseas) have been filed, and 58 patents (36 domestic and 22 overseas) have been granted.

The Group is expected to launch more than 40 innovative and new-formulation drugs, and over 60 generic drugs within the next five years. Of which, mitoxantrone liposomes, docetaxel albumin nanoparticles, sirolimus albumin nanoparticles, cisplatin micelle, and paclitaxel albumin nanoparticles (fast-dissolving) developed based on the nanotechnology platform, the ultra-long-acting GLP1-IgD/IgG4 Fc fusion protein in the field of metabolism, the world's new CX43 inhibiting and antagonizing antibody, the new ADC and ISAC based on enzymatic site-specific conjugation, the CD20/CD47 bispecific antibodies based on novel asymmetric structure, as well as the mRNA vaccine which offers protection against Covid-19 variants and small nucleic acid drugs (dosed semi-annually) are all heavyweight products with global patents and great market value. The launch of these new products will provide 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 the product pipeline 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.

Equity Acquisition:

- In February 2022, the Group completed the acquisition of 51% equity interest in Guangzhou Recomgen Biotech Co., Ltd. (now renamed as CSPC Recomgen Pharmaceutical (Guangzhou) Co., Ltd. with equity interest increasing to 54.8%). Its marketed product Mingfule (銘復樂®) (recombinant human TNK tissue-type plasminogen activator for injection) is a third-generation specific thrombolytic drug with intellectual property rights.

In-Licensing:

- In October 2022, the Group entered into an exclusive license agreement with Harbour Biomed (Shanghai) Co., Ltd., to obtain the right to develop, manufacture and commercialize batoclimab (HBM9161) in Greater China. The Phase III clinical trial for the indication of myasthenia gravis (MG) has achieved positive topline results, meeting the primary endpoint and the key secondary endpoint. Application for pre-BLA meeting has been submitted. There are five other indications in different clinical stages. The product has the potential to be a breakthrough treatment for a wide spectrum of autoimmune diseases in Greater China.

Out-Licensing:

- In July 2022, the Group entered into an exclusive license agreement with Elevation Oncology, Inc. in the U.S. to out-license the development and commercialization rights of the Group's SYSA1801 (Claudin 18.2 ADC) outside of Greater China. The Group has received an upfront payment of US$27 million and is also eligible to receive up to US$148 million in potential development and regulatory milestone payments and up to US$1.02 billion in potential sales milestone payments, as well as tiered sales royalties.

- In January 2023, the Group entered into an exclusive license agreement with Corbus Pharmaceuticals, Inc. in the U.S. to out-license the development and commercialization rights of the Group's SYS6002 (Nectin-4 ADC) in the United States, EU countries, United Kingdom, Canada, Australia, Iceland, Liechtenstein, Norway and Switzerland. The Group will receive upfront payments of US$7.5 million and is also eligible 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 RMB30,937 million, an increase of 11.0% compared to RMB27,867 million in 2021. The increase was mainly due to the 8.1%, 16.5% and 43.9% growth in the finished drug business, bulk product business and functional food and others business, respectively. Gross profit margin decreased by 3.9 percentage point to 71.9%, which was mainly attributable to the change in revenue mix and decline in selling prices of vitamin C products during the year.

Other Income

Other income for the year amounted to RMB604 million (2021: RMB411 million), mainly consisting of interest income on bank balances of RMB243 million (2021: RMB183 million) and government grant income of RMB195 million (2021: RMB96 million).

Other gains and losses

Other gains and losses for the year reported a net gain of RMB291 million (2021: RMB243 million), mainly consisting of fair value gain on financial assets measured at FVTPL of RMB101 million (2021: RMB205 million), fair value gain on structured deposits of RMB117 million (2021: RMB82 million) and net foreign exchange gain of RMB118 million (2021: loss of RMB36 million).

Operating Expenses

Selling and distribution expenses for the year amounted to RMB10,337 million, a slight decrease of 1.0% compared to RMB10,443 million in 2021. During the year, the Group continued to further grow its market coverage and promote the newly launched finished drug products. With efforts made by the Group to enhance the efficiency of the marketing activities, a lower ratio of selling and distribution expenses to revenue has been achieved in 2022.

Administrative expenses for the year amounted to RMB1,173 million, an increase of 16.1% compared to RMB1,010 million in 2021. The increase was mainly due to the expanding operation of the Group and employee share-based compensation expense recognised in respect of the share awards granted to selected employees of the Group by Key Honesty Limited (a shareholder of the Company) during 2022.

R&D expenses for the year amounted to RMB3,987 million, an increase of 16.1% compared to RMB3,433 million in 2021. 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 RMB1,350 million (2021: RMB1,159 million), which represented provision of income tax expense based on the taxable income of the subsidiaries and PRC withholding tax on dividend distributions by certain subsidiaries.

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-cash and/or 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 (a non-HKFRS financial measure):

	2022 ***(RMB'000)***	2021 *(RMB'000)*
Profit attributable to shareholders	**6,091,390**	5,605,185
Adjustment for:		
– Fair value gain on financial assets measured at FVTPL *(note a)*	**(100,905)**	(205,040)
– Employee share-based compensation expense *(note b)*	**160,726**	17,732
– Gains on deemed disposal of partial interest in an associate and a joint venture	**(48,065)**	(13,092)
– Gain on disposal of a joint venture	**–**	(24,273)
– Effect of corresponding income tax	**2,579**	37,388
Underlying profit attributable to shareholders	**6,105,725**	5,417,900

Notes:

(a) Fair value gain on financial assets measured at FVTPL is arisen 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 in 2022, RMB150 million was in respect of share awards granted to selected employees of the Group by Key Honesty Limited (a shareholder of the Company) during 2022.

Liquidity and Financial Position

For the year ended 31 December 2022, the Group's operating activities generated a cash inflow of RMB7,627 million (2021: RMB4,637 million). Turnover days of trade receivables (ratio of balance of trade receivables to sales, inclusive of value added tax for sales in China) were 44 days compared to 40 days in 2021. Turnover days of inventories (ratio of balance of inventories to cost of sales) decreased from 134 days in 2021 to 107 days. Current ratio was 2.7 as of 31 December 2022, slightly lower than 2.8 a year ago. Capital expenditure for the year amounted to RMB1,823 million, which were mainly spent to construct production facilities and improve production efficiency.

The Group's financial position remained solid. As of 31 December 2022, the Group had bank balances, deposits and cash of RMB10,498 million (2021: RMB9,684 million), structured bank deposits of RMB3,575 million (2021: RMB1,443 million) and bank borrowings of RMB182 million (2021: nil). As of 31 December 2022, gearing ratio (ratio of bank borrowings to total equity) was 0.6% (2021: nil).

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

None of the Group's assets were charged to any third parties as of 31 December 2022.

Contingent Liabilities

The Group did not have any material contingent liabilities as of 31 December 2022.

Dividend Policy

It is the present intention of the Board to provide shareholders with regular dividends with a normal target payout ratio of not less than 30 per cent of the Group's core profit on a full year basis. The actual amount of dividend will depend on a number of factors including but not limited to financial results, financial position and funding needs of the Group.

Employees

The Group employed a total of 24,837 employees as of 31 December 2022, 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 the employees of the Group for its continual operation and development, Key Honesty Limited ("Key Honesty"), a shareholder of the Company which is indirectly wholly-owned by Mr. Cai Dongchen (Chairman of the Board), has 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. The respective awarded shares will be vested and transferred to the grantees within 3 to 5 years from the date of grant at a transfer price of HK$2.95 per share subject to the fulfilment of certain conditions. As of 31 December 2022, there were 206,050,000 unvested awarded shares.

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 14 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 2022 except the deviation from code provision C.2.1 as set out under "Chairman and Chief Executive Officer".

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 41 to 44 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.

Following the resignation of Ms. Wu Guizhen as an independent non-executive director on 1 August 2022, the Company has a single gender board which does not meet the requirement under Rule 13.92 of the Listing Rules. With the appointment of Ms. Li Quan as independent non-executive director on 8 November 2022, the Board has achieved gender diversity and thus fulfils the requirement under Rule 13.92 of the Listing Rules.

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.

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 2022.

Attendance record of directors in 2022:

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

1 Ms. Li Quan was appointed as an independent non-executive director on 8 November 2022.
2 Ms. Wu Guizhen was appointed as an independent non-executive director on 27 May 2022 and resigned on 1 August 2022.

Chairman and Chief Executive Officer

Code provision C.2.1 of the Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period from 1 January 2022 to 26 May 2022, Mr. Cai Dongchen, the Company's Chairman, also assumed the role as the chief executive officer of the Company. The Company believes that vesting both roles in Mr. Cai would allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place. On 27 May 2022, Mr. Zhang Cuilong was appointed as the chief executive officer in place of Mr. Cai Dongchen, and Mr. Cai Dongchen would remain as the executive director and Chairman of the Company. Thereafter, Mr. Cai Dongchen no longer performs the roles of chairman and chief executive officer concurrently.

Non-Executive Directors

Each of the independent non-executive directors (except Ms. Li Quan) has entered into a service contract with the Company for a term of three years 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.

Ms. Li Quan has entered into a letter of appointment with the Company pursuant to which she has been appointed as an independent non-executive director without a specific term and subject to the requirement that one-third of all the directors shall retire from office by rotation at the 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 2022, the Group has 24,837 employees in total comprising 12,762 females and 12,075 males (a female-to-male ratio of 1.06), 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 three meetings in 2022 to consider and make recommendations to the Board on the existing policy and structure for the remuneration of directors and senior management, and the remuneration packages of existing and new directors.

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 2022 are set out in note 9 to the 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 three meetings in 2022 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 and appointment of new 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 2022 and performed the duties summerised 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 10 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 2022.

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 2022 are summarized in the table below.

	Attending training course/ seminar/forum/conference	**Reading regulatory update or materials relevant to the Company or its business**
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 2022, 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 system.

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 2022, 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 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 14 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 2022 are as follows:

Nature of services	*RMB'000*
Audit services	7,339
Non-audit services	
— Tax advisory and compliance	467
Total	7,806

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 are set out on page 52 and the responsibilities of the external auditor are set out on page 53 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 2022, 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 2022, management of the Company has attended more than 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.

2022 General Meeting

At the annual general meeting held in May 2022, separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors, and voted by way of poll. The Company announced the results of the poll in the manner prescribed under the Listing Rules. The respective chairman of the Board, Audit Committee, Remuneration Committee and Nomination Committee have attended the meeting to ensure effective communication with shareholders.

Constitutional Documents

There was no change in the Company's constitutional documents during 2022.

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 2022.

Principal Activities

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and joint ventures are set out in notes 44, 18 and 19 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 following.

(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 in order 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 in order to expand and diversify our product portfolio.

(iii) Compliance with certain PRC environmental and safety regulations

We are subject to 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 specific 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 as a result of 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 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 recognize 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 comply with the relevant environmental laws and regulations. We have established specific 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. A discussion on the Group's environmental policies and performance are set out in the Corporate Social Responsibility 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 U.S. while the Company itself is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. Our establishment and operations accordingly shall comply with relevant laws and regulations in the mainland China, U.S. and Hong Kong. During the year ended 31 December 2022 and up to the date of this report, we have complied with all the relevant laws and regulations in the mainland China, 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 2022 are set out on page 55 of this annual report.

The Board recommends a final dividend of HK11 cents per share which, together with the interim dividend of HK10 cents paid on 11 October 2022, makes a total of HK21 cents per share in respect of the year ended 31 December 2022. Subject to the approval of the shareholders at the forthcoming annual general meeting, the proposed final dividend will be paid on 28 June 2023 to shareholders whose names appear on the register of members on 9 June 2023.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2022 amounted to RMB1,798,632,000.

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 RMB84,992,000.

Fixed Assets

During the year, the Group continued to expand its business and acquired buildings, plant and equipment of RMB1,823,293,000. 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 166 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 *(appointed on 8 November 2022)*
Wu Guizhen *(appointed on 27 May 2022 and resigned on 1 August 2022)*

Ms. Wu Guizhen resigned as an independent non-executive director on 1 August 2022 due to her personal work arrangement.

Ms. Li Quan was appointed as additional director of the Company by the Board after the annual general meeting of the Company held on 26 May 2022. In accordance with Article 92 of the Company's Articles of Association. Ms. Li Quan shall retire at the forthcoming annual general meeting and, being eligible, offers herself for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Zhang Cuilong, Pan Weidong, Jiang Hao, Wang Hongguang and Au Chun Kwok Alan shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable 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 are independent.

Biographical Details of Directors and Senior Management

CAI Dongchen

Mr. Cai, aged 69, Chairman of the Company, has been an executive director of the Company since April 1997. He ceased to be the Chief Executive Officer of the Company on 27 May 2022. Mr. Cai is also the chairman of the Nomination Committee and a director of certain subsidiaries of the Company. Mr. Cai holds a 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 54, Vice-Chairman of the Company, has been an executive director of the Company since July 2018. He was appointed as the Chief Executive Officer of the Company on 27 May 2022. Before this appointment, Mr. Zhang was the Rotating Chief Executive Officer of the Company. 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 53, 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 53, 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 59, 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 46, 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 57, 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 57, 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 39, 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 62, 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 59, 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 is also an independent director of Guangxi Liuzhou Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange) and an independent director of Shanghai Kehua Bio-Engineering Co.,Ltd. (listed on Shanghai Stock Exchange).

WANG Hongguang

Prof. Wang, aged 60, 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 50, 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). He was an independent director of Cellular Biomedicine Group (previously listed on Nasdaq, privatised in 2021) and a panel member for biotechnology of the Innovation and Technology Fund of the Hong Kong SAR Government from 2015 to 2022.

Law Cheuk Kin Stephen, *JP*

Mr. Law, aged 60, 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, a council member of Hong Kong Business Accountants Association and the Hong Kong Institute of Certified Public Accountants and a 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.

Mr. Law resigned as an independent non-executive director of Bank of Guizhou Co., Ltd. (listed on The Stock Exchange of Hong Kong) on 25 August 2022.

LI Quan

Ms. Li, aged 42, was appointed as an independent non-executive director of the Company on 8 November 2022. Ms. Li has over ten years of experience in investment management. She is currently the Managing Director of CDH Investments Management (Hong Kong) Limited, responsible for investment in the healthcare sector in the private equity department. 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.

Ms. Li resigned as a non-executive director of SciClone Pharmaceuticals (Holdings) Limited (listed on The Stock Exchange of Hong Kong Limited) on 19 December 2022.

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 connected transactions and continuing connected transactions of the Group during the year are set out in the section headed Connected Transactions and 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 2022, 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	Approximate % of the issued shares of the Company
Cai Dongchen	Beneficial owner	221,132,960	–	2,822,001,670	23.65%
	Interest of controlled corporation	2,600,868,710 *(1)*	–		
Chak Kin Man	Beneficial owner	3,847,680	–	3,847,680	0.03%
Wang Qingxi	Beneficial owner	–	3,000,000 *(2)*	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) Represents the unvested share awards granted to Mr. Wang Qingxi by Key Honesty Limited, a shareholder of the Company, on 1 April 2022.

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 2022.

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

Particulars of the Company's share option and share award schemes are set out in note 37 to the consolidated financial statements.

Substantial Shareholders' Interests

As at 31 December 2022, 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	Approximate % of the issued shares of the Company
Cai Dongchen	Beneficial owner	221,132,960	
	Interest in controlled corporation	2,600,868,710 *(1)*	
		2,822,001,670	23.65%
True Ally Holdings Limited	Beneficial owner	948,249,600	
	Interest in controlled corporation	1,652,619,110 *(1)*	
		2,600,868,710	21.80%
Massive Giant Group Limited	Beneficial owner	1,218,834,470	10.21%
Common Success International Limited	Beneficial owner	728,796,313	6.11%
UBS Group AG	Interest in controlled corporation	803,666,707	6.73%

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	96,444,452	0.81%

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.

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 2022.

Connected Transactions and Continuing Connected Transactions

(1) Connected Transactions

On 24 June 2022, certain subsidiaries of the Company have entered into lease agreements with CSPC Holdings Company Limited ("CHL") and one of its subsidiary to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of three years commencing on 25 June 2022, 1 July 2022 or 20 July 2022. The value of the right-of-use assets under the lease agreements recognised by the Group in its consolidated statement of financial position amounted to approximately RMB220,764,000. Details of the transactions are set out in the announcement of the Company dated on 24 June 2022.

(2) Continuing Connected Transactions

During the year ended 31 December 2022, 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 (the "CHL Group")	Sales of pharmaceutical products (note a)	734,053
	Purchase of pharmaceutical products (note b)	11,221
	Rental expense (note c)	1,913

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.

(c) On 20 July 2002, CSPC Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd., a subsidiary of the Company, entered into a lease agreement with CHL to lease certain premises located in Shijiazhuang, Hebei Province, the PRC for a term of twenty years. The lease agreement was subject to a rental adjustment every three years. The rental was revised to RMB3,312,800 per annum upon review on 1 August 2020.

Mr. Cai Dongchen, a director and 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 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. The auditor has reported the conclusion to the board of directors confirming the matters as stated in Rule 14A.56, where applicable.

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. For those related party transactions that constituted connected transactions or continuing connected transactions (as the case may be) under the Listing Rules but are not disclosed in the section headed "Connected Transactions and Continuing Connected Transactions", they are exempt from disclosure, annual review and shareholder's approval requirements under Chapter 14A of the Listing Rules.

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 a 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** *HK$*	**Lowest purchase price per share** *HK$*	**Aggregate consideration (before expenses)** *HK$*
January 2022	2,054,000	8.49	8.44	17,409,000

All the shares repurchased were cancelled upon delivery of the share certificates in January 2022. The Directors 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 2022.

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, 22 March 2023

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 55 to 165, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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 2022, the Group's net trade receivables amounted to RMB3,937,967,000 representing approximately 9% of total assets of the Group, and RMB273,260,000 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 2022 amounted to RMB23,725,000.	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 2022, 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 2022, 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
22 March 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	5	**30,936,904**	27,866,870
Cost of sales		**(8,680,490)**	(6,731,776)
Gross profit		**22,256,414**	21,135,094
Other income		**603,799**	411,223
Other gains or losses, net		**291,383**	242,675
Selling and distribution expenses		**(10,337,423)**	(10,443,422)
Administrative expenses		**(1,172,842)**	(1,009,824)
Research and development expenses		**(3,986,516)**	(3,432,590)
Other expenses		**(80,333)**	(108,204)
Share of results of associates	18	**(42,509)**	(23,894)
Share of results of joint ventures	19	**27,114**	46,337
Gains on deemed disposal of partial interest in an associate and a joint venture		**48,065**	13,092
Gains on disposal of a joint venture		**—**	24,273
Finance costs	6	**(24,891)**	(7,664)
Profit before tax		**7,582,261**	6,847,096
Income tax expense	8	**(1,350,211)**	(1,158,972)
Profit for the year	7	**6,232,050**	5,688,124
Profit for the year attributable to:			
Owners of the Company		**6,091,390**	5,605,185
Non-controlling interests		**140,660**	82,939
		6,232,050	5,688,124
		RMB cents	*RMB cents*
Earnings per share	11		
— Basic		**51.11**	46.89
— Diluted		**51.11**	46.89

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	2022 *RMB'000*	2021 *RMB'000*
Profit for the year	**6,232,050**	5,688,124
Other comprehensive income (expense):		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on financial assets measured at fair value through other comprehensive income, net of income tax	**13,013**	(19,723)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**50,493**	7,800
Other comprehensive income (expense) for the year, net of income tax	**63,506**	(11,923)
Total comprehensive income for the year	**6,295,556**	5,676,201
Total comprehensive income for the year attributable to:		
Owners of the Company	**6,154,896**	5,593,262
Non-controlling interests	**140,660**	82,939
	6,295,556	5,676,201

Consolidated Statement of Financial Position

At 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	13	**9,582,060**	8,529,370
Right-of-use assets	14	**1,394,859**	1,034,549
Investment property	15	**62,737**	33,687
Goodwill	16	**234,904**	149,983
Intangible assets	17	**1,908,112**	467,854
Interests in associates	18	**685,290**	650,956
Interests in joint ventures	19	**709,482**	292,505
Amounts due from joint ventures	42	**–**	253,953
Other financial assets	20	**2,125,574**	1,979,345
Deferred tax assets	33	**113,026**	43,000
Deposits, prepayments and other receivables	23	**796,570**	569,871
Bank deposits	26	**200,000**	400,000
		17,812,614	14,405,073
Current assets			
Inventories	21	**2,554,861**	2,480,369
Trade receivables	22	**3,937,967**	3,309,148
Deposits, prepayments and other receivables	23	**693,224**	580,425
Bills receivables	24	**2,602,551**	3,099,188
Amounts due from related companies	42	**195,643**	100,135
Amount due from an associate	42	**–**	400
Amounts due from joint ventures	42	**100,048**	39,783
Structured bank deposits	25	**3,574,859**	1,443,413
Bank balances, deposits and cash	26	**10,298,007**	9,283,642
		23,957,160	20,336,503

	NOTES	2022 RMB'000	2021 RMB'000
Current liabilities			
Trade payables	27	**1,507,986**	1,481,359
Other payables	28	**5,355,516**	4,680,829
Contract liabilities	31	**799,458**	428,404
Bills payables	29	**502,079**	141,258
Amounts due to related companies	42	**104,938**	58,910
Amounts due to joint ventures	42	**130,860**	136,127
Lease liabilities	32	**142,071**	38,424
Tax liabilities		**261,608**	260,732
Bank borrowings	30	**153,484**	—
		8,958,000	7,226,043
Net current assets		**14,999,160**	13,110,460
Total assets less current liabilities		**32,811,774**	27,515,533
Non-current liabilities			
Other payables	28	**270,917**	250,198
Lease liabilities	32	**258,039**	55,620
Deferred tax liabilities	33	**611,993**	381,484
Bank borrowings	30	**28,950**	—
		1,169,899	687,302
Net assets		**31,641,875**	26,828,231

Consolidated Statement of Financial Position

At 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Capital and reserves			
Share capital	35	**10,899,412**	10,899,412
Reserves		**19,298,122**	15,087,260
Equity attributable to owners of the Company		**30,197,534**	25,986,672
Non-controlling interests		**1,444,341**	841,559
Total equity		**31,641,875**	26,828,231

The consolidated financial statements on pages 55 to 165 were approved and authorised for issue by the Board of Directors on 22 March 2023 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 2022

	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 2021	10,899,412	(100,706)	13,767	(3,687,320)	1,875,242	46,794	(36,246)	13,321,345	22,332,288	2,080	766,705	768,785	23,101,073
Profit for the year	–	–	–	–	–	–	–	5,605,185	5,605,185	–	82,939	82,939	5,688,124
Other comprehensive (expense) income for the year, net of income tax	–	–	–	(19,723)	–	–	7,800	–	(11,923)	–	–	–	(11,923)
Total comprehensive (expense) income for the year	–	–	–	(19,723)	–	–	7,800	5,605,185	5,593,262	–	82,939	82,939	5,676,201
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(12,500)	(12,500)	(12,500)
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(1,690,763)	(1,690,763)	–	–	–	(1,690,763)
Repurchase of ordinary shares *(note 35)*	–	–	–	–	–	–	–	(263,512)	(263,512)	–	–	–	(263,512)
Transfer to statutory reserves	–	–	–	–	42,410	–	–	(42,410)	–	–	–	–	–
Recognition of employee share-based compensation expense	–	–	16,242	–	–	–	–	–	16,242	1,490	–	1,490	17,732
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(845)	(845)	–	845	845	–
Vesting of shares under share award scheme	–	15,106	(12,338)	–	–	–	–	(2,768)	–	–	–	–	–
Disposal of financial assets measured at fair value through other comprehensive income	–	–	–	(343,788)	–	–	–	343,788	–	–	–	–	–
At 31 December 2021	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
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 *(note 12)*	–	–	–	–	–	–	–	**(2,096,961)**	**(2,096,961)**	–	–	–	**(2,096,961)**
Repurchase of ordinary shares *(note 35)*	–	–	–	–	–	–	–	**(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**

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 (1) 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; (2) the imputed interest arising on a non-interest bearing loan from CHL in 2012; and (3) deemed capital contribution arising from the acquisition of CSPC Shengxue Glucose Co., Ltd. from CHL in 2016; and (4) deemed capital contribution arising from the grant of share awards to employees of the Company and its subsidiaries in 2022 by a shareholder.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022 *RMB'000*	2021 *RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**7,582,261**	6,847,096
Adjustments for:		
Amortisation of intangible assets	**90,352**	25,361
Depreciation of property, plant and equipment	**802,592**	700,408
Depreciation of right-of-use assets	**152,869**	137,983
Depreciation of investment property	**2,126**	1,719
Finance costs	**24,891**	7,664
Government grant income	**(195,005)**	(96,252)
Fair value gain on financial assets measured at fair value through profit or loss	**(100,905)**	(205,040)
Fair value gain on structured bank deposits	**(117,435)**	(81,532)
Interest income	**(242,528)**	(183,240)
Imputed interest income on amount due from a joint venture	**(16,308)**	(8,983)
Loss on disposal of property, plant and equipment	**7,361**	10,786
Impairment loss on intangible assets	**72,105**	50,000
Impairment loss (reversed) recognised under expected credit loss model	**(25,734)**	4,070
Reversal of write-down of inventories	**(1,170)**	(2,236)
Employee share-based compensation expense	**160,726**	17,732
Share of results of associates	**42,509**	23,894
Share of results of joint ventures	**(27,114)**	(46,337)
Gains on deemed disposal of partial interest in an associate and a joint venture	**(48,065)**	(13,092)
Gain on disposal of a joint venture	**–**	(24,273)
Operating cash flows before movements in working capital	**8,163,528**	7,165,728
Increase in inventories	**(42,750)**	(617,067)
Increase in trade receivables	**(566,548)**	(943,552)
Increase in deposits, prepayments and other receivables	**(62,648)**	(221,362)
Decrease (increase) in bills receivables	**270,202**	(1,109,639)
(Increase) decrease in amounts due from related companies	**(95,508)**	44,125
Decrease (increase) in amount due from an associate	**400**	(400)
Increase in trade payables	**18,445**	276,793
Increase (decrease) in contract liabilities	**371,014**	(197,295)
Increase in bills payables	**360,821**	104,258
Increase in other payables	**466,580**	1,091,010
Increase in deferred government grants	**97,616**	153,075
(Increase) decrease in amounts due from joint ventures	**(60,265)**	89,897
Decrease in amounts due to joint ventures	**(5,267)**	(103,503)
Increase in amounts due to related companies	**46,028**	45,742
Cash generated from operations	**8,961,648**	5,777,810
Income tax paid	**(1,334,584)**	(1,141,183)
NET CASH FROM OPERATING ACTIVITIES	**7,627,064**	4,636,627

	Notes	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(2,220,218)**	(1,410,146)
Purchase of right-of-use assets		**(17,937)**	(9,152)
Refund of deposits paid for acquisition of right-of-use assets		**24,000**	—
Purchase of intangible assets		**(484,537)**	(339,150)
Purchase of other financial assets		**(103,165)**	(484,406)
Capital injection to an associate		**(51,000)**	(81,000)
Capital injection to a joint venture		**(159,891)**	(40,000)
Repayment from an associate		**—**	73,310
Repayment from joint ventures		**—**	538,233
Payment of contingent consideration		**—**	(24,346)
Receipts of government grants		**41,803**	37,279
Placement of structured bank deposits		**(5,210,000)**	(3,938,500)
Placement of restricted bank deposits		**(53,222)**	(23,933)
Placement of bank deposits		**(1,970,000)**	(860,000)
Withdrawal of structured bank deposits		**3,195,989**	4,111,826
Withdrawal of restricted bank deposits		**—**	36,571
Withdrawal of bank deposits		**150,000**	690,000
Interest received		**242,528**	183,240
Dividend received from a joint venture		**65,509**	45,000
Dividend received from an associate		**6,054**	—
Proceeds from distribution of other financial assets		**73,177**	586,593
Acquisition of subsidiaries	36	**(341,907)**	—
Disposal of subsidiaries		**—**	150,914
Proceeds from disposal of a joint venture		**—**	34,650
Proceeds from disposal of property, plant and equipment		**16,833**	85,691
NET CASH USED IN INVESTING ACTIVITIES		**(6,795,984)**	(637,326)

	NOTES	2022 RMB'000	2021 RMB'000
FINANCING ACTIVITIES			
Dividends paid		**(2,096,961)**	(1,690,763)
Dividends paid to non-controlling interests		**(20,475)**	(12,500)
Capital contribution from non-controlling interests		**51,868**	—
Repurchase of shares		**(14,211)**	(263,512)
Interest on lease liabilities		**(13,451)**	(7,105)
Interest on bank borrowings		**(8,087)**	(559)
Payment of lease liabilities		**(125,239)**	(123,167)
New bank borrowings raised		**485,712**	—
Acquisition of additional interests in subsidiaries		**(36,243)**	—
Advances drawn on bills discounted with recourse		**368,726**	—
Repayment of bank borrowings		**(495,712)**	(99,000)
NET CASH USED IN FINANCING ACTIVITIES		**(1,904,073)**	(2,196,606)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,072,993)**	1,802,695
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**9,059,709**	7,259,458
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**14,136**	(2,444)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	26	**8,000,852**	9,059,709

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 44.

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

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following 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 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020

The application of the 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[2]
Amendments to HKAS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company (the "Directors") anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Significant Accounting Policies

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.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

3. Significant Accounting Policies *(continued)*

Basis of preparation of consolidated financial statements *(continued)*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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.

3. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

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 statement of profit or loss 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.

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

Effective from 1 January 2022, 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.

3. Significant Accounting Policies *(continued)*

Business combinations or asset acquisitions *(continued)*

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

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.

For business combinations in which the acquisition date is on or after 1 January 2022, 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.

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);

3. Significant Accounting Policies *(continued)*

Business combinations or asset acquisitions *(continued)*

Business combinations *(continued)*

- 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.

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.

3. Significant Accounting Policies *(continued)*

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.

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.

3. Significant Accounting Policies *(continued)*

Investments in associates and joint ventures *(continued)*

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. Significant Accounting Policies *(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

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

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. Significant Accounting Policies *(continued)*

Revenue from contracts with customers *(continued)*

Except for granting of a licence that is distinct from other promised goods or services, control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For granting of a licence that is distinct from other promised goods or services, the nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the licence directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a licence as a performance obligation satisfied over time. Otherwise, the Group considers the grant of licence as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the licence is granted.

A receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

3. Significant Accounting Policies *(continued)*

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.

For contracts entered into or modified or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

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.

3. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Right-of-use assets (continued)

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.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

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.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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.

3. Significant Accounting Policies *(continued)*

Leases *(continued)*

The Group as a lessee *(continued)*

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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 as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

3. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Significant Accounting Policies *(continued)*

Government grants

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

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

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

Employment benefits

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

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.

3. Significant Accounting Policies *(continued)*

Share-based payments *(continued)*

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

Share options granted to employees (continued)

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 the tax currently payable and deferred tax.

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.

3. Significant Accounting Policies *(continued)*

Taxation *(continued)*

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. 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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption.

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

3. Significant Accounting Policies *(continued)*

Taxation *(continued)*

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.

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.

3. Significant Accounting Policies *(continued)*

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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. Significant Accounting Policies *(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.

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

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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

3. Significant Accounting Policies *(continued)*

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

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

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

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

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

3. Significant Accounting Policies *(continued)*

Cash and cash equivalents

Bank balances and cash include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; 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.

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).

3. Significant Accounting Policies *(continued)*

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 fair value through profit or loss are recognised immediately in profit or loss.

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.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

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.

(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.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (continued)

(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.

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, deposits and other receivables, bills receivables, amounts due from related companies, an associate and joint ventures, bank deposits, 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.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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

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.

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.

3. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

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

(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.

(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.

3. Significant Accounting Policies *(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

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.

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. Significant Accounting Policies *(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 joint ventures and related companies 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.

4. Key Sources of Estimation Uncertainty *(continued)*

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 2022, the carrying amount of trade receivables amounting to RMB3,937,967,000 (2021: RMB3,309,148,000) were net of impairment allowance under ECL model. The provision of ECL is sensitive to changes in estimates. The information about the ECL are disclosed in note 40.

Estimated impairment assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU (or a group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which result in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

As at 31 December 2022, the carrying amount of goodwill amounted to RMB234,904,000 (2021: RMB149,983,000). Details of the recoverable amount calculation are disclosed in note 16.

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 2022, the carrying amounts of intangible assets not yet available for use amounted to RMB1,513,848,000 (2021: RMB384,837,000). Details of the assessment of impairment of intangible assets not yet available for use are disclosed in note 17.

4. Key Sources of Estimation Uncertainty *(continued)*

Fair value measurement of financial assets

As at 31 December 2022, certain of the Group's financial assets, unquoted equity instruments amounting to RMB2,025,117,000 (2021: RMB1,912,620,000) were measured at fair values with fair value being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40c for further disclosures.

5. Revenue and Segment Information

	2022	2021
	RMB'000	*RMB'000*
Sale of goods	**30,751,087**	27,818,345
Licence fee income	**185,817**	48,525
	30,936,904	27,866,870

Information reported to executive directors, being the chief operating decision maker ("CODM"), 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, antibiotic and other products in bulk powder form; and

(c) Functional food and others — manufacture and sale of functional food products including caffeine additives and vitamin supplements, provision of healthcare service and others.

5. Revenue and Segment Information *(continued)*

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 2022, 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.

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 or if control is transferred over time, e.g. commercialisation licence to customers for a term of period, revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation.

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.

5. Revenue and Segment Information *(continued)*

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 2022

	Finished drugs	Bulk products: Vitamin C	Bulk products: Antibiotics and others	Functional food and others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	24,334,250	2,529,126	1,921,810	1,965,901	30,751,087	–	30,751,087
Inter-segment sales	–	4,285	290,797	80,191	375,273	(375,273)	–
Licence fee income	185,817	–	–	–	185,817	–	185,817
TOTAL REVENUE	24,520,067	2,533,411	2,212,607	2,046,092	31,312,177	(375,273)	30,936,904
SEGMENT PROFIT	6,067,844	442,574	189,760	571,819	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 interest in an associate and joint venture							48,065
Finance costs							(24,891)
Profit before tax							7,582,261

5. Revenue and Segment Information *(continued)*

Segment revenues and results *(continued)*

For the year ended 31 December 2021

	Finished drugs	Bulk products: Vitamin C	Bulk products: Antibiotics and others	Functional food and others	Segment total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
SEGMENT REVENUE							
External sales	22,632,919	2,149,099	1,670,110	1,366,217	27,818,345	–	27,818,345
Inter-segment sales	–	11,537	176,182	28,320	216,039	(216,039)	–
Licence fee income	48,525	–	–	–	48,525	–	48,525
TOTAL REVENUE	22,681,444	2,160,636	1,846,292	1,394,537	28,082,909	(216,039)	27,866,870
SEGMENT PROFIT	5,216,239	741,808	143,110	315,597	6,416,754		6,416,754
Unallocated income							479,651
Unallocated expenses							(101,453)
Share of results of associates							(23,894)
Share of results of joint ventures							46,337
Gain on deemed disposal of partial interest in an associate							13,092
Gain on disposal of a joint venture							24,273
Finance costs							(7,664)
Profit before tax							6,847,096

5. Revenue and Segment Information *(continued)*

Segment revenues and results *(continued)*

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, finance costs, central administrative expenses, share of results of associates and joint ventures, gain on deemed disposal of partial interest in an associate, gain on deemed disposal of partial interest in a joint venture and gain on disposal of a joint venture. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

Other segment information

For the year ended 31 December 2022

		Bulk products					
	Finished drugs	Vitamin C	Antibiotics and others	Functional food and others	Segment total	Unallocated	Consolidated
	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**

For the year ended 31 December 2021

		Bulk products					
	Finished drugs	Vitamin C	Antibiotics and others	Functional food and others	Segment total	Unallocated	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation and amortisation	609,873	86,331	92,799	66,683	855,686	9,785	865,471

5. Revenue and Segment Information *(continued)*

Geographical information

Information about the Group's revenue from external customers is presented based on the geographical location of customers:

	2022	2021
	RMB'000	*RMB'000*
The PRC (country of domicile)	**26,139,499**	24,288,769
Other Asian regions	**1,735,668**	1,474,553
Americas	**1,509,755**	1,159,269
Europe	**1,268,015**	700,267
Others	**283,967**	244,012
	30,936,904	27,866,870

The Group's operations are substantially based in the PRC and substantially all non-current assets of the Group are located in the PRC. 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

	2022	2021
	RMB'000	*RMB'000*
Interest on discounted bills receivables	**3,353**	—
Interest on lease liabilities	**13,451**	7,105
Interest on bank borrowings	**8,087**	559
	24,891	7,664

7. Profit for the Year

	2022	2021
	RMB'000	*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	**4,307,962**	3,456,607
— contribution to retirement benefit schemes	**254,686**	212,608
— employee share-based compensation benefits *(note a)*	**160,726**	17,732
Total staff costs	**4,723,374**	3,686,947
Depreciation of property, plant and equipment	**802,592**	700,408
Depreciation of right-of-use assets	**152,869**	137,983
Depreciation of investment property	**2,126**	1,719
Amortisation of intangible assets	**90,352**	25,361
Total depreciation and amortisation	**1,047,939**	865,471
Auditor's remuneration	**7,806**	9,941
Government grant income (included in other income) *(note 34)*	**(195,005)**	(96,252)
Impairment losses (reversed) recognised under expected credit loss model (included in other gains or losses)	**(25,734)**	4,070
Impairment losses recognised on intangible assets (included in other gains or losses)	**72,105**	50,000
Interest income (included in other income)	**(242,528)**	(183,240)
Fair value gain on financial assets measured at FVTPL (included in other gain or losses)	**(100,905)**	(205,040)
Fair value gain on structured bank deposits (included in other gains or losses)	**(117,435)**	(81,532)
Loss on disposal of property, plant and equipment (included in other gains or losses)	**7,361**	10,786
Net foreign exchange (gain) loss (included in other gains or losses)	**(118,127)**	35,961

Notes:

(a) The amount mainly included employee share-based compensation expenses of RMB6,904,000 (2021: RMB16,242,000) in respect of share awards granted under the Share Award Scheme of the Company and RMB149,780,000 (2021: nil) 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 statement of profit or loss for the years ended 31 December 2022 and 2021.

8. Income Tax Expense

	2022	2021
	RMB'000	*RMB'000*
Current taxation:		
— PRC Enterprise Income Tax ("PRC EIT")	**1,189,308**	880,441
— PRC withholding tax on dividends distributed by subsidiaries	**133,187**	94,750
— United States of America ("USA") Federal and State Income tax	**12,965**	6,787
	1,335,460	981,978
Deferred taxation *(note 33)*	**14,751**	176,994
	1,350,211	1,158,972

The calculation of Hong Kong Profits Tax for the Company and its subsidiaries incorporated in Hong Kong is based on the prevailing tax rates in Hong Kong. No Hong Kong Profits Tax has been recognised as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The basic 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 advanced technology enterprises and have obtained approvals from the relevant tax authorities for the applicable tax rate reduced to 15% for a period of 3 years up to 2024.

The calculation of USA Federal and State Income Tax is based on the prevailing tax rates in the USA.

8. Income Tax Expense *(continued)*

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

	2022	2021
	RMB'000	*RMB'000*
Profit before tax	**7,582,261**	6,847,096
Tax at the PRC EIT rate of 25%	**1,895,565**	1,711,774
Tax effect of expenses not deductible for tax purpose	**236,938**	173,260
Tax effect of income not taxable for tax purpose	**(48,207)**	(53,457)
Tax effect of share of results of associates	**10,627**	5,973
Tax effect of share of results of joint ventures	**(6,779)**	(11,584)
Utilisation of tax losses not previously recognised	**–**	(99,796)
Tax effect of tax losses not recognised	**298,981**	37,542
Effect of tax relief and concessions granted to certain PRC subsidiaries	**(1,220,045)**	(785,913)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(1,077)
PRC withholding tax on dividends distribution by subsidiaries	**183,131**	182,250
Income tax expense for the year	**1,350,211**	1,158,972

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

9. Directors' Emoluments

The emoluments paid or payable to each of the 15 (2021: 16) directors were as follows:

2022	Fees RMB'000	Salaries and allowances RMB'000	Employee share-based compensation benefits RMB'000	Performance-related bonuses RMB'000	Contributions to retiremen benefit schemes RMB'000	Total 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 *(iii)*	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)*

2021	Fees	Salaries and allowances	Employee share-based compensation benefits	Performance-related bonuses	Contributions to retiremen benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
Cai Dongchen *(i)*	50	3,747	–	9,130	348	13,275
Zhang Cuilong *(ii)*	50	693	–	8,300	65	9,108
Wang Zhenguo	50	693	–	4,150	65	4,958
Pan Weidong	50	679	–	4,150	123	5,002
Wang Huaiyu	50	693	–	4,150	65	4,958
Li Chunlei	50	693	–	4,150	69	4,962
Wang Qingxi	50	1,613	–	–	75	1,738
Chak Kin Man	50	1,868	–	2,905	172	4,995
Jiang Hao	50	706	–	4,150	97	5,003
Independent non-executive directors:						
Wang Bo	125	–	–	–	–	125
Chen Chuan	125	–	–	–	–	125
Wang Hongguang *(vi)*	125	–	–	–	–	125
Au Chun Kwok Alan *(vii)*	299	–	–	–	–	299
Law Cheuk Kin Stephen *(viii)*	249	–	–	–	–	249
Lo Yuk Lam *(ix)*	7	–	–	–	–	7
Yu Jimming *(x)*	15	–	–	–	–	15
	1,395	11,385	–	41,085	1,079	54,944

9. Directors' Emoluments *(continued)*

Notes:

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

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

(iii) The amount represented the fair value of share awards granted by a shareholder of the Company recognised in the consolidated statement of profit or loss during the year (note 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.

(vi) Prof. Wang was appointed as an independent non-executive director on 27 January 2021.

(vii) Mr. Au was appointed as an independent non-executive director on 27 January 2021.

(viii) Mr. Law was appointed as an independent non-executive director on 8 March 2021.

(ix) Prof. Lo resigned as an independent non-executive director on 27 January 2021.

(x) Dr. Yu resigned as an independent non-executive director on 8 March 2021.

The directors' fees shown above were in respect of their services as directors of the Company, and the other emoluments shown above were mainly for their services 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 for both years 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, none of the Directors waived any emoluments in both years.

Other than as disclosed above, no transactions, arrangements or contracts of significance to which the Company, or any of its fellow subsidiaries or subsidiaries was a party and in which a Director 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.

10. Five Highest Paid Employees

The five highest paid employees of the Group included four (2021: three) directors of the Company, details of whose emoluments are set out in note 9 above. The emoluments of the remaining one (2021: two) highest paid employee are as follows:

	2022	2021
	RMB'000	*RMB'000*
Salaries and allowances	**384**	3,266
Performance-related bonus	**3,865**	10,887
Contributions to retirement benefit schemes	**61**	185
Employee share-based compensation benefits	**2,214**	12,338
	6,524	26,676

The emoluments of the remaining one (2021: two) employee, including employee share-based compensation benefits, were within the following bands:

	Number of employees	
	2022	2021
HK$7,500,001 to HK$8,000,000	**1**	—
HK$13,500,001 to HK$14,000,000	**—**	1
HK$19,000,001 to HK$19,500,000	**—**	1

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 attributable to the owners of the Company is based on the following data:

Earnings	**2022**	2021
	RMB'000	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**6,091,390**	5,605,185

Number of shares	**2022**	2021
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**11,917,204**	11,953,486
Effect of dilutive potential ordinary shares:		
Unvested shares under the Company's share award scheme	**1,319**	353
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**11,918,523**	11,953,839

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

	2022	2021
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Interim dividend paid:		
2022: HK10 cents (approximately RMB9.0 cents) (2021: HK8 cents (approximately RMB6.6 cents)) per share	**1,079,240**	795,058
Final dividend paid:		
2021: HK10 cents (approximately RMB8.6 cents) (2020: HK9 cents(approximately RMB7.5 cents)) per share	**1,020,529**	898,320
Less: dividend for shares held by share award scheme	**(2,808)**	(2,615)
	2,096,961	1,690,763

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK11 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 office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2021	3,569,264	5,554,634	391,468	14,751	1,483,059	11,013,176
Additions	165,426	92,556	11,273	1,271	1,286,721	1,557,247
Transfers	443,277	750,567	41,843	–	(1,235,687)	–
Disposals	(41,737)	(128,339)	(6,475)	–	–	(176,551)
Exchange adjustments	(913)	(786)	(66)	(41)	–	(1,806)
At 31 December 2021	**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 properties	**(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**
DEPRECIATION						
At 1 January 2021	906,676	2,156,976	168,618	10,464	–	3,242,734
Provided for the year	166,989	486,597	43,615	3,207	–	700,408
Eliminated on disposals	(6,954)	(67,075)	(6,045)	–	–	(80,074)
Exchange adjustments	(82)	(218)	(40)	(32)	–	(372)
At 31 December 2021	**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 properties	**(4,352)**	**–**	**–**	**–**	**–**	**(4,352)**
Eliminated on 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**
CARRYING VALUES						
At 31 December 2022	**3,363,021**	**3,735,856**	**235,916**	**2,345**	**2,244,922**	**9,582,060**
At 31 December 2021	3,068,688	3,692,352	231,895	2,342	1,534,093	8,529,370

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 RMB545,170,000(2021: RMB464,513,000) 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 office equipment	20% - 33.33%
Motor vehicles	20%

14. Right-of-use Assets

	Land and buildings *RMB'000*
CARRYING AMOUNT	
As at 1 January 2021	1,163,898
Additions	9,123
Depreciation provided for the year	(137,983)
Exchange adjustment	(489)
As at 31 December 2021	**1,034,549**
Additions	**443,792**
Acquisition of subsidiaries	**64,026**
Depreciation provided for the year	**(152,869)**
Exchange adjustment	**5,361**
As at 31 December 2022	**1,394,859**

	2022 ***RMB'000***	2021 *RMB'000*
Expenses relating to short-term leases and other leases with lease terms ending within 12 months	**–**	1,516
Total cash outflows for leases *(Note)*	**156,627**	140,940

Note: Amount includes payments of principal and interest portion of lease liabilities, short-term leases and payments for right-of-use assets.

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 RMB400,110,000 (2021: RMB94,044,000) are recognised with related right-of-use assets of RMB388,309,000 as at 31 December 2022 (2021: RMB86,764,000). 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 2021 and 31 December 2021	37,125
Transfer from property, plant and equipment *(note 13)*	35,528
At 31 December 2022	**72,653**
DEPRECIATION	
At 1 January 2021	1,719
Provided for the year	1,719
At 31 December 2021	**3,438**
Provided for the year	**2,126**
Transfer from property, plant and equipment *(note 13)*	**4,352**
At 31 December 2022	**9,916**
CARRYING VALUES	
At 31 December 2022	**62,737**
At 31 December 2021	33,687

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

15. Investment Property *(continued)*

The fair value of the Group's investment property at 31 December 2022 was approximately RMB117,460,000 (2021: RMB57,789,000). 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 and Impairment Testing on Goodwill

	RMB'000
COST	
At 1 January 2021 and 31 December 2021	**149,983**
Acquisition of subsidiaries *(note 36)*	**84,921**
At 31 December 2022	**234,904**

For the purpose of impairment testing, goodwill has been allocated to six individual CGUs as at 31 December 2022 (2021: four). The carrying amount of goodwill as at 31 December 2022 and 2021 allocated to these units is as follows:

	2022	2021
	RMB'000	*RMB'000*
Ouyi Group *(note a)*	**82,172**	82,172
Baike Group *(note a)*	**17,875**	17,875
Gold Faith Group *(note a)*	**1,724**	1,724
Bioworkshops Group *(note a)*	**13,313**	—
Yong Shun Group *(note b)*	**48,212**	48,212
Zhifan Group *(note c)*	**71,608**	—
	234,904	149,983

16. Goodwill and Impairment Testing on Goodwill *(continued)*

Notes:

(a) The recoverable amounts of Ouyi (as defined in note 44) and its subsidiaries (collectively referred to as "Ouyi Group"), Baike Shandong (as defined in note 44) and its subsidiaries (collectively referred to as "Baike Group"), Gold Faith Investments Limited ("Gold Faith") and its subsidiaries (collectively referred to as "Gold Faith Group") and Bioworkshops (as defined in note 36) and its subsidiary (collectively referred to as "Bioworkshops Group") are determined based on value-in-use calculations with certain key assumptions. The calculations use cash flow projections based on financial forecasts approved by management. The pre-tax discount rates used in the projected cash flows are at a range of 12% to 15% (2021: 12% to 15%) per annum. Cash flows beyond the forecasted period are extrapolated using a steady 2% to 3% (2021: 3%) growth rate. The long-term growth rates are based on the relevant industry growth forecasts and do 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. The Directors believe that any reasonably possible changes in any of these assumptions would not cause the carrying amounts to exceed the recoverable amount.

(b) The recoverable amount of Yong Shun Technology Development Limited ("Yong Shun") and its subsidiaries (collectively referred to as "Yong Shun Group") is determined based on value-in-use calculation with certain key assumptions. The calculation uses cash flow projection based on financial forecast approved by the management. The pre-tax discount rate used in the projected cash flows is 21% per annum (2021: 22%). Cash flows beyond the forecasted period are extrapolated using a steady 2% growth rate (2021: 3%). The long-term 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) is determined based on value-in-use calculation with certain key assumptions. The calculation uses cash flow projection based on financial forecast approved by the management. The pre-tax discount rate used to in the projected cash flows is 22% per annum. Cash flows beyond the forecasted period are extrapolated using a steady 2% growth rate. The long-term 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 which 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 2021.

17. Intangible Assets

	Development costs	Research and development projects	Product licences and patents	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(note a)	*(note b)*	*(note c)*	
COST				
At 1 January 2021	127,190	281,114	284,880	693,184
Additions	31,223	—	3,638	34,861
Exchange adjustments	(518)	—	(173)	(691)
At 31 December 2021	**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**
AMORTISATION AND IMPAIRMENT				
At 1 January 2021	113,044	—	71,398	184,442
Provided for the year	3,095	—	22,266	25,361
Impairment loss recognised	—	—	50,000	50,000
Exchange adjustments	(227)	—	(76)	(303)
At 31 December 2021	**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**
CARRYING VALUES				
At 31 December 2022	**35,814**	**1,219,372**	**652,926**	**1,908,112**
At 31 December 2021	41,983	281,114	144,757	467,854

17. Intangible Assets *(continued)*

Notes:

(a) Development costs mainly represent costs internally generated or techniques acquired from third parties for the development of products and production technology.

(b) Research and development projects were acquired through business combination. As at 31 December 2022, research and development projects not yet available for use of RMB946,849,000 (2021: RMB281,114,000) are not amortised, but tested individually for impairment annually until the completion or abandonment of the related research and development efforts.

(c) The item represents consideration paid by the Group for obtaining product licences and patents of drugs or drug candidates. As at 31 December 2022, product licences and patents not yet available for use of RMB566,999,000 (2021: RMB103,723,000) are not amortised, but tested individually for impairment annually until relevant regulatory approval of the product has been obtained.

During the year ended 31 December 2022, management of the Group concluded there was indication of negative changes in markets and conducted impairment assessment of certain intangible assets with finite useful live and recognised an impairment loss of RMB72,105,000 (2021: RMB50,000,000). The recoverable amounts of these intangible assets of RMB85,928,000 (2021: RMB13,000,000) are determined based on a value-in-use calculations. The calculations use cash flow projections based on financial forecast approved by the management covering the shorter of useful lives or the following 5 years with pre-tax discount rates of 18% to 23% (2021: 20%). The annual growth rate used is 3% (2021: 3%), which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

The recoverable amounts of intangible assets not yet available for use are determined based on value-in-use calculations using cash flow projection based on financial forecast approved by the management. The pre-tax discount rates used in the cash flow projections are 16% to 23% (2021: 18% to 23%), which are determined with reference to the average discount rate for each intangible asset with similar business risk and after taking into account the risk premium in connection with the related research and development efforts. The annual growth rate used is 3%, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the relevant industry.

17. Intangible Assets *(continued)*

Key assumptions used by management in the cash flow projections for undertaking impairment testing include:

The estimation of cash inflows/outflows include forecast sales based on management's expectation of the market development.

Discount rate — The discount rate used is before tax and reflects specific risks in respect of the related research and development efforts.

Growth rate — The growth rate is based on the estimated growth rate of related products taking into account the industry growth rate, past experience and the medium-term or long-term growth target.

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 10 years
Exclusive commercialisation right	3 to 10 years
Product licences and patents	3 to 10 years

18. Interests in Associates

	2022	2021
	RMB'000	*RMB'000*
Cost of investments in associates	**733,675**	682,675
Share of post-acquisition reserves	**(48,385)**	(31,719)
	685,290	650,956

18. Interests in Associates *(continued)*

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/voting rights held by the Group		Principal activities
			2022	2021	
Beijing Guoxinhuijin Co, Ltd. ("Guoxin")	Limited liability	The PRC	**30.07%**	30.07%	Network media
Wuhan YZY Biopharma Co, Ltd. ("YZY Biopharma)	Limited liability	The PRC	**29.72%**	33.89%	Pharmaceutical research and development
Shijiazhuang High-Tech Zone Puenguoxin Investment Center (Limited Partnership)	Limited partnership	The PRC	**21.50%**	21.50%	Investment holding
Wuhan KDWS Biological Technology Co., Ltd ("KDWS") *(Note)*	Limited liability	The PRC	**9.72%**	6.98%	Pharmaceutical research and development
Qingdao Shiyao Xiantong New Drug Investment Partnership (Limited Partnership)	Limited partnership	The PRC	**35%**	35%	Investment holding
Taizhou Huarui Shiyao Fengshou Equity Investment Partnership (Limited Partnership)	Limited partnership	The PRC	**20.83%**	20.83%	Investment holding
Qingdao Puen Zerui Private Equity International Partnership (Limited Partnership) ("QPZP") *(Note)*	Limited partnership	The PRC	**10%**	–	Investment holding

Note: The Group has significant influence through its board representation in KDWS and QPZP.

The associates are accounted for using equity method in the consolidated financial statements. Summarised financial information of the Group's associates which represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs are set out below.

18. Interests in Associates *(continued)*

Guoxin

	2022	2021
	RMB'000	RMB'000
Current assets	362,814	310,049
Non-current assets	486,734	502,569
Current liabilities	(30,591)	(26,900)
Non-current liabilities	(78,161)	(74,724)
Revenue	134,645	116,689
Profit and total comprehensive income for the year	29,800	16,961

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2022	2021
	RMB'000	RMB'000
Net assets	740,796	710,994
Proportion of the Group's ownership interest	30.07%	30.07%
The Group's share of net assets	222,757	213,796
Goodwill	28,909	28,909
Carrying amount of the Group's interest	251,666	242,705

YZY Biopharma

	2022	2021
	RMB'000	RMB'000
Current assets	240,737	142,549
Non-current assets	627,264	625,817
Current liabilities	(110,144)	(39,656)
Non-current liabilities	(121,243)	(89,855)
Loss and total comprehensive expense for the year	(187,005)	(87,120)

18. Interests in Associates *(continued)*

YZY Biopharma *(continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2022	2021
	RMB'000	*RMB'000*
Net assets	**636,614**	638,855
Proportion of the Group's ownership interest	**29.72%**	33.89%
The Group's share of net assets	**189,202**	216,507
Goodwill	**36,884**	44,182
Other adjustments	**(3,750)**	(6,381)
Carrying amount of the Group's interest	**222,336**	254,308

The aggregate information of associates that are not individually material is considered insignificant.

Aggregate information of associates that are not individually material

	2022	2021
	RMB'000	*RMB'000*
The Group's share of profits (losses) and total comprehensive income (expense), net of dividends received	**12,399**	(56)
Aggregate carrying amount of the Group's interests in these associates	**211,288**	153,943

19. Interests in Joint Ventures

	2022	2021
	RMB'000	*RMB'000*
Cost of investment in joint ventures	**620,611**	142,910
Deemed capital contribution	**–**	38,497
Share of post-acquisition reserves	**88,871**	111,098
	709,482	292,505

19. Interests in Joint Ventures *(continued)*

Name of company	Legal form	Place of registration and principal place of business	Proportion of ownership interest/voting rights held by the Group		Principal activities
			2022	2021	
Hebei Huarong Pharmaceutical Co., Ltd ("Hebei Pharmaceutical") *(note a)*	Sino foreign equity joint venture	The PRC	**26.47%**	26.47%	Manufacture and sale of vitamin B12 products
Yantai Jiashi Pharmaceutical Technology Co., Ltd ("Yantai Jiashi") *(note a)*	Sino foreign equity joint venture	The PRC	**50%**	50%	Investment holding
Bioworkshops Limited ("Bioworkshops") *(note b)*	Limited liability	The British Virgin Islands ("BVI")	**N/A**	78%	Investment holding
Bioworkshops (Suzhou) Limited ("Bioworkshops (Suzhou)") *(note a)*	Limited liability	The PRC	**60.67%**	–	Pharmaceutical research and development
CSPC Health and Life Research Institute (Sanya) Co., Ltd *(note a)*	Limited liability	The PRC	**55%**	55%	Pharmaceutical research and development

Notes:

(a) Pursuant to the relevant agreements and articles of association, the strategic financial and operating decisions relating to the relevant activities require the unanimous consent of all the joint venture partners. Accordingly, these companies were accounted for as joint ventures.

(b) During the year ended 31 December 2022, the Group acquired the shares from other joint venture partners and Bioworkshops became a wholly-owned subsidiary of the Group.

The joint ventures are accounted for using equity method in the consolidated financial statements. Summarised financial information the Group's material joint ventures which represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs is set out below.

19. Interests in Joint Ventures *(continued)*

Hebei Pharmaceutical

	2022	2021
	RMB'000	*RMB'000*
Current assets	**964,071**	720,764
Non-current assets	**691,944**	657,047
Current liabilities	**(277,304)**	(312,280)
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**558,497**	156,149
Revenue	**989,528**	921,578
Profit and total comprehensive income for the year	**182,880**	225,705
Dividends received from Hebei Pharmaceutical during the year	**65,509**	45,000
The above profit for the year includes the following:		
Depreciation and amortisation	**(52,636)**	(46,851)
Interest income	**2,925**	6,318
Income tax expense	**(35,690)**	(39,822)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hebei Pharmaceutical recognised in the consolidated financial statements:

	2022	2021
	RMB'000	*RMB'000*
Net assets	**1,378,711**	1,065,531
Proportion of the Group's ownership interest	**26.47%**	26.47%
The Group's share of net assets	**364,945**	282,046
Other adjustment	**(28,609)**	(28,609)
	336,336	253,437

19. Interests in Joint Ventures *(continued)*

Bioworkshops (Suzhou)

	2022
	RMB'000
Current assets	176,508
Non-current assets	353,826
Current liabilities	(75,113)
Non-current liabilities	(120,879)
The above amounts of assets and liabilities include the following:	
Cash and cash equivalents	100,819
Revenue	25,916
Loss and total comprehensive expense for the year	(32,836)
The above loss for the year includes the following:	
Depreciation and amortisation	(5,657)
Interest income	1,508
Income tax credit	113

Reconciliation of the above summarised financial information to the carrying amount of the interest in Bioworkshops (Suzhou) recognised in the consolidated financial statements:

	2022
	RMB'000
Net assets	334,342
Proportion of the Group's ownership interest	60.67%
The Group's share of net assets	202,834
Goodwill	51,608
Other adjustment	21,328
	275,770

19. Interests in Joint Ventures *(continued)*

Aggregate information of joint ventures that are not individually material

	2022	2021
	RMB'000	*RMB'000*
The Group's share of losses and total comprehensive expense	**(1,692)**	(932)
Unrecognised share of losses of the joint ventures for the year	**(23,752)**	(20,205)
Cumulative unrecognised share of losses of the joint ventures	**(51,879)**	(28,127)

20. Other Financial Assets

	2022	2021
	RMB'000	*RMB'000*
Unlisted investments in partnerships and funds	**1,767,743**	1,693,705
Listed equity securities	**100,457**	66,725
Unlisted equity securities	**257,374**	218,915
	2,125,574	1,979,345
Analysed as:		
Financial assets measured at FVTPL	**1,843,961**	1,733,068
Financial assets measured at FVTOCI *(note)*	**281,613**	246,277
	2,125,574	1,979,345

Note: 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 or similar activities.

In the current year, the Group received RMB73,177,000 (2021: RMB586,593,000) upon distribution by the partnerships and funds, which was also the fair value as at the date of distribution.

21. Inventories

	2022	2021
	RMB'000	*RMB'000*
Raw materials	**810,800**	765,469
Work in progress	**284,283**	295,314
Finished goods	**1,459,778**	1,419,586
	2,554,861	2,480,369

The inventories are net of a provision of RMB4,352,000 as at 31 December 2022 (2021: RMB5,522,000)

22. Trade Receivables

	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**3,961,692**	3,358,607
Less: allowance for impairment	**(23,725)**	(49,459)
	3,937,967	3,309,148

As at 1 January 2021, trade receivables (net of allowance for impairment) from contracts with customers amounted to RMB2,398,859,000.

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

	2022	2021
	RMB'000	*RMB'000*
0 to 90 days	**3,664,707**	3,122,761
91 to 180 days	**261,185**	175,494
181 to 365 days	**9,562**	8,578
More than 365 days	**2,513**	2,315
	3,937,967	3,309,148

22. Trade Receivables *(Continued)*

Trade receivables with aggregate carrying amount of RMB273,260,000 (2021: RMB186,387,000) are past due as at the reporting date. Out of the past due balances, RMB12,075,000 (2021: RMB10,893,000) 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

	2022	2021
	RMB'000	*RMB'000*
Prepayments for raw materials and research and development expenses	**207,224**	177,753
Prepayment for acquisition of intangible assets	**150,000**	304,289
Deposits paid for property, plant and equipment and right-of-use assets	**646,570**	265,582
Other taxes recoverable	**189,037**	199,534
Others	**296,963**	203,138
	1,489,794	1,150,296
Analysed as:		
Current	**693,224**	580,425
Non-current	**796,570**	569,871
	1,489,794	1,150,296

24. Bills Receivables

All bills receivables of the Group are with a maturity period of less than 365 days (2021: less than 365 days) and not yet due at the end of the reporting period. The management considers the default rate is low based on historical information, experience and forward-looking information that is available without undue cost of effort.

As at 31 December 2022, the amount include RMB1,561,531,000 (2021: RMB2,071,866,000) of bills receivables measured at FVTOCI.

25. Structured Bank Deposits

Structured bank deposits of RMB3,574,859,000 (2021: RMB 1,243,413,000) carry guaranteed return up to 1.00% (2021: 1.40%) per annum and have a total expected return up to 3.50% (2021: 3.41%) per annum, depending on the market prices of the underlying commodities quoted in the market as specified in the terms of relevant deposits.

At 31 December 2021, structured bank deposits of RMB200,000,000 carried no guaranteed return and had a total expected return up to 3.10% per annum, depending on the performance of the underlying financial investments or the changes in the interest rates as specified in the terms of relevant deposits. The structured bank deposits are matured during the current year.

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

26. Bank Balances, Deposits and Cash

	2022	2021
	RMB'000	*RMB'000*
Time deposits	**2,420,000**	600,000
Restricted bank deposits	**77,155**	23,933
Bank balances and cash	**8,000,852**	9,059,709
	10,498,007	9,683,642
Analysed as:		
Current	**10,298,007**	9,283,642
Non-current	**200,000**	400,000
	10,498,007	9,683,642

Time deposits carry interest at market interest rates ranging from 2.85% to 4.13% (2021: 3.26% to 4.13%) per annum.

Restricted bank deposits and bank balances carry interest at market interest rates ranging from 0.30% to 3.33% (2021: 0.01% to 3.60%) per annum.

The restricted bank deposits represent deposits required to be placed in banks for securing letters of credit and guarantee for trade and bills payables and are classified as current assets. The restricted bank deposits will be released upon settlement of the relevant short-term bank facilities.

27. Trade Payables

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

	2022	2021
	RMB'000	RMB'000
0 to 90 days	**1,333,746**	1,262,830
91 to 180 days	**51,978**	82,438
More than 180 days	**122,262**	136,091
	1,507,986	1,481,359

The general credit period on purchases of goods is up to 90 days (2021: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

28. Other Payables

	2022	2021
	RMB'000	RMB'000
Other tax payable	**181,238**	102,507
Payables arising from construction and acquisition of property, plant and equipment	**818,967**	790,696
Deferred government grants *(note 34)*	**411,959**	467,545
Salaries, wages and staff welfare payable	**546,927**	416,749
Selling expense payable	**3,049,003**	2,500,679
Research and development expense payable	**126,516**	143,644
Others	**491,823**	509,207
	5,626,433	4,931,027
Analysed as:		
Current	**5,355,516**	4,680,829
Non-current — deferred government grants *(note 34)*	**270,917**	250,198
	5,626,433	4,931,027

29. Bills Payables

All bills payables of the Group are aged within 365 days (2021: 365 days) and not yet due at the end of the reporting period.

30. Bank Borrowings

	2022
	RMB'000
Discount of bills receivables *(note a)*	**145,644**
Variable-rate unsecured RMB bank loans *(note b)*	**36,790**
	182,434
The carrying amounts of the above borrowings are repayable as follows:	
Within one year	**153,484**
Within a period of more than one year but not exceeding two years	**28,950**
	182,434
Less: Amounts due within one year shown under current liabilities	**(153,484)**
Amounts shown under non-current liabilities	**28,950**

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 2022, the Group discounted bills receivables with recourse of RMB368,726,080 (2021: nil), net of interest, among which RMB226,435,000 matured before year ended.

(b) The bank loans carry interest rates ranging from 3.7% to 5.5% (31 December 2021: nil) per annum.

As at 31 December 2021, the Group had no bank borrowings.

31. Contract Liabilities

Contract liabilities represent deposits received from sales of goods. As at 1 January 2021, contract liabilities amounted to RMB625,699,000. The Group may receive certain percentage of the contract value from customers upon signing of the sale agreements or placing of purchase orders. This gives rise to contract liability at the start of a contract until revenue is recognised.

During the year ended 31 December 2022, revenue recognised in the current year relating to brought-forward contract liabilities amounted to RMB428,404,000 (2021: RMB625,699,000).

32. Lease Liabilities

	2022	2021
	RMB'000	*RMB'000*
The lease liabilities are payable as follows:		
Within one year	**142,071**	38,424
Within a period of more than one year but not more than two years	**146,455**	10,879
Within a period of more than two years but not more than five years	**94,132**	21,804
Within a period of more than five years	**17,452**	22,937
	400,110	94,044
Less: Amount due for settlement within one year shown under current liabilities	**(142,071)**	(38,424)
Amount due for settlement after one year shown under non-current liabilities	**258,039**	55,620

The weighted average incremental borrowing rate applied to lease liabilities was 4.35% (2021: 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:

	2022	2021
	RMB'000	*RMB'000*
Deferred tax assets	**113,026**	43,000
Deferred tax liabilities	**(611,993)**	(381,484)
	(498,967)	(338,484)

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	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	40,744	(25,287)	(4,450)	(46,415)	(170,124)	(73,941)	–	76,500	(202,973)
Credit (charge) to profit or loss	1,958	3,833	182	–	(87,500)	(18,967)	–	(76,500)	(176,994)
Charge to other comprehensive income	–	–	–	–	–	41,697	–	–	41,697
Exchange adjustments	(214)	–	–	–	–	–	–	–	(214)
At 31 December 2021	**42,488**	**(21,454)**	**(4,268)**	**(46,415)**	**(257,624)**	**(51,211)**	**–**	**–**	**(338,484)**
(Charge) credit to profit or loss	**(21,030)**	**(38,090)**	**(4,271)**	**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**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**636**
At 31 December 2022	**22,094**	**(59,420)**	**(12,643)**	**(166,594)**	**(307,568)**	**(51,861)**	**57,783**	**19,242**	**(498,967)**

33. Deferred Taxation *(continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB2,478,850,000 (2021: RMB987,678,000) available for offset against future profits and the unused tax losses will expire up to 2032 (2021: 2031). No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

Under the EIT Law of the PRC, withholding tax at 10% or a lower applicable rate is imposed on dividends declared and payable to investors that are non-PRC tax resident enterprises.

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 RMB18,583,403,000 (2021: RMB14,682,479,000) 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

	2022	2021
	RMB'000	*RMB'000*
Current:		
— Other subsidies *(note a)*	**141,042**	217,347
Non-current:		
— Acquisition of property, plant and equipment *(note b)*	**270,917**	250,198
Total (included in other payables in note 28)	**411,959**	467,545

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 RMB173,921,000 (2021: RMB55,203,000).

(b) Represents subsidies received for the purchase 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 RMB21,084,000 (2021: RMB41,049,000).

35. Share Capital

	Number of shares	Share capital
		RMB'000
Issued and fully paid		
At 1 January 2021	11,973,769,732	10,899,412
Shares repurchased and cancelled	(23,790,000)	—
At 31 December 2021	**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**

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

Date of repurchase	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)
November 2021	3,100,000	8.10	8.02	25,005	20,754
December 2021	35,396,000	8.60	8.03	291,450	241,904
January 2022	2,054,000	8.49	8.44	17,409	14,165

The shares repurchased were cancelled in December 2021 and January 2022.

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 statement of profit or loss.

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

36. Acquisition of Subsidiaries *(continued)*

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

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.

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 statement of profit or loss.

(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 "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 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 Option Scheme shall not in aggregate exceed 10% (i.e. 591,101,840 shares) of the shares of the Company in issue at the adoption date of the Option Scheme unless the Company obtains a fresh approval from its shareholders. 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 (both dates inclusive) 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.

No share options have been granted under the Option Scheme since adoption. As at 1 January 2022 and 31 December 2022, the number of share options available for grant was 591,101,840.

As at the date of this annual report, the total number of shares of the Company available for issue under the Option Scheme is 591,101,840, representing 4.95% of the Company's issued shares as at that date.

(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.

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 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 2022 to 15 Jan 2024	1,630,000	–	870,000	102,000	658,000
	16 Dec 2021	15 Jan 2022 to 15 Jan 2024	1,630,000	–	870,000	102,000	658,000
Total			3,260,000	–	1,740,000	204,000	1,316,000

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$9.6 per share.

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

During the year ended 31 December 2021, 3,130,000 awarded shares were granted, 1,500,000 awarded shares vested and 764,000 awarded shares forfeited.

As at 31 December 2022, the number of share awards available for being further granted under the Share Award Scheme was 120,304,368 (1 January 2022: 120,100,368).

As at the date of this annual report, the total number of shares of the Company available for issue in respect of share awards which may be granted under the Share Award Scheme is 120,304,368, representing 1.01% of the issued shares of the Company as at that date.

As at 31 December 2022, there were 15,960,000 shares of the Company held by the trustee of the Share Award Scheme (2021: 17,700,000 shares).

37. Long Term Incentive Programs *(continued)*

(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 2022, 21,100,000 awarded shares were lapsed and share-based compensation expense of RMB149,780,000 was recognised in profit or loss. As at 31 December 2022, there were 206,050,000 unvested awarded shares.

38. Capital and Other Commitments

At the end of the reporting period, the Group had the following capital and other commitments:

	2022	2021
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,685,261**	1,676,805
Commitments arising from unlisted equity investments in partnerships	**610,856**	426,829
Commitments arising from research and development projects	**–**	258,836

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 debt, which includes the bank borrowings as disclosed in note 30 and amounts due to related companies, amounts due to 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 redemption of existing debt.

40. Financial Instruments

40a. Categories of financial instruments

	2022	2021
	RMB'000	*RMB'000*
Financial assets		
FVTPL		
— other financial assets	**1,843,961**	1,733,068
— structured bank deposits	**3,574,859**	1,443,413
FVTOCI		
— other financial assets	**281,613**	246,277
— bills receivables	**1,561,531**	2,071,866
Amortised cost	**15,772,685**	14,414,383
Financial liabilities		
Amortised cost	**6,969,710**	5,676,018

40b. Financial risk management objectives and policies

The major financial instruments of the Group include bills receivables measured at FVTOCI, trade receivables, bills receivables, other receivables, amounts due from related companies, joint ventures and an associate, other financial assets, structured bank deposits, bank balances, deposits and cash, trade payables, other payables, bills payables, amounts due to joint ventures and related companies, 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 US$, listed equity investments denominated in HK$, unlisted fund investment in partnerships denominated in 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	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HK$	**1,339**	4,621	**69,570**	105,418
US$	**27,598**	8,573	**1,748,721**	746,876

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% (2021: 5%) increase and decrease in RMB against HK$ and US$5% (2021: 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% (2021: 5%) change in foreign currency rates. The post-tax profit would decrease by the below amounts where RMB strengthens 5% (2021: 5%) against the relevant currency. For a 5% (2021: 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)	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Post-tax profit	**(2,729)**	(4,032)	**(68,845)**	(29,532)

(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% (2021: 5%) higher/lower:

- Other reserves would increase/decrease by RMB1,212,000 (2021: RMB1,368,000) 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 RMB3,811,000 (2021: RMB1,968,000) 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, 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. The Group has concentration of credit risk as 25% (2021: 26%) and 45% (2021: 41%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

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 RMB2,060,007,000 as at 31 December 2022 (2021: RMB1,579,940,000) 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 0.30% (2021: 2.03%), impairment allowance of RMB 6,256,000 (2021: RMB32,118,000) was provided by the Group as at 31 December 2022.

The remaining trade receivables with gross carrying amount of RMB1,901,685,000 (2021: RMB1,778,667,000) 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 2021.

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			
	2022	2021	**2022**	2021
			RMB'000	*RMB'000*
Current (not past due)	**0.05%**	0.09%	**1,738,343**	1,607,885
1 – 270 days past due	**5.1%**	5.1%	**152,076**	160,785
More than 270 days past due	**77.7%**	77.7%	**11,266**	9,997
			1,901,685	1,778,667

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 2022, the Group provided RMB17,469,000 (2021: RMB17,341,000) impairment allowance for trade receivables based on the provision matrix other than those major customers. No impairment allowance was made on credit-impaired debtors.

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

	Lifetime ECL (not credit-impaired)	Lifetime ECL (credit-impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2021	16,196	6,240	22,436
Impairment losses recognised	49,459	—	49,459
Impairment losses reversed	(16,196)	—	(16,196)
Write-offs	—	(6,240)	(6,240)
As at 31 December 2021	**49,459**	**—**	**49,459**
Impairment losses reversed	**(25,734)**	**—**	**(25,734)**
As at 31 December 2022	**23,725**	**—**	**23,725**

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.

40. Financial Instruments *(continued)*

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

Credit risk and impairment assessment *(continued)*

Bank deposits/bank balances/restricted bank deposits/structured bank deposits

The credit risk of bank deposits, bank balances, 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 2022, the gross carrying amount of bank deposits, bank balances, restricted bank deposits and structured bank deposits are RMB2,420,000,000, RMB8,000,852,000, RMB77,155,000 and RMB3,574,859,000 respectively (2021: RMB600,000,000, RMB9,059,709,000, RMB23,933,000 and RMB1,443,413,000 respectively), the 12m ECL is considered immaterial for both years.

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 2022, the gross carrying amount of bills receivables measured at amortised cost and FVTOCI are RMB1,041,020,000 and RMB1,561,531,000, respectively (2021: RMB1,027,322,000 and RMB2,071,866,000, 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 2022, the gross carrying amounts of receivables due from related companies is RMB195,643,000 (2021: RMB100,135,000).

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.

40. Financial Instruments *(continued)*

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

Credit risk and impairment assessment *(continued)*

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 2022, the gross carrying amount of amounts due from joint ventures is RMB100,048,000 (2021: RMB293,736,000). During the year ended 31 December 2022, reversal of impairment loss on amounts due from joint ventures amounting to nil (2021: RMB27,499,000) was recognised by the Group due to the subsequent settlement of amounts due from joint ventures.

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.

Amount due from an associate

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 2022, the gross carrying amount of amount due from an associate is nil (2021: RMB400,000).

The Group regularly monitors the business performance of the associate. The Group's credit risk in this balance is mitigated after considering associate's financial background and creditability. The Group assessed the ECL for amount due from an associate is insignificant and thus no loss allowance is recognised.

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. Reversal of impairment of nil (2021: RMB1,694,000) was provided by the Group as of 31 December 2022.

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.

40. Financial Instruments *(continued)*

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

Liquidity risk *(continued)*

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.

As at 31 December 2022

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	More than 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

As at 31 December 2021

	Weighted average effective interest rate	Less than 1 month or on demand	1 – 3 months	3 months to 1 year	1 – 3 years	More than 3 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-derivative financial liabilities								
Trade payables	–	218,529	1,262,830	–	–	–	1,481,359	1,481,359
Other payables	–	3,858,364	–	–	–	–	3,858,364	3,858,364
Bills payables	–	–	40,000	101,258	–	–	141,258	141,258
Amounts due to related companies	–	58,910	–	–	–	–	58,910	58,910
Amounts due to joint ventures	–	136,127	–	–	–	–	136,127	136,127
Lease liabilities	4.35	2,502	15,306	27,551	31,452	30,291	107,102	94,044
		4,274,432	1,318,136	128,809	31,452	30,291	5,783,120	5,770,062

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 liability	Fair value as at 31 December 2022 RMB'000	Fair value as at 31 December 2021 RMB'000	Fair value hierarchy	Valuation techniques and key input(s)	Significant Unobservable input(s)	Relationship of unobservable inputs to fair value
Equity securities listed in Hong Kong	**100,457**	66,725	Level 1	Quoted bid prices in an active market.	N/A	N/A
Unquoted investments	**2,025,117**	1,912,620	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	**1,561,531**	2,071,866	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of issuers	N/A	N/A
Structured bank deposits	**3,574,859**	1,443,413	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 gain of RMB13,013,000 net of tax is included in OCI for the year ended 31 December 2022 (2021: loss of RMB19,723,000 net of tax) is related to other financial assets measured at FVTOCI held at 31 December 2022 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 2021	1,840,922
Total (loss) gains	
— in other comprehensive income	(16,745)
— in profit or loss	250,785
Purchase of unquoted equity investments	419,087
Disposal of unquoted equity investments	(581,429)
At 31 December 2021	**1,912,620**
Total gains	
— in other comprehensive income	**18,458**
— in profit or loss	**64,051**
Purchase of unquoted equity investments	**103,165**
Disposal of unquoted equity investments	**(73,177)**
At 31 December 2022	**2,025,117**

(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 2021	99,000	–	–	217,714	316,714
Financing cash flows	(99,559)	(1,690,763)	(12,500)	(130,272)	(1,933,094)
Finance costs recognised	559	–	–	7,105	7,664
Dividend declared	–	1,690,763	12,500	–	1,703,263
New leases entered	–	–	–	674	674
Foreign exchange translation	–	–	–	(1,177)	(1,177)
At 31 December 2021	**–**	**–**	**–**	**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**
Foreign exchange translation	**–**	**–**	**–**	**5,450**	**5,450**
At 31 December 2022	**182,434**	**–**	**–**	**400,110**	**582,544**

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

Name of company	Nature of transactions/balances	2022 RMB'000	2021 RMB'000
CSPC Holdings Company Limited ("CHL") *(note a)*, and its subsidiaries and associates (the "CHL Group")	Sale of pharmaceutical products	**734,053**	509,631
	Payment of lease liabilities	**123,065**	107,719
	Purchase of steam	**–**	40,807
	Purchase of pharmaceutical products	**11,221**	55,560
	Balance due from/to the CHL Group		
	— trade receivables *(note b)*		
	aged 0-90 days	**150,715**	92,520
	aged 91-180 days	**11,912**	3,974
	aged 181-365 days	**1,503**	2,789
	aged over 365 days	**2,326**	45
		166,456	99,328
	— other receivables *(note c)*	**29,187**	807
	— trade payables *(note b)*		
	aged 0-90 days	**(32,723)**	(21,292)
	aged 91-180 days	**(468)**	(5,420)
	aged 181-365 days	**(1,904)**	(6,415)
	aged over 365 days	**(48,091)**	(23,372)
		(83,186)	(56,499)
	— other payables *(note c)*	**(21,752)**	(2,411)
	— lease liabilities	**(293,665)**	(42,319)

42. Related Party Disclosures *(continued)*

(ii) Joint ventures

Name of company	Nature of transactions/balances	2022 RMB'000	2021 RMB'000
Hebei Pharmaceutical	Purchase of raw materials	**214,200**	139,833
	Balance due from/to Hebei Pharmaceutical		
	— trade receivables *(note b)*		
	aged 0-90 days	**50**	270
	aged 91-180 days	**—**	80
		50	350
	— other receivables *(note c)*	**2,965**	2,388
	— trade payables *(note b)*		
	aged 0-90 days	**(99,215)**	(84,238)
	aged 91-180 days	**(13,102)**	(3,750)
	aged 181-365 days	**—**	(2,542)
		(112,317)	(90,530)
Yantai Jiashi	Balance due from Yantai Jiashi		
	— other receivables *(note c)*	**97,002**	26,586
	— other payables *(note c)*	**(6,928)**	(45,523)
Bioworkshops (Suzhou) *(note 36b)*	Research and development expenses	**22,667**	
	Balance due from/to Bioworkshops		
	— trade receivables *(note b)*		
	aged 0-90 days	**31**	
	— other payables *(note c)*	**(11,615)**	
Bioworkshops Group *(note 36b)*	Research and development expenses		44,368
	Balance due from/to Bioworkshops		
	— trade receivables *(note b)*		
	aged 0 - 90 days		1,610
	— other receivables		
	— non-current *(note d)*		253,953
	— current		8,849
	— other payables *(note c)*		(74)

42. Related Party Disclosures *(continued)*

(ii) Joint ventures *(continued)*

Name of company	Nature of transactions/balances	1.1.2021 to 30.4.2021 *RMB'000*
Zhongcheng Logistics Group *(note e)*	Purchase of raw materials	137,289
	Provision of utility services	692
	Sales of pharmaceutical products	57,682
	Warehouse service income	27
	Payment on lease liabilities	12,962

(iii) An associate

Name of company	Nature of transaction/balance	**2022** ***RMB'000***	2021 *RMB'000*
YZY Biopharma	Other receivables	–	400

(iv) 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 CHL through a series of controlled corporations. Accordingly, CHL and its subsidiaries and associates are related parties of the Group.

b. The general credit period for trade receivables and payables is 90 days (2021: 90 days).

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

d. The amount is unsecured and with imputed interest computed using the prevailing market interest rate of 4.75% per annum for comparable long-term borrowings.

e. Zhongcheng Logistics was disposed of during the year ended 31 December 2021.

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 RMB254,686,000 (2021: RMB212,608,000), of which RMB860,000 (2021: RMB790,000) and RMB3,368,000 (2021: RMB2,681,000) 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 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
				2022		2021		
				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 Hebei 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	RMB185,201,714	–	54.83	–	–	Manufacture and sale 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
				2022		2021		
				Directly	**Indirectly**	Directly	Indirectly	
				%	**%**	%	%	
CSPC Zhongnuo Pharmaceutical (Taizhou) Co., Ltd.	The PRC	Limited liability	RMB170,000,000	**–**	**77.95**	–	75	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	RMB300,000,000	**–**	**100**	–	100	Manufacture and sales of pharmaceutical products
CSPC Innovation Pharmaceutical Co., Ltd. ("CSPC XNW")	The PRC	Limited liability	RMB546,000,000	**–**	**77.95**	–	75	Manufacture and sales of caffeine products
CSPC Baike (Shandong) Biopharmaceutical Co., Ltd. ("Baike Shandong")	The PRC	Limited liability	RMB734,700,000	**33.62**	**66.38**	33.62	66.38	Manufacture and sales of pharmaceutical products
CSPC Shengxue Glucose Co., Ltd.	The PRC	Limited liability	RMB434,910,000	**–**	**100**	–	100	Manufacture and sales of pharmaceutical roducts
Hebei Zhongnuo GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB30,000,000	**–**	**77.95**	–	75	Manufacture and sales of health supplement products
CSPC Taizhou GWK Medicines & Health Products Co., Ltd.	The PRC	Limited liability	RMB70,000,000	**–**	**77.95**	–	75	Sales of health supplement 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
				2022		2021		
				Directly	**Indirectly**	Directly	Indirectly	
				%	**%**	%	%	
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
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	RMB500,000,000	**–**	**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

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
				2022		2021		
				Directly %	Indirectly %	Directly %	Indirectly %	
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	–	75.27	–	75.27	Pharmaceutical research and development
Shanghai Alamab Biopharmaceutical Co., Ltd.	The PRC	Limited liability	US$10,000,000	–	85	–	85	Pharmaceutical research and development
Conjupro Bioerapecitics Inc.	USA	Limited liability	US$9,512	–	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$381,440	–	100	–	100	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
				2022		2021		
				Directly %	Indirectly %	Directly %	Indirectly %	
Megalith Pharmaceuticals Inc.	USA	Limited liability	US$1,000	**–**	**100**	–	100	Pharmaceutical research and development
AlaMab Therapeutics, Inc.	USA	Limited liability	US$500	**–**	**85**	–	85	Pharmaceutical research and development
Novarock Biotherapeutics Limited	USA	Limited liability	US$465	**–**	**70**	–	75.27	Pharmaceutical research and development
CSPC Innovation USA Inc.	USA	Limited liability	US$50,000	**–**	**77.95**	–	75	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	**–**	**77.95**	–	75	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 a non-wholly-owned subsidiary of the Group that has 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	
		2022	2021	2022	2021	2022	2021
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CSPC XNW	The PRC	22.05%	25%	160,342	81,713	872,356	743,143
Recomgen	The PRC	45.17%	–	(14,327)	–	423,013	–
Individually immaterial subsidiaries with non-controlling interests				(5,355)	1,226	148,972	98,416
				140,660	82,939	1,444,341	841,559

Summarised financial information in respect of the Group's subsidiary that has 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 XNW

	2022	2021
	RMB'000	*RMB'000*
Current assets	**3,190,593**	2,317,964
Non-current assets	**1,393,443**	907,812
Current liabilities	**(582,768)**	(231,040)
Non-current liabilities	**(57,073)**	(34,398)
Equity attributable to owners of the Company	**3,071,839**	2,217,195
Non-controlling interests	**872,356**	743,143
Revenue	**2,571,242**	1,375,186
Expenses	**(1,844,630)**	(1,058,642)
Profit for the year	**726,612**	316,544
Profit and total comprehensive income attributable to owners of the Company	**566,270**	234,831
Profit and total comprehensive income attributable to the non-controlling interests	**160,342**	81,713
Profit and total comprehensive income for the year	**726,612**	316,544
Dividends paid to non-controlling interests of CSPC XNW	**20,475**	—
Net cash inflow from operating activities	**640,718**	170,592
Net cash inflow (outflow) from investing activities	**311,878**	(26,860)
Net cash outflow from financing activities	**(63,006)**	(42,864)
Effect of foreign exchange rate changes	**57,550**	(6,750)
Net cash inflow	**947,140**	94,118

44. Particulars of Subsidiaries *(continued)*

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

Recomgen

	2022
	RMB'000
Current assets	**100,500**
Non-current assets	**1,086,471**
Current liabilities	**(113,016)**
Non-current liabilities	**(137,387)**
Equity attributable to owners of the Company	**513,554**
Non-controlling interests	**423,013**
Revenue	**101,429**
Expenses	**(130,957)**
Loss for the period since acquisition	**(29,522)**
Loss and total comprehensive expense attributable to owners of the Company	**(15,195)**
Loss and total comprehensive expense attributable to the non-controlling interests	**(14,327)**
Loss and total comprehensive expense for the period since acquisition	**(29,522)**
Net cash outflow from operating activities	**(10,995)**
Net cash outflow from investing activities	**(42,045)**
Net cash inflow from financing activities	**79,393**
Net cash outflow	**(26,353)**

45. Statement of Financial Position and Reserves of the Company

	2022	2021
	RMB'000	*RMB'000*
Non-current assets		
Property, plant and equipment	**105**	57
Investments in subsidiaries	**9,316,594**	9,478,774
Other financial assets	**24,240**	27,362
Amounts due from subsidiaries	**2,885,625**	2,502,897
Right-of-use assets	**711**	2,834
	12,227,275	12,011,924
Current assets		
Other receivables	**1,178**	1,629
Amounts due from subsidiaries	**440,278**	956,505
Amounts due from a related company	**—**	179,028
Bank balances and cash	**196,541**	88,027
	637,997	1,225,189
Current liabilities		
Other payables	**80,282**	49,837
Tax liabilities	**24,726**	39,457
Lease liabilities	**593**	1,896
	105,601	91,190
Net current assets	**532,396**	1,133,999
Total assets less current liabilities	**12,759,671**	13,145,923
Non-current liability		
Lease liabilities	**144**	1,050
Net assets	**12,759,527**	13,144,873
Capital and reserves		
Share capital	**10,899,412**	10,899,412
Reserves	**1,860,115**	2,245,461
Total equity	**12,759,527**	13,144,873

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22 March 2023 and are signed on its behalf by:

CAI Dongchen	**CHAK Kin Man**
DIRECTOR	*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 2021	(5,830)	(100,706)	13,767	–	2,092,244	1,999,475
Profit for the year	–	–	–	–	2,186,586	2,186,586
Other comprehensive expense for the year	(2,567)	–	–	–	–	(2,567)
Total comprehensive (expense) income for the year	(2,567)	–	–	–	2,186,586	2,184,019
Dividend recognised as distribution	–	–	–	–	(1,690,763)	(1,690,763)
Recognition of share-based compensation expense	–	–	16,242	–	–	16,242
Repurchase of shares	–	–	–	–	(263,512)	(263,512)
Disposal of other financial assets	701	–	–	–	(701)	–
Vesting shares under share award scheme	–	15,106	(12,338)	–	(2,768)	–
At 31 December 2021	**(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**

Financial Summary

	For the year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Results					
Revenue	17,716,540	22,103,192	24,942,204	27,866,870	**30,936,904**
Profit before tax	3,792,179	4,626,162	6,391,023	6,847,096	**7,582,261**
Income tax expense	(733,760)	(892,810)	(1,162,013)	(1,158,972)	**(1,350,211)**
Profit for the year	3,058,419	3,733,352	5,229,010	5,688,124	**6,232,050**
Profit for the year attributable to:					
Owners of the Company	3,080,802	3,714,106	5,159,655	5,605,185	**6,091,390**
Non-controlling interests	(22,383)	19,246	69,355	82,939	**140,660**
	3,058,419	3,733,352	5,229,010	5,688,124	**6,232,050**
	RMB cents	*RMB cents*	*RMB cents*	*RMB cents*	***RMB cents***
	(Restated)	(Restated)			
	(note)	*(note)*			
Earnings per share					
– Basic	25.71	31.07	43.16	46.89	**51.11**
– Diluted	N/A	31.07	43.16	46.89	**51.11**

	As at 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Assets and liabilities					
Total assets	23,216,837	26,318,322	30,070,206	34,741,576	**41,769,774**
Total liabilities	(7,687,237)	(6,800,157)	(6,969,133)	(7,913,345)	**(10,127,899)**
Net assets	15,529,600	19,518,165	23,101,073	26,828,231	**31,641,875**
Equity attributable to owners of the Company	15,052,260	18,461,723	22,332,288	25,986,672	**30,197,534**
Non-controlling interests	477,340	1,056,442	768,785	841,559	**1,444,341**
Total equity	15,529,600	19,518,165	23,101,073	26,828,231	**31,641,875**

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