



Hansoh Pharmaceutical Group Company Limited
翰森製藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3692



Annual Report
2022

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Corporate Overview

The Company is one of the leading R&D and innovation-driven pharmaceutical companies in the People's Republic of China, devoting itself to meet the unmet clinical needs of patients and improve the health and well-being of human beings through continuing innovation.

The Company has established a leading position in some of the largest and fastest-growing therapeutic areas in the PRC with significant unmet clinical needs, including anti-tumor, anti-infectives, CNS diseases, metabolic diseases and other main therapeutic areas.

The core driving force of the Company is its focus on innovation. The Group has continuously increased its investments in R&D over the years, established sound R&D platforms and mastered a number of proprietary technologies, and developed a series of innovative drugs which are currently under different stages of R&D. The Group obtained marketing approvals in China for 5 Category 1 innovative drugs and 1 imported innovative drug, which were all included in the NRDL released by the NHSA. During the Reporting Period, the Group obtained marketing approvals for a total of 11 products, including 1 imported innovative drug. The Company has newly obtained clinical approvals for 19 products, all of which were related to innovative drugs; and filed 6 applications for marketing approvals, including 1 innovative drug (inclusive of new indications), being Category 1 innovative drug, Pegmolesatide (formerly known as PEG Sihematide), for the treatment of anemia in non-dialysis chronic kidney disease patients who have not received erythropoietin therapy.

The Group has successfully transformed itself into an innovative biopharma company that focuses on developing and selling innovative drugs and will continue to enhance its discovery capabilities, development capabilities, commercial capabilities to better address the unmet medical needs of patients in China and around the world. We are actively exploring collaborations with external partners and leveraging cutting-edge technologies, both internally and externally, to enrich our product lines and portfolio of innovative therapeutics.

As the innovative drugs are approved for marketing constantly, the Group devotes efforts to improve its professional marketing capability and increase the recognition and knowledge of medical professionals regarding the self-developed innovative drugs. During the Reporting Period, the sales revenue of innovative drugs amounted to approximately RMB5,006 million, representing a year-on-year increase of approximately 19.1%, and the proportion of the total revenue of the Group increased from 42.3% for the corresponding period of the previous year to 53.4%.

The Company places a high value on ESG management and improvement. During the Reporting Period, the Group maintained the MSCI ESG A rating and also scored 63 points on the S&P Global Corporate Sustainability Assessment (CSA), exceeding 95% of its peer companies worldwide. The Group was also selected as the only pharmaceutical company in China's mainland to be included in the 2023 Sustainable Development Yearbook.

Corporate Overview

The Company's development milestones are as follows:

In 2013, Jiangsu Hansoh was first awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the PRC State Council (中國國務院) (the "State Council"). During the same year, we obtained United States Food and Drug Administration ("U.S. FDA") certification for our oncology injectable products, including Zefei, which was approved for sale by the U.S. FDA. We obtained the latest versions of Chinese Good Manufacturing Practice (藥品生產品質管制規範) ("GMP") certifications for all our production lines.

In 2014, Jiangsu Hansoh was once again awarded with the State Science and Technology Award (second prize) (國家科技獎(二等獎)) by the State Council. During the same year, our first self-developed innovative drug Mailingda (morinidazole sodium chloride injection) was approved for sale in China.

In 2017, Jiangsu Hansoh ranked 22nd among the "Top 100 Pharmaceutical Industrial Enterprises of China"(2017年中國醫藥工業企業百強) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In both 2018 and 2019, the Company ranked second for "China's Best Industrial Enterprises in Pharmaceutical R&D Pipeline" (中國醫藥研發產品線最佳工業企業) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心) for two years consecutively.

In May 2019, the Group's self-developed GLP-1 receptor agonist and a long-acting Category 1.1 innovative drug indicated for the treatment of Type-II diabetes, Fulaimai (polyethylene glycol loxenate for injection), was approved for sale in China.

In May 2019, Jiangsu Hansoh was awarded with the "Green Enterprise Management Award"* (2019年度綠色企業管理獎).

On June 14, 2019, the shares of the Company were successfully listed on the Main Board of the Stock Exchange, creating a milestone for the Group and laying a solid foundation for our future development.

In August 2019, Jiangsu Hansoh was named as an enterprise with "Excellence in Performing Social Responsibilities Among Chinese Pharmaceutical Enterprises"* (中國醫藥企業社會責任優秀) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In November 2019, Hansoh Xinfu (flumatinib mesylate), a Category 1 innovative drug self-developed by the Group, obtained the approval for marketing in China and is indicated for the treatment of chronic myelogenous leukemia.

In March 2020, Ameile (aumolertinib mesylate tablets), a Category 1 innovative drug self-developed by the Group, obtained the marketing approval in China and is indicated for the treatment of patients with locally advanced or metastatic NSCLC with EGFR T790M mutation, who have progressed on or after EGFR-TKI therapy.

In July 2020, the Group's patent inventions regarding morinidazole and tigecycline were awarded with the "Outstanding Award for Patent in the PRC"* (中國專利優秀獎) and "Silver Award for Patents in the PRC"* (中國專利銀獎) by China National Intellectual Property Administration (中國國家知識產權局), respectively.

In August 2020, Jiangsu Hansoh was honored as China's Best Industrial Enterprises in Pharmaceutical R&D Pipeline* (中國醫藥研發產品線最佳工業企業) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

Corporate Overview

In August 2020, Jiangsu Hansoh was named as an enterprise with Excellence in Performing Social Responsibilities Among Chinese Pharmaceutical Enterprises* (中國醫藥企業社會責任優秀) by the China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In October 2020, Jiangsu Hansoh was awarded with the “Green Supply Chain Management Enterprise Award”* (綠色供應鏈管理企業) by the Ministry of Industry and Information Technology of China (中國工業和信息化部).

In November 2020, the Group’s “R&D and industrialization project of the National Category 1 innovative drug long acting PEG-loxenate for injection” was awarded with the Honor Award of the China Industrial Award* (中國工業大獎表彰獎) by China Federation of Industrial Economics (中國工業經濟聯合會).

In December 2020, aumolertinib mesylate tablets, flumatinib mesylate tablets and PEG-loxenate for injection, all being Category 1 innovative drugs of the Group, are included in the NRDL (2020).

In January 2021, the Company successfully completed the issuance and listing of US\$600 million zero-coupon convertible bonds due in 2026.

In June 2021, the Group’s Category 1 innovative drug, Hengmu (tenofovir amibufenamide tablets), was granted drug registration approval by the NMPA.

In June 2021, Blossom Biosciences was co-founded and incubated by the Group and Cormorant Asset Management, which co-led and completed the US\$72 million Series A financing.

In August 2021, Jiangsu Hansoh was honored as China’s Best Industrial Enterprises in Pharmaceutical R&D Pipeline* (中國醫藥研發產品線最佳工業企業) by China National Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

In December 2021, the Group held a grand opening for its global operation headquarter and R&D center and embarked on a new journey of the Group’s innovation and globalization at full steam.

In December 2021, the Group’s innovative drug, Hengmu (tenofovir amibufenamide tablets), was included into the updated NRDL.

In December 2021, the Group’s Category 1 innovative drug, Ameile (aumolertinib mesylate tablets), was granted drug registration approval by the NMPA as the first-line treatment of adult patients with locally advanced or metastatic NSCLC whose tumors have EGFR exon 19 deletions or exon 21 (L858R) substitution mutation.

In January 2022, HS-10382 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of CML with the specific indications to be determined after the clinical trials.

In February 2022, HS-10370 injections, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumor with the specific indications to be determined after the clinical trials.

In March 2022, HS-10380 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of schizophrenia, with the specific indications to be determined after the clinical trials.

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In March 2022, the Group's innovative drug, XINYUE (Inebilizumab Injections), has been granted drug registration approval issued by the NMPA.

In April 2022, the Company presented data from the Phase I climbing trial of its self-developed Class 1 innovative PI3K α inhibitor HS-10352-101 single agent at the 113th Annual Meeting of the AACR in 2022. HS-10352 showed favorable results in HR+HER2-advanced breast cancer subjects with no standard treatment regimen or no access to or tolerance for standard therapy as well as favorable safety, tolerability and PK profiles. Preliminary antitumor activity was observed, and it showed better antitumor activity in the population carrying the PIK3CA mutation, which is expected to provide clinical benefits to patients with HR+HER2-PIK3CAm+ advanced breast cancer.

In April 2022, HS-10386 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumors, with the specific indications to be determined after the clinical trials.

In April 2022, HS-10384 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for menopausal vasomotor syndrome, with the specific indications to be determined after the clinical trials.

In May 2022, the Group entered into an exclusive license agreement (the "NiKang Therapeutics Licensing Agreement") with NiKang Therapeutics. Pursuant to the NiKang Therapeutics Licensing Agreement, the Group obtained an exclusive license from NiKang Therapeutics to develop and commercialize NKT2152 within China (including Hong Kong, Macau and Taiwan).

In June 2022, the MHRA has accepted for review our partner EQRx's MAA for aumolertinib, a novel, third-generation EGFR-TKI being developed and commercialized under the License Agreement, marketed as AMEILE® in China, for the first-line treatment of adult patients with locally advanced or metastatic NSCLC with sensitizing EGFR mutations and for the treatment of adult patients with locally advanced or metastatic EGFR T790M mutation-positive NSCLC. This is the first MAA of aumolertinib filed outside of the PRC.

In July 2022, Palbociclib Capsules developed by the Group has been granted drug registration certificate issued by the NMPA. It is an anti-tumor drug indicated for the treatment of patients with hormone receptor (HR)-positive, human epidermal growth factor receptor 2 (HER2)-negative locally advanced or metastatic breast cancer in combination with an aromatase inhibitor as initial endocrine-based therapy in postmenopausal women. The obtaining of drug registration approval of the Product will further enrich and improve the Group's product portfolio.

In August 2022, the Group entered into an exclusive license agreement (the "TiumBio Licensing Agreement") with TiumBio. Pursuant to the TiumBio Licensing Agreement, the Group obtained an exclusive license from TiumBio to develop and commercialize TU2670 for the treatment of endometriosis, uterine fibroids and other indications within China (including Hong Kong, Macau and Taiwan).

In August 2022, the Company made a voluntary announcement regarding the signing of an exclusive licensing and co-development agreement (the "GHDDI Licensing Agreement") with GHDDI. Pursuant to the GHDDI Licensing Agreement, the Group was granted exclusive worldwide rights to develop, manufacture and commercialize the new drug candidate GDI-4405 series of anti-novel coronavirus ("SARS-CoV-2").

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In September 2022, the Group entered into an exclusive license agreement (the “KiOmed Licensing Agreement”) with KiOmed. Pursuant to the KiOmed Licensing Agreement, the Group obtained an exclusive license from KiOmed to develop and commercialize KiOmedine^{vs}One for the treatment of osteoarthritis within China’s mainland, Macau and Taiwan.

In November 2022, the Group entered into a license agreement (the “Biotheus Licensing Agreement”) with Biotheus. Pursuant to the Biotheus Licensing Agreement, the Group obtained an exclusive license from Biotheus to develop, manufacture and commercialize PM1080, an EGFR/cMet bispecific anti-body drug within China (including Hong Kong, Macau and Taiwan).

In December 2022, EMA has accepted for review our partner EQRx’s MAA for aumolertinib for the first-line treatment of adult patients with locally advanced or metastatic NSCLC with sensitizing EGFR mutations and for the treatment of adult patients with locally advanced or metastatic EGFR T790M mutation-positive NSCLC. This is the second MAA of aumolertinib filed outside of the PRC.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Zhong Huijuan (鍾慧娟)
(Chairlady and Chief Executive Officer)
Mr. Lyu Aifeng (呂愛鋒)
Ms. Sun Yuan (孫遠)

Independent Non-executive Directors

Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

AUDIT COMMITTEE

Mr. Chan Charles Sheung Wai (陳尚偉) *(Chairman)*
Mr. Lin Guoqiang (林國強)
Ms. Yang Dongtao (楊東濤)

REMUNERATION COMMITTEE

Ms. Yang Dongtao (楊東濤) *(Chairlady)*
Ms. Zhong Huijuan (鍾慧娟)
Mr. Lin Guoqiang (林國強)

STRATEGY AND DEVELOPMENT COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Mr. Lyu Aifeng (呂愛鋒)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

ESG COMMITTEE

Mr. Lyu Aifeng (呂愛鋒) *(Chairman)*
Ms. Yang Dongtao (楊東濤)
Mr. Chan Charles Sheung Wai (陳尚偉)

NOMINATION COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)

JOINT COMPANY SECRETARIES

Ms. Zhong Shengli (鍾勝利)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORISED REPRESENTATIVES

Ms. Sun Yuan (孫遠)
Ms. Li Yan Wing Rita (李昕穎)

LISTING INFORMATION

Ordinary Shares

The Stock Exchange of Hong Kong Limited
Stock Code: 3692

Convertible Bonds

US\$600,000,000 zero-coupon convertible bonds
due in 2026 issued on January 22, 2021
The Stock Exchange of Hong Kong Limited
Convertible Bonds Code: 40546

Corporate Information

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

287 Xiangke Road
Pudong New District
Shanghai, 201210
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG¹

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

AUDITOR

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

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
P.O. Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE²

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

PRINCIPAL BANK

Lianyungang Branch of the Bank of Communications
No. 45 Huanghe Road
Economic & Technical Development Zone
Lianyungang
Jiangsu
The People's Republic of China

COMPANY'S WEBSITE

www.hspharm.com

¹ Change of address took effect from August 15, 2022.

² Change of address took effect from August 15, 2022.

Financial Highlights

RESULTS

	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	9,382,410	9,935,141	8,690,234	8,682,746	7,722,278
Cost of sales	(867,010)	(870,042)	(801,561)	(729,540)	(603,100)
Gross profit	8,515,400	9,065,099	7,888,673	7,953,206	7,119,178
Other income	448,687	393,188	220,637	221,219	77,953
Selling and distribution expenses	(3,550,230)	(3,427,818)	(3,103,018)	(3,266,380)	(3,208,680)
Administrative expenses	(597,460)	(943,423)	(758,641)	(777,692)	(790,158)
Research and development costs	(1,693,314)	(1,797,012)	(1,252,246)	(1,120,681)	(881,288)
Other (expenses)/gains, net	(116,513)	62,866	102,894	(8,747)	(7,680)
Finance cost	(58,142)	(52,818)	-	-	-
PROFIT BEFORE TAX	2,948,428	3,300,082	3,098,299	3,000,925	2,309,325
Income tax expense	(364,681)	(587,180)	(529,392)	(444,183)	(406,277)
PROFIT FOR THE YEAR	2,583,747	2,712,902	2,568,907	2,556,742	1,903,048

ASSETS AND LIABILITIES

	2022	At December 31,			
	RMB'000	2021	2020	2019	2018
		RMB'000	RMB'000	RMB'000	RMB'000
Total assets	30,001,879	27,160,171	20,792,060	19,575,204	8,414,371
Total liabilities	7,354,935	7,131,326	2,916,462	6,530,882	5,946,473
Total equity	22,646,944	20,028,845	17,875,598	13,044,322	2,467,898

Chairlady's Statement

In 2022, the rapidly changing epidemic control and the deepening healthcare reform brought about many challenges, and the innovation-driven transformation of the pharmaceutical industry continued to accelerate. In tune with the development trend of the industry, the Group continued to deeply cultivate in the Group's advantageous areas, adhered to our strategy of independent innovation and internationalization, and focused on accumulating long-term development momentum. During the Reporting Period, the Group's revenue was approximately RMB9.38 billion and profit was approximately RMB2.58 billion; the net profit margin was approximately 27.5%, basically unchanged from the same period last year and maintained at a high level in the industry.

During the Reporting Period, the Group's sales revenue from innovation drugs increased to 53.4% from 42.3% in the previous year, and revenue from innovation drugs has become the core driver of the Company's performance growth. As at the date of this report, our six innovative drugs have been approved for marketing in China and all of them have been included in the NRDL. Among them, Ameile for the first-line treatment and Inebilizumab Injections XINYUE, a newly approved drug for the treatment of rare diseases NMOSD, have been included in the updated NRDL for the first time. During the Reporting Period, the Group had over 30 innovation drug projects in various stages of clinical development, covering various therapeutic areas such as anti-tumour, anti-infection, central nervous system diseases, metabolism and other therapeutic areas. The Group has successfully transformed itself into an innovative biopharma company that focuses on developing and selling innovative drugs.

During the Reporting Period, the Group has further strengthened the management improvement of our ESG system with a view to contributing more positively to our stakeholders and the society at large. In 2022, the Group maintained its MSCI ESG A rating and scored 63 points in the S&P Global Corporate Sustainability Assessment (CSA), placing it in the top 5% of the global pharmaceutical peer group.

Looking forward, with innovation-driven and high-quality development as our core guidelines, we will continue to strengthen the Group's global R&D layout, fully exploit the Company's strong discovery, development and commercialization capabilities, and continue to advance the internationalization process to better meet the unmet clinical medical needs of patients in China and around the world; and focus on forging long-term operational value to return to our shareholders and investors by outstanding operating performance.

I hereby would like to express my sincere gratitude to our Shareholders, members of the Board, the management of our Group, all our staff, as well as our business partners.

Ms. Zhong Huijuan
Chairlady and Chief Executive Officer

Management Discussion and Analysis

INDUSTRY REVIEW

The 14th Five-Year Plan for the Development of the Pharmaceutical Industry released in January 2022 further clarifies that innovation-driven and high-quality development is an important development direction for the industry. With the accelerated accreditation of innovative drugs and the consistent evaluation of generic drugs, the overall development trend of the industry will be favourable to pharmaceutical companies with cutting-edge research and development capabilities, rich pipeline layouts and a sound commercialisation ecology. It is foreseeable that the market will further explore and recognise the tremendous value of pharmaceutical companies that are diligent and dedicated to innovation and focus on solving unmet clinical needs.

In 2022, as the reform of China's medical and health system deepens, the country promoted the reform of drug prices, strengthen the centralized procurement and use management of drugs, and accelerated the establishment of a sound guarantee mechanism for innovative drugs and high-value medical consumables, while encouraging the research and development, production, and use of innovative drugs and high-value medical consumables. Going forward, this will continue to benefit the continued steady development of the Group's innovative pharmaceuticals business and support the Group's innovative transformation into the next stage.

BUSINESS HIGHLIGHTS

In 2022, the Omicron variant spread rapidly and triggered the spread of a new round of the COVID-19 pandemic outbreak in many areas of China, especially in first-tier cities. In order to control the outbreak, local governments in various places implemented stringent preventive and control measures, and the rapid changes in the new round of the outbreak affected the Group's main business. The management responded proactively and did its best to minimise the negative impact of the epidemic on the business.

During the Reporting Period, the Group's sales revenue of innovative drugs amounted to approximately RMB5,006 million, representing a year-on-year increase of approximately 19.1%, and the proportion of innovative drug sales revenue increased to 53.4% from 42.3% for the corresponding period of the previous year. In terms of innovation and R&D, the Group continued to increase R&D investment to increase the independent innovation capability and R&D efficiency. As of the end of the Reporting Period, a total of 6 innovative drugs were approved for marketing and all of them were included in the NRDL, among which, the approval for the innovative drug Inebilizumab Injections (trade name: XINYUE 昕越®) for the treatment of adult patients with NMOSD who are AQP4-IgG+. was obtained during the Reporting Period. As of the end of the Reporting Period, the Group had 1,521 R&D staff and a total of over 30 innovative drug projects in various clinical stages. Meanwhile, the Group paid close attention to frontier technology in the global pharmaceutical industry. With respect to BD, it further enhanced the Group's innovation capabilities and innovative product pipeline layout through in-licensing and joint development. During the Reporting Period, 3 clinical-stage products were licensed in.

For the year ended December 31, 2022, the Group recorded revenue of approximately RMB9,382 million during the Reporting Period, representing a decrease of approximately 5.6% compared with the corresponding period of the previous year; profit of approximately RMB2,584 million, representing a decrease of approximately 4.8% compared with the corresponding period of the previous year; and earnings per share of approximately RMB0.44, representing a decrease of approximately 4.7% compared with the corresponding period of the previous year.

Management Discussion and Analysis

BUSINESS HIGHLIGHTS *(Continued)*

We generate substantially all of our revenue from sales of pharmaceutical products. Our main products are concentrated in the major therapeutic areas on which the Group strategically focuses, including anti-tumor, anti-infectives, CNS diseases, metabolic diseases and other main therapeutic areas. Sales revenue of innovative drugs amounted to approximately RMB5,006 million, representing an increase of approximately 19.1% as compared with the year ended December 31, 2021, and the proportion of the revenue increased from 42.3% for the year ended December 31, 2021 to 53.4% for the year ended December 31, 2022.

In respect of the anti-tumor area, we primarily focus on the treatment of solid tumors with high incidence such as lung cancer, as well as hematological cancer. Our anti-tumor product portfolio mainly consists of Ameile (aumolertinib mesylate tablets), an innovative drug, Hansoh Xinfu (flumatinib mesylate tablets), an innovative drug, Pulaile (pemetrexed disodium for injection), Xinwei (imatinib mesylate tablets), and Tanneng (fosaprepitant dimeglumine for injection). During the Reporting Period, revenue from our anti-tumor drug portfolio amounted to approximately RMB5,522 million, accounting for approximately 58.9% of the total revenue of the Group.

Our CNS disease product portfolio mainly consists of, among others, Ameining (agomelatine tablets), Oulanning (olanzapine oral dose formulations) and Ailanning (paliperidone extended-release tablets). During the Reporting Period, revenue from our CNS disease drug portfolio amounted to approximately RMB1,494 million, accounting for approximately 15.9% of the total revenue of the Group.

Our anti-infective product portfolio mainly consists of, among others, Hengmu (tenofovir amibufenamide tablets), an innovative drug, Mailingda (morinidazole sodium chloride injection), an innovative drug and Zetan (tigecycline for injection). The Company mainly focuses on treatment products for the drug-resistant bacteria area as the clinical needs of the area are increasing. Meanwhile, the Company adopts rational drug use as the guiding direction for academic activities related to anti-infective drugs, so as to promote the regulated clinical use of anti-infective drugs. During the Reporting Period, revenue from our anti-infective drug portfolio amounted to approximately RMB1,249 million, accounting for approximately 13.3% of the total revenue of the Group.

Product portfolio for metabolic diseases and other areas mainly consists of, among others, Fulaimei (PEG-loxenate for injection), an innovative drug, Ruibote (rabeprazole sodium enteric-coated tablets), Fulaidi (repaglinide tablets), Puruian (ambrisentan tablets) and Fulairui (canagliflozin tablets). During the Reporting Period, revenue from the drug portfolio in relation to the abovementioned areas amounted to approximately RMB1,117 million, accounting for approximately 11.9% of the total revenue of the Group.

Management Discussion and Analysis

INNOVATIVE DRUG PRODUCTS

During the Reporting Period, the Group invested a total of RMB1,693 million in research and development: accounting for approximately 18.0% of the Group's total revenue; the sales revenue of innovative drugs amounted to approximately RMB5,006 million, representing a year-on-year increase of approximately 19.1%, and accounted for approximately 53.4% of the Group's total revenue. The sales revenue of innovative drugs includes the revenues of 5 innovative drug products, namely Ameile, Hansoh Xinfu, Hengmu, Mailingda and Fulaimei.

The Group has made tremendous progress by stage in the innovative drug pipeline: (i) two approved indications for Ameile are included in the NRDL: one of the approved indications for first-line treatment has been added to the NRDL for the first time; (ii) Hansoh Xinfu and Fulaimei successfully renewed the agreement with the NHTA and remained in the NRDL; (iii) in June 2021, Hengmu was approved for marketing and included in the NRDL in the same year, effective from January 2022, and hence, its timeline from approval for marketing to inclusion in the NRDL was shortest in the Group; (iv) in March 2022, Inebilizumab Injections (trade name: XINYUE 昕越®) was approved for marketing and included in the NRDL.

Ameile

Ameile (aumolertinib mesylate tablets) is the first innovative third-generation EGFR-TKI drug wholly developed in China. In December 2021, Ameile obtained approval to be used as the first-line treatment for adult patients with locally advanced or metastatic NSCLC whose tumors have epidermal growth factor receptor (EGFR) exon 19 deletions or exon 21 (L858R) substitute mutation positive and has been included in the NRDL (2022 version) after negotiations. In 2020, Ameile obtained approval for the treatment of patients with locally advanced or metastatic NSCLC with T790M mutation, who have progressed on or after EGFR-TKI therapy, and was successfully renewed in the NRDL (2022 version).

In February 2021, Ameile met its primary end point as first-line treatment for patients with locally advanced or metastatic EGFR-mutated NSCLC in the Phase 3 clinical data. Its concrete clinical data, which were presented at the ASCO Meeting in June 2021, shows that the median progression – free survival (mPFS) of the first-line treatment of NSCLC achieved 19.3 months. Updates from the ASCO meeting in June 2022, showed that the median progression-free survival (PFS) for first-line treatment of NSCLC with CNS metastasis reached 29.0 months.

In June 2022, MHRA has accepted for review our partner EQRx's MAA for aumolertinib for the first-line treatment of adult patients with locally advanced or metastatic NSCLC with sensitizing EGFR mutations and for the treatment of adult patients with locally advanced or metastatic EGFR T790M mutation-positive NSCLC. This is the first MAA of aumolertinib filed outside of the PRC.

In December 2022, EMA has accepted for review our partner EQRx's MAA for aumolertinib for the first-line treatment of adult patients with locally advanced or metastatic NSCLC with sensitizing EGFR mutations and for the treatment of adult patients with locally advanced or metastatic EGFR T790M mutation-positive NSCLC. This is the second MAA of aumolertinib filed outside of the PRC.

Since its launch, Ameile has been widely prescribed in clinical practices, bringing new hope to lung cancer patients in China. Ameile has been included in the Guidelines of Chinese Society of Clinical Oncology for the treatment of Non-small Cell Lung Cancer in 2022* (《2022年CSCO非小细胞肺癌诊疗指南》) due to its efficacy and safety which were highly recognized by clinical experts, and has been listed as Class I in the recommendation for first-line indications and second-line indications.

Management Discussion and Analysis

INNOVATIVE DRUG PRODUCTS (Continued)

Hansoh Xinfu

Hansoh Xinfu (flumatinib mesylate tablets) is the second-generation Bcr-Abl TKI. Hansoh Xinfu was first included in the NRDL in 2020 and was successfully renewed in the NRDL (2022 version). Hansoh Xinfu is used for the treatment of chronic myelogenous leukemia. Based on the results of existing clinical trials, its efficacy is superior to that of imatinib. Further, no pleural effusion or cardiotoxicity incurred in the use of other second-generation Bcr-Abl TKI has been observed and its safety is more favorable. Since its launch, patients have benefited significantly and the product has been adopted for long-term application by an increasing number of patients. Hansoh Xinfu is recommended as the first-line treatment for chronic myelogenous leukemia in the Guidelines for Diagnosis and Treatment of Chronic Myelogenous Leukemia in China (2020 Edition)* 《中國慢性髓性白血病診斷與治療指南(2020 版)》.

Mailingda

Mailingda (morinidazole sodium chloride for injection) is the first self-developed innovative drug of the Group. In December 2021, it was included in the NRDL after negotiation and the agreement with the NHTA was renewed without further price cut. Mailingda is the latest generation of nitroimidazole-class drug indicated for treatment of pelvic inflammatory disease in women, as well as combined surgery for the treatment of suppurative appendicitis and gangrenous appendicitis. It has a better safety profile than the previous generation of typical drug named ornidazole. Mailingda is recommended in the treatment of intra-abdominal infection in the Chinese Guideline for the Diagnosis and Treatment of Intra-abdominal Infection (2019 Edition)* 《中國腹腔感染診治指南(2019 版)》. In 2017, Mailingda was included in the NRDL after negotiation. The agreement with the NHTA was successfully renewed twice consecutively in November 2019 and December 2021, respectively.

Fulaimei

Fulaimei (PEG-loxenate for injection) is the Group's self-developed innovative diabetes drug. Fulaimei was first included in the NRDL in 2020 and was successfully renewed in the NRDL (2022 version). Fulaimei is the first innovative drug launched by using the Group's proprietary PEGylation technology. With significant lowering blood sugar efficacy and good safety, it requires only once weekly administration. It is the first long-acting GLP-1 innovative drug wholly developed in China, providing a new treatment option to diabetes patients in China. Fulaimei has been included in the Prevention and Therapy Guidelines for Type 2 Diabetes in China (2020 Edition)* 《中國 2 型糖尿病防治指南(2020 版)》 released by the Chinese Diabetes Society (CDS) in April 2021.

Hengmu

Hengmu (tenofovir amibufenamide tablets) is the novel Tenofovir prodrug self-developed by the Group. The product is also the first wholly developed oral dose medicine indicated for the treatment of hepatitis B virus (HBV) infection in China. Hengmu was approved for marketing in June 2021 and was included in the NRDL in the same year through negotiations. Hengmu is a new type of nucleotide reverse transcriptase inhibitors. By optimizing the structure, the drug has higher cell membrane penetration rate and is easier to enter liver cells so as to achieve liver-targeting, which effectively improve drug plasma stability and reduce patient's exposure to tenofovir. It is a safer long-term treatment option. Hengmu has been included in the CSCO Guidelines for Diagnosis and Treatment of Liver Cancer (2022 Edition)* 《CSCO 肝癌診療指南(2022 年版)》 as a Class I recommendation and included in the Prevention and Therapy Guidelines for Chronic Hepatitis B (2022 Edition)* 《慢性乙型肝炎防治指南(2022 年版)》 published by the Chinese Diabetes Society (CDS) as a preferred drug recommendation.

Management Discussion and Analysis

INNOVATIVE DRUG PRODUCTS *(Continued)*

XINYUE

XINYUE (Inebilizumab Injections) is a targeted CD19 B-cell depleting antibody for adult patients with AQP4-IgG+ NMOSD developed by Viela Bio, Inc. (“Viela Bio”, which was acquired by Horizon Therapeutics plc on March 15, 2021). It was approved for marketing by the U.S. Food and Drug Administration (FDA), the Japanese Ministry of Health, Labour and Welfare and the European Commission in June 2020, March 2021 and April 2022, respectively. On May 24, 2019, the Group obtained an exclusive license from Viela Bio to develop and commercialize the Product in designated territory (i.e. China’s mainland, Hong Kong and Macau) for NMOSD as well as other designated potential indications. In March 2022, Inebilizumab Injections (trade name: XINYUE 昕越®) was approved for marketing and included in the NRDL (2022 version). XINYUE has been included in the Chinese Guidelines for the Diagnosis and Treatment of Optic Neuromyelitis Optica Spectrum Disorders (2021 Edition)* (《中國視神經脊髓炎譜系疾病診斷與治療指南(2021 年版)》) with a Class A recommendation.

R&D AND INNOVATION

The Group have one of the largest R&D teams among pharmaceutical companies in China. Our professional R&D team consists of 1,521 research fellows at four R&D centres in Shanghai, Lianyungang and Changzhou, as well as the United States respectively. We have several national-level R&D designations, including the National Technology Center* (國家級技術中心), Post-doctoral Research Station* (博士後科研工作站) and Key National Laboratory* (國家重點實驗室).

The Group focuses on R&D of innovative products in the fields such as anti-tumor, anti-infectives, CNS diseases and metabolic diseases as well as autoimmune diseases. During the Reporting Period, we had more than 40 clinical trials of innovative programs in progress, with over 30 innovative medicines projects at various stages of clinical development. During the Reporting Period, there were 6 new clinical-stage programs and 3 clinical-stage BD programs. During the Reporting Period, the Group obtained a total of 82 patents in China (including 18 in Hong Kong, Macau and Taiwan) and 10 patents overseas. It has also obtained marketing approval for 11 new products, including 1 innovative drug: Inebilizumab Injections (trade name: XINYUE 昕越®), which are used for the treatment of adult patients with NMOSD who are AQP4-IgG+. The Group filed 6 new applications for marketing, including 1 innovative drug (with new indications): Category 1 innovative product Pegmolesatide (formerly known as PEG Sihematide) for the treatment of anemia in non-dialysis chronic kidney disease patients who have not received erythropoietin therapy. The Group has newly obtained 19 clinical approvals.

Details of progress made by the Group in respect of innovative drugs during the Reporting Period were as follows:

Marketing approval for innovative drugs

In March 2022, Inebilizumab injection (trade name: XINYUE®), jointly developed and commercialized by the Group and Viela Bio in China, obtained marketing approval for the treatment of adult patients with NMOSD who are AQP4-IgG+.

Application for marketing of innovative drugs

In May 2022, the application for marketing for the new indication of Pegmolesatide (formerly known as PEG Sihematide) self-developed by the Group was accepted by the NMPA. This new indication is intended to be used for the treatment of anemia in non-dialysis chronic kidney disease patients who have not received erythropoietin therapy.

Management Discussion and Analysis

R&D AND INNOVATION *(Continued)*

Clinical approvals obtained for innovative drugs

In January 2022, HS-10382 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of CML with the specific indications to be determined after the clinical trials.

In February 2022, HS-10370 injections, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumor with the specific indications to be determined after the clinical trials.

In March 2022, HS-10380 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of schizophrenia, with the specific indications to be determined after the clinical trials.

In April 2022, HS-10386 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumors, with the specific indications to be determined after the clinical trials.

In April 2022, HS-10384 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for menopausal vasomotor syndrome, with the specific indications to be determined after the clinical trials.

In December 2022, HS-10502 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumor, with the specific indications to be determined after the clinical trials.

BD

The Group adheres to the dual engine strategy driven by both in-house R&D and external BD collaboration. In addition to making internal R&D investment, the Group also actively sought opportunities in respect of innovative products and early-stage highly differentiated projects with proof of concept, so as to strengthen the product pipeline. In order to enhance innovation capabilities, the Group actively enabled different platform collaboration around the world and established an extensive and competitive R&D pipeline.

During the Reporting Period, the expenses of BD project (including upfront payment(s) and milestone payment(s)) incurred were approximately RMB292 million in total.

Milestone achieved with Viela Bio

In March 2022, “Inebilizumab Injections” (trade name: XINYUE 昕越®) was granted drug registration approval issued by the NMPA for the treatment of adult patients with NMOSD who are AQP4-IgG+. Obtaining the drug registration approval for this product will further enrich and improve the Group’s product portfolio.

On May 24, 2019, the Group obtained an exclusive license from Viela Bio to develop and commercialize this product in the contracted territory (i.e. China’s mainland, Hong Kong and Macau) for NMOSD as well as other contracted potential indications.

Management Discussion and Analysis

BD *(Continued)*

Collaboration with NiKang Therapeutics

In May 2022, the Group entered into an exclusive license agreement with NiKang Therapeutics. Pursuant to the licensing agreement, the Group obtained an exclusive license from NiKang Therapeutics to develop and commercialize NKT2152 within China (including Hong Kong, Macau and Taiwan).

NKT2152 is a small molecule that inhibits HIF-2 α . It is currently in a phase 1/2 dose escalation and expansion trial (NCT05119335). This trial is designed to evaluate safety, tolerability, pharmacokinetics, pharmacodynamics and clinical activity in patients with advanced Clear Cell Renal Cell Carcinoma (ccRCC).

Milestone achieved with EQRx

In June 2022, the MHRA has accepted for review our partner EQRx's MAA for aumolertinib, a novel, third-generation epidermal growth factor receptor-tyrosine kinase inhibitor ("EGFR-TKI") being developed and commercialized under the license agreement entered into between the Group and EQRx, for the first-line treatment of metastatic T790M mutation positive NSCLC locally advanced or metastatic T790M mutation-positive NSCLC, which have progressed on or after EGFR-TKI therapy. This is the first MAA of aumolertinib filed outside of the People's Republic of China.

In December 2022, the EMA has accepted for review our partner EQRx's MAA for aumolertinib (marketed as AMEILE® in China, aumolertinib mesilate) in EGFR-mutated NSCLC.

Collaboration with TiumBio

In August 2022, the Group entered into an exclusive license agreement with TiumBio. Pursuant to the licensing agreement, the Group obtained an exclusive license from TiumBio to develop and commercialize TU2670 for the treatment of endometriosis, uterine fibroids and other indications within China (including Hong Kong, Macau and Taiwan).

TU2670 is an orally active non-peptide GnRH antagonist. Early phase clinical trials have demonstrated excellent safety and tolerability of TU2670.

Collaboration with GHDDI

In August 2022, the Company made a voluntary announcement regarding the signing of an exclusive licensing and co-development agreement with GHDDI. Pursuant to the licensing agreement, the Group was granted exclusive worldwide rights to develop, manufacture and commercialize the new drug candidate GDI-4405 series of anti-novel coronavirus (SARS-CoV-2).

The new drug candidate GDI-4405 series is an oral small molecule SARS-CoV-2 3CL (3C-like) protease inhibitor. The Candidate exhibits high potent antiviral activity on SARS-CoV-2 delta and omicron variants.

Management Discussion and Analysis

BD *(Continued)*

Collaboration with KiOmed

In September 2022, the Group entered into an exclusive license agreement with KiOmed. Pursuant to the licensing agreement, the Group obtained an exclusive license from KiOmed to develop and commercialize KiOmedine^{vs}One for the treatment of osteoarthritis within China (including Macau and Taiwan).

KiOmedine^{vs}One is a new generation single injection for the treatment of knee osteoarthritis based on world-first exclusive animal free KiOmedine® CM-Chitosan. KiOmedine^{vs}One has been granted the CE mark and launched in Europe in 2021.

Collaboration with Biotheus

In November 2022, the Group entered into a license agreement with Biotheus. Pursuant to the licensing agreement, the Group obtained an exclusive license from Biotheus to develop and commercialize PM1080 within China (including Hong Kong, Macau and Taiwan).

PM1080 is an EGFR/cMet bispecific anti-body drug with great therapeutic potential to block both EGFR and c-Met signaling, inhibit tumor growth and survival, etc. PM1080 is in pre-clinical stage currently.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

In line with our core values of “Responsibility, Integrity, Commitment and Innovation”, the Group continues to focus on enhancing access to innovative drugs in areas of critical clinical need. We have set corporate governance, corporate behaviour, product quality and safety, healthcare for all, human resources development, environmental protection and community progress as the focus of our ESG strategy, and are moving towards higher levels of ESG management, with a view to making a positive impact on the environment, employees, suppliers, investors, customers and patients, the Company itself and society as a whole.

During the Reporting Period, the Group scored 63 points on the S&P Global Corporate Sustainability Assessment (CSA), exceeding 95% of its peer companies worldwide. The Group was selected for the 2023 Sustainability Yearbook and was the only pharmaceutical company in China’s mainland to be selected. In addition to maintaining the MSCI ESG A rating, we were also awarded the Bloomberg Business Week/Chinese Edition 2022 ESG Leading Enterprise Award, the Ministry of Industry and Information Technology 2022 China Pharmaceutical Enterprise Social Responsibility Outstanding Project, 2022 China Pharmaceutical Listed Company ESG Competitiveness Top 5, HRoot “2022 Greater China Employer Excellence”, Jiangsu Province 2022 Green Development Leading Enterprise. The Group has received authoritative recognition in various aspects such as comprehensive strength, environmental protection, talent development, innovation and research and development.

In the past year, relying on our solid and efficient sustainable development governance system, we actively responded to changes in industry policies and the social environment, and fully deployed resources to enhance our environmental, social and governance performance. At the same time, we responded to the concerns and expectations of our stakeholders and the community, accelerated our efforts to promote “responsible innovation” and fulfil our corporate citizenship responsibilities.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended December 31, 2022, the Group's operating activities generated a net cash inflow of RMB2,741 million. The capital expenditure during the Reporting Period was RMB319 million, mainly relating to the construction workshops, as well as the purchase of equipment, motor vehicles, software and patents required for production, R&D and administrative activities. The cash flow of financing activities for the Reporting Period mainly consisted of the payment for dividends of RMB712 million.

The Group's financial position remains sound. As at December 31, 2022, we had cash and bank deposits of RMB17,615 million (as at December 31, 2021: RMB14,702 million), financial assets at fair value through profit or loss of RMB2,544 million (as at December 31, 2021: RMB2,357 million), other financial assets of RMB1,464 million (as at December 31, 2021: RMB1,874 million). As at December 31, 2022, our financial assets at fair value through profit or loss and other financial assets primarily comprise investments in financial products issued by commercial banks. The Group's purchase of financial products after the Listing does not constitute notifiable transactions of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). As at December 31, 2022, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 24.5% (as at December 31, 2021: 26.3%).

Most of the Group's assets and liabilities are denominated in Renminbi and United States Dollars. The Group manages its foreign exchange risk by closely monitoring its net foreign exchange exposure to reduce the impact of foreign exchange fluctuations.

PLEDGE OF GROUP ASSETS

As at December 31, 2022, none of the Group's assets was subject to any encumbrance, mortgage, lien, charge or pledge.

CONTINGENT LIABILITIES

As at December 31, 2022, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

During the Reporting Period, the Group did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at December 31, 2022, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

Management Discussion and Analysis

EMPLOYEES AND EMOLUMENTS POLICY

As at December 31, 2022, the Group had a total of 10,523 full-time employees, whose remuneration is determined based on their performance and experience as well as the prevailing market salary level.

The staff costs, including remuneration of the executive Directors, social welfare and other benefits, were approximately RMB2,596 million for the year ended December 31, 2022. We also provide regular training to employees designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about the Company and our products as well as sales, laws and regulations applicable to our operation, requirements under applicable Good Manufacturing Practice (GMP) or other certifications, quality control, production safety and corporate culture.

The Company has conditionally approved and adopted the restricted share unit scheme (“RSU Scheme”) on May 27, 2019 to recognize contributions by selected participants and give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for the further development of the Group. For details of the RSU Scheme, please refer to the section headed “Statutory and General Information – D. Post-IPO RSU Scheme” in Appendix IV to the prospectus of the Company dated May 31, 2019. For the year ended December 31, 2022, 36,786,600 restricted share units had been granted by the Company pursuant to the RSU Scheme.

PROSPECTS

As China adopts more flexible and effective epidemic prevention policies and measures, and boosts its innovation, digitalization, and quality investment and improvement efforts, the country’s pharmaceutical market and healthcare industry are expected to recover and grow rapidly in 2023 and beyond. We have witnessed the gradual recovery and release of the suppressed medical demand at the hospital end, which has facilitated our operation and academic activities to return to the right track. Accordingly, we will increase our investment in R&D activities. The Group has successfully transformed itself into an innovative biopharma company that focuses on developing and selling innovative drugs and will continue to enhance its existing strong discovery capabilities, development capabilities, commercial capabilities to better address the unmet medical needs of patients in China and around the world. We are also committed to expanding our product pipeline and product portfolio of innovative drugs by collaborating with external partners and leveraging both in-house and external cutting-edge technologies especially the antibody drug conjugation, RNAi, bispecific antibody etc. We believe that combining in-house R&D with external collaboration can enable faster and more efficient discovery and development of innovative drug candidates across multiple therapeutic areas. Moreover, we will also continue to improve our operational efficiency and organization agility, actively take up social responsibilities and strive to enhance our reputation.

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report for the Reporting Period.

A. CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all Shareholders and enhances corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and the Company has adopted the Corporate Governance Code as its own code of corporate governance.

The Company has complied with all applicable code provisions in effect during 2022 under the Corporate Governance Code during the Reporting Period, save for code provisions C.2.1 as disclosed in this report.

B. BOARD OF DIRECTORS

Board of Directors

The businesses of the Company are managed and conducted by the Board. The Board is responsible for leading and controlling the Group, promoting the success of the Company by guiding and overseeing the affairs of the Group, and making decisions objectively in the best interests of the Company.

The Board will regularly review the contribution required from a Director to perform his/her responsibilities to the Group, and whether the Director is spending sufficient time performing them. Each Director should also disclose to the Company in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments.

To oversee particular aspects of the Company's affairs, the Board has established five Board committees, including the Audit Committee, the Remuneration Committee, the Strategy and Development Committee, the ESG Committee and the Nomination Committee. The Board has delegated to the Board committees the responsibilities as set out in their respective terms of reference.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Board Composition

As at December 31, 2022, the Board comprised of three executive Directors (including the Chairlady and Chief Executive Officer) and three independent non-executive Directors.

Position	Name
Executive Director	Ms. Zhong Huijuan (<i>Chairlady and Chief Executive Officer</i>) Mr. Lyu Aifeng Ms. Sun Yuan
Independent Non-executive Director	Mr. Lin Guoqiang Mr. Chan Charles Sheung Wai Ms. Yang Dongtao

Notes:

Ms. Sun Yuan and Mr. Chan Charles Sheung Wai were re-elected as executive Director and independent non-executive Director, respectively, by the Shareholders at the annual general meeting held on June 10, 2022.

The biographical details of Directors and the relations of Board members are set out in the section headed “Biographical Details of Directors and Senior Management” in this Annual Report.

Independent Non-executive Directors

The Board has complied with the requirements of the Listing Rules at any time during the Reporting Period. The Company has appointed three independent non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represent over one-third of the Board.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Corporate Governance Functions

The Board is responsible for performing the functions set out in code provision of the Corporate Governance Code so as to ensure the establishment of sound corporate governance practices and procedures by the Company. During the Reporting Period, the Board has:

- (1) considered, formulated and reviewed the Company’s policies and practices on corporate governance;
- (2) reviewed and monitored the training and continuous professional development of Directors and senior management;

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Corporate Governance Functions *(Continued)*

- (3) reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements as required under the applicable requirements of the Listing Rules;
- (4) reviewed and monitored the Directors' and relevant employees' compliance with the Company Code; and
- (5) reviewed the Company's compliance with the Corporate Governance Code and relevant disclosure.

Responsibilities of the Board and the Management

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Chairlady and Chief Executive Officer

Code provision C.2.1 of the Corporate Governance Code states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company has appointed Ms. Zhong Huijuan ("**Ms. Zhong**") as both the chairlady and the chief executive officer of the Company. Due to the nature and the extent of the Group's operations and Ms. Zhong's in-depth knowledge and experience in the PRC pharmaceutical industry, the Board considers that the balance of power and authority under the present arrangement is not impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairlady of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Re-election of Directors

Code provision B.2.2 states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, one third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and any Director appointed by the Board or elected by the Shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the next general meeting of the Company after his/her appointment and be subject to re-election at such meeting.

The Company has entered into a service contract with each of the executive Directors for a term of three years and an appointment letter with each of the independent non-executive Directors for a term of three years. Directors are subject to retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Re-election of Directors *(Continued)*

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment/re-election and succession planning of Directors.

Training and Continuous Professional Development

Directors

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

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, the Company arranged internal briefings for Directors and sent reading material on relevant topics to Directors for their reference and studying, including reading materials in relation to legal and regulatory updates. Internal training sessions were also arranged for the Directors, which covered topics including but not limited to new regulations and practices related to ESG, and the amendments of the Listing Rules.

Directors	Type(s) of Training^{Note}
Executive Directors	
Ms. Zhong Huijuan	A and B
Mr. Lyu Aifeng	A and B
Ms. Sun Yuan	A and B
Independent Non-executive Directors	
Mr. Lin Guoqiang	B
Mr. Chan Charles Sheung Wai	A and B
Ms. Yang Dongtao	A and B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Training and Continuous Professional Development *(Continued)*

Joint Company Secretaries

The Company Secretaries are responsible for facilitating the Board process, as well as communications among the Board members, Shareholders and management. Ms. Zhong Shengli, together with Ms. Li Yan Wing Rita of Tricor Services Limited, which is an external service provider specializing in integrated business, corporate and investor services, have been engaged by the Company as its joint company secretaries. The biographical information of Ms. Zhong Shengli and Ms. Li Yan Wing Rita are set out in the section headed “Biographical Details of Directors and Senior Management” of this Annual Report. Ms. Zhong Shengli and Ms. Li Yan Wing Rita have confirmed that they have taken not less than 15 hours of relevant professional training during the Reporting Period in compliance with Rule 3.29 of the Listing Rules. The primary contact person at the Company is Ms. Zhong Shengli.

Committees

As at December 31, 2022, the Board has established the following committees: Audit Committee, Remuneration Committee, Strategy and Development Committee, ESG Committee and Nomination Committee. These committees operate in accordance with their respective terms of reference established by the Board. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and of the Stock Exchange and are available to Shareholders upon request. The majority of the members of each Board committee (except the Strategy and Development Committee) are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under “Corporate Information” of this Annual Report.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai (“**Mr. Chan**”) (chairman of the Audit Committee), Mr. Lin Guoqiang (“**Mr. Lin**”) and Ms. Yang Dongtao (“**Ms. Yang**”).

The major duties and responsibilities of the Audit Committee are set out clearly in its terms of reference, which primarily include assisting the Board in reviewing the financial information and reporting system, risk management and internal control system, relationship with external auditors, and reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee also performs the responsibilities as set out in the Corporate Governance Code.

The consolidated financial statements of the Group for the year ended December 31, 2022 have been reviewed by the Audit Committee and the external auditor. The Audit Committee is of the view that the consolidated financial statements of the Group for the year ended December 31, 2022 comply with the applicable accounting standards and the Listing Rules, and that sufficient disclosures have been made.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Audit Committee *(Continued)*

During the year ended December 31, 2022, two meetings were held by the Audit Committee to review the consolidated financial statements for the year ended December 31, 2021 as well as the effectiveness of the internal audit function of the Company and any recommendations on the management and control of internal risks and to review the unaudited financial statements for the six months ended June 30, 2022. All members of the Audit Committee attended the meetings of the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of three members: two independent non-executive Directors, namely, Ms. Yang (chairlady of the Remuneration Committee) and Mr. Lin, and one executive Director, namely, Ms. Zhong.

The primary duties of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

During the year ended December 31, 2022, the Remuneration Committee held four meetings to consider and recommend to the Board the remuneration and other benefits paid by the Company to the Directors and senior management and grant of RSUs pursuant to the RSU Scheme.

During the Reporting Period, the Company granted RSUs to certain employees, including two directors, where based on the vesting schedule, part of the RSUs shall vest less than 12 months from the grant date. Upon assessing a number of factors, including (i) the grants involved are with a total vesting and holding period of more than 12 months (up to a maximum of three years) and (ii) where new employees are involved, the grants represent the “make-whole” share awards to these new joiners to replace the share awards they forfeited when leaving their previous employers, the Remuneration Committee considered that these grants were consistent with the purpose of the RSU Scheme.

There is no clawback mechanism attached to the RSUs granted during the Reporting Period. The Remuneration Committee is of the view that a clawback mechanism is not necessary for the following reasons: (i) if the price of the Shares upon vesting of the RSUs granted is lower than the purchase price, the RSUs granted will be of no value; and (ii) the RSU Scheme provides for the lapse and cancellation of RSUs under various scenarios and therefore adequately protect the Company’s interests.

All members of the Remuneration Committee attended the meeting of the Remuneration Committee. The emoluments of Directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time commitment in the Group’s affairs and performance of each Director as well as salaries paid by comparable companies and the prevailing market conditions.

Strategy and Development Committee

The Strategy and Development Committee consists of four members: two executive Directors, namely, Ms. Zhong (chairlady of the Strategy and Development Committee) and Mr. Lyu Aifeng (“**Mr. Lyu**”), and two independent non-executive Directors, namely, Mr. Chan and Ms. Yang.

The primary duties of the Strategy and Development Committee include conducting research and making suggestions for the medium-to-long-term development strategy and development plans of the Group, considering the annual operation plans and investment proposals of the Group, as well as conducting research and making suggestions for any expansion to new markets, launch of new business and R&D of new products of the Group.

During the year ended December 31, 2022, the Strategy and Development Committee held one meeting to evaluate the development of the Group in 2022 and consider the future development strategies and plans, including but not limited to, the discussion about major investments, financing, reorganization, and plans for expansion to new markets, launch of new business and development of new products. All members of the Strategy and Development Committee attended the meeting of the Strategy and Development Committee.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

ESG Committee

The ESG Committee consists of three members: one executive Director, namely Mr. Lyu (chairman of the ESG Committee), and two independent non-executive Directors, namely Mr. Chan and Ms. Yang.

The primary duties of the ESG Committee include guiding and formulating the Group's ESG vision, objectives, strategy and structure to ensure the meeting of the Group's needs and compliance with applicable laws, regulations, regulatory requirements and international standards; supervising the development and implementation of the Group's ESG vision, strategy and structure; guiding and reviewing the identification and prioritization of key ESG issues of the Group; reviewing major ESG trends and related risks and opportunities; assessing the adequacy and effectiveness of the Group's ESG structure accordingly; formulating relevant policies to effectively promote the relationship between the Group and its stakeholders and to protect the reputation of the Group; reviewing the Company's ESG reports and other ESG related disclosures and making recommendations to the Board, etc.

During the year ended December 31, 2022, the ESG Committee held two meetings to review ESG enhancement initiatives and consider work plans, review and identify the material ESG issues of the Group and their priorities, identify risks relating to climate change, formulate countermeasures etc. All members of the ESG Committee attended meeting of the ESG Committee.

Nomination Committee

The Nomination Committee consists of three members: one executive Director, namely Ms. Zhong (chairlady of the Nomination Committee), and two independent non-executive Directors, namely Mr. Lin and Mr. Chan.

The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board (including skills, knowledge and experience of Directors), identifying individuals suitably qualified to become members of the Board, selecting or making recommendations to the Board on nominations, appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of independent non-executive Directors.

During the year ended December 31, 2022, the Nomination Committee held one meeting to nominate candidates to the Board, to review the independence of the Company's independent non-executive directors and to review the structure, size and composition of the Board and the board diversity policy. All members of the Nomination Committee attended meeting of the Nomination Committee.

To ensure independent views and input are available to the Board, Nomination Committee is responsible for evaluating the Board performance on annual basis. Evaluation is based on the following factors of director to ensure a strong independent element on the Board and improve Board effectiveness: (1) professional qualification and industry experience; (2) sufficient time devoted to the Board; (3) participate into training continuously and review the relevant policy of the Company regularly.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Director Nomination Policy

The Company has adopted a director nomination policy which aims to render clear basis and procedures for the nomination and appointment of Directors. The Board will take into account factors such as character and integrity, qualifications, skills, experience, independence and diversity of the candidates, and whether or not the candidate is willing and able to devote adequate time to discharge duties as a member of the Board and Board committee(s) upon receipt of the proposal of appointment of new Directors or the nomination proposal made by Shareholders at general meetings of the Company. When Directors are re-elected at general meetings, apart from the above standards, the Board will also review the overall contributions and services of retiring Directors to the Company and their level of participation and performance in the Board.

The Nomination Committee is responsible for reviewing the Director nomination policy to ensure its effectiveness.

Board Diversity Policy

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

The Directors have a mix of knowledge and skills of, including, management, strategic development, business development, sales, R&D, industry research, investment management, finance, corporate finance, risk management, education, chemistry and the pharmaceutical industry. They obtained degrees in various areas including chemistry, organic chemistry, biomedical engineering, biomedical sciences, business administration, commerce, engineering, economics and corporate management. The age of Directors ranges from 36 years old to 80 years old.

Nomination committee is responsible for reviewing the Board Diversity Policy, monitoring the implementation of the Board Diversity Policy and reviewing the Board Diversity Policy from time to time to ensure its continued effectiveness. As at December 31, 2022, the Board comprises 6 Directors, of which 50% of them are female and 50% of them are male. Having reviewed the Board Diversity Policy and the Board's composition, the Nomination Committee considered that the requirements of the Board Diversity Policy had been met and therefore, no measurable objective for the implementation of the Board Diversity Policy is required to be set. However, from time to time, the Nomination Committee will monitor the Board's composition and consider setting measurable objectives and reviewing such objectives to ensure their appropriateness and ascertain the progress made towards achieving Board diversity.

As at December 31, 2022, the full-time employees of the Group (including senior management) comprise about 64.2 % male and 35.8 % female.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Attendance of Board Meetings and Committee Meetings

Pursuant to the Corporate Governance Code, board meetings should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, the Board has held four meetings.

Pursuant to the Corporate Governance Code, the chairman of the Board should at least annually hold meetings with independent non-executive Directors without the presence of other Directors. During the Reporting Period, the chairlady of the Board has held one meeting with independent non-executive Directors in compliance with the Corporate Governance Code.

Details of the attendance of Directors at the Board meetings, committee meetings and general meetings during the year under review are set out below:

Number of meetings attended/held

Directors	Board	Audit Committee	Remuneration Committee	Strategy and Development Committee	ESG Committee	Nomination Committee	General Meeting
Number of meetings	4	2	4	1	2	1	1
Executive Directors							
Ms. Zhong Huijuan	4/4	–	4/4	1/1	–	1/1	1/1
Mr. Lyu Aifeng	4/4	–	–	1/1	2/2	–	1/1
Ms. Sun Yuan	4/4	–	–	–	–	–	1/1
Independent Non-executive Directors							
Mr. Lin Guoqiang	4/4	2/2	4/4	–	–	1/1	1/1
Mr. Chan Charles Sheung Wai	4/4	2/2	–	1/1	2/2	1/1	1/1
Ms. Yang Dongtao	4/4	2/2	4/4	1/1	2/2	–	1/1

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Company Code on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Company Code for the Reporting Period.

No incident of non-compliance of the Company Code by the employees was noted by the Company.

Corporate Governance Report

B. BOARD OF DIRECTORS *(Continued)*

Remuneration of Senior Management

There were five employees classified as senior management for the year ended December 31, 2022. The remuneration of the senior management by band is set out below:

	Number of employee(s)
Below RMB500,000	0
RMB500,000 to RMB1,000,000	0
RMB1,000,001 to RMB1,500,000	0
Above RMB1,500,000	5
	<hr/> 5

C. ACCOUNTABILITY AND AUDIT

Directors' Responsibility in respect of the Financial Statements

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

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

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

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

Corporate Governance Report

C. ACCOUNTABILITY AND AUDIT *(Continued)*

Risk Management and Internal Control

The Company is dedicated to establishing and maintaining a robust internal control system. The Company has adopted and implemented risk management policies in various aspects of our business operations to address various potential risks in relation to our strategic plan, R&D, infrastructure, procurement, manufacturing, distribution and retail. Our risk management system also covers general finance management, human resources, information technology, projects, logistics, subsidiaries and policy matters.

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The systems are designed to manage rather than eliminate the risk of failing in achieving our business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss.

The Company has established a three-layer organizational framework (business departments, functional departments and internal control and audit department) to identify, analyze, categorize, control, and monitor various risks relating to our strategy, operation, market development, financial matters, legal matters, investment and financing, information security, anti-bribery and anti-money laundering. For risk identified, the Group promptly implements internal controls and continually optimizes related processes to mitigate potential risks.

Please refer to “Business-Production and Quality Control-Risk Management” in the Prospectus for details of risk management policies.

The internal audit department of the Company examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. The Directors have conducted an annual review of the effectiveness of the risk management and internal control system of the Group during the year ended December 31, 2022, covering all major functions including finance, operation and compliance. Based on the review results, the Directors are of the opinion that the system is effective and sufficient.

The Company has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board has established an inside information team entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to false media report or market speculation which may materially affect the trading price or volume of the shares.

Corporate Governance Report

C. ACCOUNTABILITY AND AUDIT (Continued)

Auditor and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in this annual report on pages 53 to 57.

During the Reporting Period, the remuneration paid to the external auditor of the Group, being Ernst & Young, is set out as follows:

	Fee paid/payable for the Reporting Period (RMB'000)
Service category	
Audit services	3,150
Non-audit services	550
– ESG reports	–
– Engineering settlement	550
Total	3,700

D. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has adopted the shareholder communication policy with an aim to ensure that the Shareholders of the Company and as and when appropriate, the general investors to have timely access to the same and readily comprehensible comprehensive information about the Company.

The Company has reviewed the implementation and effectiveness of the above Shareholder communication policy during the Reporting Period and is satisfied that the policy has been implemented effectively, having considered the availability of multiple channels of communication and engagement in place below.

The Company conveys the information to the Shareholders and investors mainly through the following channels:

- the website of the Stock Exchange on which the information disclosed to the market and submitted to the Stock Exchange is published;
- the website of the Company (www.hspharm.com);
- the interim reports and annual reports; and
- the annual general meeting and other general meetings.

To facilitate the exchange of views between the Shareholders and the Board, the chairlady of the Board and chairman/chairlady of the Board committees (or their delegates (if applicable)), appropriate executive management personnel and the external auditor will attend the annual general meetings and answer the questions raised by the Shareholders.

Corporate Governance Report

D. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS *(Continued)*

Rights of Shareholders

Pursuant to Article 12.3 of the Articles of Association, any two or more members holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company, or any one member which is a recognized clearing house (or its nominee(s)) shall be entitled to require the convening of a general meeting with a written requisition deposited at the principal office of the Company in Hong Kong and specifying the objects of the meeting and signed by the requisitionist. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may also contact the Investor Relations Department of the Company from time to time to understand the information published by the Company. The Company will inform the Shareholders of the designated e-mail address and enquiry hotline of the Company so that they can make any inquiries of the Company.

Enquiry to the Board

Enquiry may be made to the Board at the principal place of business of the Company in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

The Company publishes on its website (www.hspharm.com) the latest company news relating to the Group. The public is welcome to provide opinions and make inquiries through the Company's website.

Amendments to the Constitutional Documents

No changes have been made to the Articles of Association by the Company during the Reporting Period. The latest version of Articles of Association are also available on the websites of the Company and the Stock Exchange.

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to the Corporate Governance Code. The Board may declare and pay dividends by way of cash or by other means that the Board considers appropriate. While deciding on the declaration or payment of any dividends and the amount of any dividends, the Board will take into account, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, contractual and legal restrictions and other factors that the Directors may consider relevant.

Directors' Report

The Board is pleased to submit this report and audited consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in the R&D, production and sales of a series of pharmaceutical products in China. The shares of the Company were listed on the Main Board of The Stock Exchange on June 14, 2019.

Operating segment information of the Company for the year ended December 31, 2022 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation, principal businesses and shares in issue/registered capital, is set out in Note 1 to the consolidated financial statements. There are no substantial changes in the principal business of the Group during the Reporting Period.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2022 and the financial positions of the Company and the Group as at the same date are set out on pages 58 to 61 of the consolidated financial statements.

The Board recommends a final dividend of HK\$5 cents per share for the year ended December 31, 2022 (2021: RMB7.32 cents, equivalent to HK\$9 cents). Subject to the approval of the Shareholders at the AGM, the proposed final dividend will be payable on July 5, 2023 to Shareholders whose names appear on the register of members of Company on June 9, 2023. Together with an interim dividend of HK\$5 cents per share, the full-year dividend for 2022 amounted to HK\$10 cents per share.

The Group is not aware any arrangement under which a Shareholder has waived or agreed to waive any dividends.

BUSINESS REVIEW

Details of the business review and performance of the Group during the Reporting Period (including the description of the main risks and uncertainties facing the Group, material events affecting the Company that have occurred since the end of 2022, the key financial performance indicators and prospects) are set out in the "Chairlady's Statement" and "Management Discussion and Analysis" sections on pages 10 to 20 of this Annual Report, which form part of this report.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Thursday, June 1, 2023. The notice of AGM will be sent to Shareholders at least 21 days before the date of convening the AGM.

CLOSURE OF REGISTER OF MEMBERS

To determine the right to attend and vote at the AGM, the Company will close the register of members between Monday, May 29, 2023, and Thursday, June 1, 2023 (both days inclusive). To ensure the effect of right to attend and vote at the AGM, all Shareholders shall return all the documents together with the related stocks to the Company's branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 pm on Thursday, May 25, 2023.

Directors' Report

CLOSURE OF REGISTER OF MEMBERS *(Continued)*

In order to ascertain the Shareholders' entitlements to the proposed final dividend, the register of members of the Company will be closed from Wednesday, June 7, 2023 to Friday, June 9, 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Tuesday, June 6, 2023.

SUMMARY OF FINANCIAL INFORMATION

According to the audited consolidated financial statements and after reclassification as appropriate, the published results, assets, liabilities and net assets of the Group for the past five fiscal years is presented on the "Financial Highlights" section of this Annual Report on page 9. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the Reporting Period are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL

The Company had 5,922,350,070 ordinary shares in issue as at December 31, 2022. The changes in the share capital and share option (if any) of the Company during the year, together with the reasons therefor, are set out in Note 28 to the consolidated financial statements.

USE OF PROCEEDS FROM PLACING

On April 22, 2020, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and Citigroup Global Markets Limited (the "Placing Agents"), pursuant to which the Placing Agents agreed to place 130,380,000 ordinary shares in the Company, or, failing which, to purchase themselves on a fully underwritten basis to not fewer than six placees who are professional, institutional or other investors selected and procured by the Placing Agents and whose ultimate beneficial owners are independent third parties (the "Placing"). The placing price was HK\$26.75 per share.

The net proceeds from the Placing were approximately HK\$3,477.20 million, which have been and will be used on R&D, including but not limited to our existing and future domestic and overseas drug development programs, expanding our R&D team, and investment in technologies to further enhance our R&D capabilities and enrich our product pipeline, as disclosed in the announcement of the Company dated April 22, 2020. HK\$400.27 million was utilized as at December 31, 2022 and HK\$3,076.93 million remains unutilized. The balance is expected to be fully utilized by 2030.

Directors' Report

USE OF PROCEED FROM ISSUANCE OF CONVERTIBLE BONDS

In January 2021, the Company successfully completed the issuance and listing of US\$600 million zero-coupon convertible bonds due in 2026 to the professional investors only. The net proceeds from the bonds were approximately US\$595.65 million, which have been and will be used on R&D expenditure, upgrading and expanding existing manufacturing facilities (including R&D facilities) and procuring equipment for its production facilities and for general corporate purposes. In December 2022, the Company repurchased bonds with an aggregate principal amount of US\$4 million. US\$362.63 million was utilized as at December 31, 2022 and US\$229.02 million remains unutilized. The balance is expected to be fully utilized by 2030.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands (the jurisdiction in which the Company was incorporated) which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION

In December 2022, the Company repurchased bonds with an aggregate principal amount of US\$4 million in accordance with the terms and conditions of the zero coupon convertible bonds due 2026 on January 22, 2021, which are listed on the Stock Exchange with stock code 40546.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2022.

TAX RELIEF AND EXEMPTION

The Company has no knowledge of any tax relief and exemption provided to the Shareholders due to their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in Notes 29 and 38 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

The Company may pay dividends out of its share premium account and retained earnings.

As at December 31, 2022, the Company had distributable reserves for share premium of RMB13,931,541,000 (2021: RMB14,023,877,000).

Details of movements in the reserves of the Company during the year ended December 31, 2022 are set out in Note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the sales to the Group's five largest customers and the purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and 30% of the total purchases of the year, respectively.

Directors' Report

ENVIRONMENTAL POLICIES AND PERFORMANCE

The business of the Group is subject to national, provincial and local environmental laws and regulations in China. The main pollutants generated during the production and R&D process of the Group's products include waste water, waste gas and solid waste. The Group has established a Environmental Management System in order to comply with the applicable laws and regulations. The Group has adopted a compliant and environmentally sound disposal method for different types of hazardous waste. For hazardous waste that can be recycled, we carry out resource recycling, while other hazardous waste that cannot be recycled is entrusted to units with hazardous waste treatment qualifications for incineration or recycling and disposal; for non-hazardous waste, we entrust the municipal environmental sanitation departments to carry out disposal in a unified manner. The Group has set long-term environmental objectives to upgrade its waste gas and wastewater treatment facilities, aiming to reduce the emission of pollutants from our production and R&D processes, and to continuously optimise our production processes to improve resource efficiency and reduce additional pollution, waste and greenhouse gas emissions.

The Company will publish an "Environmental, Social and Governance Report" in accordance with Rule 13.91 and the "Environmental, Social and Governance Reporting Guide" contained in Appendix 27 to the Listing Rules as soon as practicable and in any event within 5 months from the end of the financial year of the Company.

DONATIONS

During the Reporting Period, the Group made charitable and other donations in an aggregate amount of approximately RMB47 million.

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that the interests of stakeholders are vital to the sustainable development of its business operation and is committed to maintaining effective communication with the major stakeholders, including shareholders, customers, suppliers, employees, government and community organisations to enhance the relationship and cooperation for the long-term development of the Group.

The Group's customers are pharmaceutical product distributors. According to the industry practice, we will not engage our distributors to provide marketing and promotional services for our products. The Group's in-house sales and marketing team enhances professionals' knowledge and understanding of the usage, clinical effects and advantages of the Group's drug products through its promotion efforts. The Group generally entered into annual distribution agreements with distributors. The Group believes this distribution model helps extend the Group's coverage in a cost-effective manner while retaining proper control over distribution network and marketing and promotion process.

Employees are considered as the most important and valuable assets of the Group. The remuneration package for employees generally includes salary and bonuses. The Group conducts periodic performance reviews for employees, and their remuneration is performance-based. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. The Group also provides regular training to its employees, which aims to enhance their professionalism, anti-corruption and compliance awareness and increase their understanding of the many important areas served by the Group, with a view to improving their productivity and identification with the Group's diverse and inclusive corporate culture.

Directors' Report

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

As the Group mainly operates in China through its subsidiaries, it is subject to the Chinese laws and regulations relating to the R&D, production and distribution of pharmaceutical products, including but not limited to those on the quality, safety, manufacture, environmental protection, intellectual property, labor and personnel. Meanwhile, as a company incorporated in the Cayman Islands and listed on the Stock Exchange, the Company is governed by the Company Law of the Cayman Islands, the Listing Rules and the Securities and Futures Ordinance.

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

DIRECTORS

The Directors during the Reporting Period and as at the date of this report were as follows:

Executive Directors:

Ms. Zhong Huijuan (*the Chairlady*)
Mr. Lyu Aifeng
Ms. Sun Yuan

Independent Non-executive Directors:

Mr. Lin Guoqiang
Mr. Chan Charles Sheung Wai
Ms. Yang Dongtao

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 47 to 52 of this Annual Report.

CHANGE IN DIRECTORS' INFORMATION

The changes in Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

- On September 4, 2022, Ms. Yang Dongtao no longer holds the position of independent director of Perfect Group Corp., Ltd.* (倍加潔集團股份有限公司) (Stock Code: 603059), listed on the Shanghai Stock Exchange, due to the expiry of her term of service;
- On October 31, 2022, Mr. Chan Charles Sheung Wai resigned as an independent non-executive director of SRE Group Limited (stock code: 1207), a company listed on the Stock Exchange.
- On 20 December, 2022, Mr. Chan Sheung Wai became an independent director of S.F. Holding Co., Ltd.* (順豐控股股份有限公司) (stock code: 002352), a company listed on the Shenzhen Stock Exchange.

Save as disclosed above, there are no other changes in the Directors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Report

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and the Company is of the view that such independent non-executive Directors are independent.

SERVICE CONTRACTS OF DIRECTORS

None of the Directors has entered into any unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS AS WELL AS COMPETING BUSINESS

Save as disclosed in the section headed "Related Party Transactions" and Note 33 to the "Related Party Transactions" of the consolidated financial statements in this annual report, no contracts of significance (as defined in Appendix 16 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2022 or at any time during 2022.

Save as disclosed in the "Relationship with our Controlling Shareholders – The Associate's Investee Group" section of the Prospectus, none of our Directors or their respective associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete with our Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DEED OF NON-COMPETITION

The controlling Shareholders of the Company (i.e., Ms. Zhong, Stellar Infinity and Sunrise Investment) have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on May 27, 2019 ("Deed of Non-competition"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition during the Reporting Period.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 33 to the consolidated financial statements. Pursuant to Chapter 14A of the Listing Rules, none of such related party transactions constitutes a connected transaction or continuing connected transaction (as the case may be).

Directors' Report

EVENTS AFTER THE REPORTING PERIOD

In January 2023, HS-10390 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of Focal Segmental Glomerulosclerosis and Immunoglobulin A Nephropathy with the specific indications to be determined after the clinical trials.

In January 2023, HS-10517 tablets, a Category 1 innovative drug and oral small molecule 3CL protease inhibitor against SARS-CoV-2, in which the Group cooperates with GHDDI, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of adult patients with mild to moderate SARS-CoV-2 infection.

In January 2023, four innovative drugs (including new indications) of the Group, namely Aumolertinib mesylate tablets (trade name: Ameile 阿美樂®), Inebilizumab Injections (trade name: XINYUE 昕越®), flumatinib mesylate tablets (trade name: Haosen Xinfu 豪森昕福®) and PEG-loxenate for injection (trade name: Fulaimai 孚來美®), both of which are innovative drugs self-developed by the Group, have been included in the NRDL (2022 version) released by the NHTA. Among them, Ameile for the first-line treatment of adult patients with locally advanced or metastatic NSCLC whose tumors have EGFR exon 19 deletions or exon 21 (L858R) substitution mutation-positive (new indication approved in 2021) has been included in the updated NRDL for the first time. Inebilizumab Injections XINYUE for the treatment of adult patients with NMOSD who are AQP4 antibody-positive (indication approved in 2022) has been included in the updated NRDL for the first time.

On April 21, 2023, the Company allotted and issued 11,000,000 new Shares to Computershare Hong Kong Trustees Limited holding such Shares for the benefit of the participants of the RSU Scheme pursuant to the terms of the RSU Scheme.

Save as disclosed, there were no material events affecting the Company during the period from December 31, 2022 to the date of this report.

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

As at December 31, 2022, the interests and/or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 of the Listing Rules were as follows:

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

1. Interest in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest ⁽¹⁾
Ms. Zhong Huijuan ⁽²⁾	Person with influence over a trust	3,900,000,000	65.85%
Ms. Sun Yuan ⁽²⁾	Beneficiary of a trust	3,901,200,300	65.87%
Mr. Lyu Aifeng ⁽³⁾	Beneficial owner	1,550,000	0.026%

Notes:

- (1) The calculation is based on the total number of 5,922,350,070 issued shares of the Company as at December 31, 2022.
- (2) These ordinary shares in the Company are beneficially owned by Stellar Infinity which is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by Sunrise Trust Trustee as trustee for the Sunrise Trust, a discretionary trust set up by Ms. Sun Yuan. Ms. Zhong is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Ms. Sun Yuan are deemed or taken to be interested in all the shares of the Company which are beneficially owned by Stellar Infinity for the purpose of Part XV of the SFO.
- (3) These include Mr. Lyu Aifeng's entitlement to 1,085,000 restricted share units subject to vesting conditions.

2. Interest in shares or underlying shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares or underlying shares in the associated corporation	Percentage of shareholding interest in the associated corporation
Ms. Zhong Huijuan	Sunrise Investment ⁽¹⁾	Person with influence over a trust	100	100%
Ms. Sun Yuan	Sunrise Investment ⁽¹⁾	Beneficiary of a trust	100	100%

Notes:

- (1) Sunrise Investment is wholly owned by the Sunrise Trust Trustee, which is the trustee for the Sunrise Trust, a discretionary trust set up by Ms. Sun. Ms. Zhong is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Ms. Sun are deemed or taken to be interested in all the shares of Sunrise Investment which are beneficially owned by the Sunrise Trust Trustee for the purpose of Part XV of the SFO.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

2. Interest in shares or underlying shares of associated corporation of the Company (Continued)

Save as disclosed above, as at December 31, 2022, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest and/or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under Divisions 7 and 8 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2022, the interests and/or short positions of persons (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest ⁽¹⁾
Stellar Infinity ⁽²⁾	Beneficial owner	3,900,000,000	65.85%
Sunrise Investment ⁽²⁾	Interest in controlled corporation	3,900,000,000	65.85%
Sunrise Trust Trustee ⁽²⁾	Interest in controlled corporation	3,900,000,000	65.85%
Apex Medical ⁽³⁾	Beneficial owner	950,000,000	16.04%
Mr. Cen Junda ⁽³⁾	Interest in controlled corporation	950,000,000	16.04%

Notes:

- (1) The calculation is based on the total number of 5,922,350,070 issued shares of the Company as at December 31, 2022.
- (2) Stellar Infinity is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by the Sunrise Trust Trustee, the trustee of the Sunrise Trust. Therefore, each of Sunrise Investment and the Sunrise Trust Trustee is deemed to be interested in the Shares of the Company held by Stellar Infinity pursuant to the SFO.
- (3) Apex Medical is wholly-owned by Mr. Cen Junda. Therefore, Mr. Cen Junda is deemed to be interested in the Shares of the Company held by Apex Medical pursuant to the SFO.

Save as disclosed above, as at December 31, 2022, so far as is known to the Directors, no person (not being a Director or chief executive of the Company) had or was deemed to have any interest and/or short position in the shares or underlying shares of the Company which was required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Directors' Report

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period, were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other corporations.

PERMITTED INDEMNITY PROVISION

In addition to the indemnities provisions as set out in the Articles of Association, Directors' liability insurance is currently in place, and was in place during the Reporting Period, to protect the Directors of the Company against potential costs and liabilities arising from claims against them.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 16.21% of the Company's issued share capital.

During the Reporting Period, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

RESTRICTED SHARE UNIT SCHEME

The following is a summary of the principal terms of the RSU Scheme conditionally approved and adopted on May 27, 2019. For details of the RSU Scheme, please refer to Appendix IV "Statutory and General Information – D. Post-IPO RSU Scheme" of the Prospectus.

1. Purpose

The purpose of the RSU Scheme is to recognize contributions by selected participants and give incentives to them in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

2. Participants

Persons eligible to receive awards under the RSU Scheme include the following:

- (i) employees (including director, chief executive officer, vice president, financial controller, company secretary, members of senior management or key technical personnel) of the Group; and
- (ii) any other person selected by the Board at its sole discretion from time to time (subject to the compliance of the applicable Listing Rules).

Directors' Report

RESTRICTED SHARE UNIT SCHEME *(Continued)*

3. Total number of shares available

No award shall be granted pursuant to the RSU Scheme if, as a result of such grant (assumed accepted), the aggregate number of shares underlying all grants made pursuant to the RSU Scheme (excluding awards that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) will exceed 114,118,384 Shares, representing 2% of the number of shares in issue on the June 14, 2019.

As at December 31, 2022, the Company had 69,652,854 Shares available for issue under the RSU Scheme, representing approximately 1.17% of the total issued share capital of the Company as at the date of this report.

The number of RSUs available for grant under the scheme mandate of the RSU Scheme at the beginning and the end of the Reporting Period are 88,428,654 and 69,652,854 respectively.

4. Maximum entitlement of each participant

The total number of RSU awarded to each Participant (including both exercised, cancelled and outstanding awards) in any twelve (12)-month period shall not exceed 1% of the Shares in issue.

5. Vesting period

The vesting period of the RSUs granted is either (i) three years or (ii) thirty months and would follow one of the following vesting schedule: (i) 40% shall vest on the first anniversary of the grant date and the remaining 30% and 30% shall vest on the second and third anniversary of the grant date, respectively; (ii) 30% shall vest on the first anniversary of the grant date and the remaining 30% and 40% shall vest on the second and third anniversary of the grant date, respectively; (iii) approximately 34% shall vest on the first anniversary of the grant date and the remaining approximately 33% and approximately 33% shall vest on the second and third anniversary of the grant date, respectively; (iv) approximately 19% shall vest six months after the grant date and the remaining approximately 33%, 33% and 15% shall vest on the first, second and third anniversary of the grant date, respectively; or (v) approximately 34% shall vest six months after the grant date, approximately 33% shall vest eighteen months after the grant date and approximately 33% shall vest thirty months after the grant date, respectively.

6. Present status of the RSU Scheme

As at December 31, 2022, pursuant to the RSU Scheme, the Company had granted to Directors, executives and employees of the Group outstanding RSUs representing 32,364,620 Shares, accounting for approximately 0.55% of the total issued share capital of the Company as at December 31, 2022.

Directors' Report

RESTRICTED SHARE UNIT SCHEME (Continued)

6. Present status of the RSU Scheme (Continued)

Details of the RSUs not yet vested at the beginning and at the end of the Reporting Period are as follows:

Category	Grant date ⁽²⁾⁽³⁾	Vesting period	Purchase Price	Outstanding as at January 1, 2022	During the Reporting Period				Outstanding as at December 31, 2022
					Granted	Exercised	Cancelled	Lapsed	
1. Director									
Ms. Sun Yuan	April 29, 2022	3 years ⁽³⁾	HK\$2.6	0	1,200,300 ⁽⁸⁾	0	0	0	1,200,300
Mr. Lyu Aifeng	June 15, 2020	3 years ⁽⁴⁾	HK\$5.36	180,000	0	90,000	0	0	90,000
	June 28, 2021	3 years ⁽³⁾	HK\$6.4	750,000	0	0	0	750,000	0
	April 29, 2022	3 years ⁽⁵⁾	HK\$2.6	0	1,250,000 ⁽⁸⁾	255,000	0	0	995,000
2. Employees									
	April 22, 2020	3 years ⁽⁶⁾	HK\$5.36	5,113,560	0	2,447,340	53,700	45,800	2,566,720
	May 12, 2021	3 years ⁽³⁾	HK\$6.4	16,287,300	0	0	0	16,287,300	0
	April 29, 2022	3 years ⁽⁵⁾	HK\$2.6	0	32,821,500 ⁽⁸⁾	5,609,400	0	901,900	26,310,200
	October 29, 2022	30 months ⁽⁷⁾	HK\$2.6	0	546,600 ⁽⁹⁾	0	0	25,800	520,800
3. Service provider⁽¹⁾									
	April 29, 2022	3 years ⁽⁵⁾	HK\$2.6	0	968,200 ⁽⁸⁾	286,600	0	0	681,600
Total:				22,330,860	36,786,600	8,688,340	53,700	18,010,800	32,364,620

- (1) The service providers are all former employees who have accepted re-employment after retirement or who continue to provide consultancy advice to the Company after retirement.
- (2) The fair value of the RSUs granted and the weighted-average closing price immediately before the dates on which the awards were exercised or vested are set out in Note 29 to the Financial Statements.
- (3) Vesting schedule: approximately 34% shall vest on the first anniversary of the grant date and the remaining approximately 33% and approximately 33% shall vest on the second and third anniversary of the grant date, respectively.
- (4) Vesting schedule: 40% shall vest on the first anniversary of the grant date and the remaining 30% and 30% shall vest on the second and third anniversary of the grant date, respectively.
- (5) Vesting schedule: approximately 19% shall vest six months after the grant date and the remaining approximately 33%, 33% and 15% shall vest on the first, second and third anniversary of the grant date, respectively.
- (6) Vesting schedule: 30% shall vest on the first anniversary of the grant date and the remaining 30% and 40% shall vest on the second and third anniversary of the grant date, respectively.
- (7) Vesting schedule: approximately 34% shall vest six months after the grant date, approximately 34% shall vest eighteen months after the grant date and approximately 33% shall vest thirty months after the grant date, respectively.
- (8) Closing price immediately prior to the grant date is HK\$12.58.
- (9) Closing price immediately prior to the grant date is HK\$12.84.

Directors' Report

RESTRICTED SHARE UNIT SCHEME *(Continued)*

7. Amount payable

No amount is payable upon acceptance of the awards, and the purchase consideration is payable on exercise during the vesting period.

8. Basis for determining purchase price

The Board shall determine the purchase price at a discount with reference to the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for one calendar month immediately preceding the grant date.

9. Remaining life of the RSU Scheme

Unless otherwise terminated or amended, the RSU Scheme shall be valid and effective for the period of 10 years commencing on June 14, 2019 until June 14, 2029.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices adopted by the Company are set out in the section of "Corporate Governance Report" of this annual report.

AUDITOR

The consolidated financial statements for the year ended December 31, 2022 have been audited by Ernst & Young, which will retire at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of Ernst & Young as the auditor of the Company will be proposed at the AGM. The Company has not changed its auditor in the past 3 years.

For and on behalf of the Board

Ms. Zhong Huijuan *(Chairlady and Chief Executive Officer)*

April 21, 2023

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Ms. ZHONG Huijuan (鍾慧娟), aged 62, is the founder of our Group and currently the chairlady of the Board, the chief executive officer and an executive Director of the Company. Ms. Zhong is the chairlady of both the Nomination Committee and the Strategy and Development Committee and a member of the Remuneration Committee. Ms. Zhong was appointed as a Director on December 2, 2015. Ms. Zhong was appointed as a director of Jiangsu Hansoh in September 1998. Ms. Zhong is primarily responsible for our Group's strategic development and planning, overall operations and decision making, board governance and supervision of key management issues. Ms. Zhong is the mother of Ms. Sun.

Ms. Zhong has approximately 30 years of experience in the pharmaceutical industry in China, with substantial experience in pharmaceutical enterprise operation and management, as well as extensive industry knowledge on the development and expansion of our oncology and psychotropic drug portfolio in their respective therapeutic areas. From September 1994 until the establishment of our Group, Ms. Zhong served at Lianyungang Drug Administration. Ms. Zhong has been responsible for our Group's overall development since its establishment. Under Ms. Zhong's leadership, our Group has developed into one of the few R&D-driven Chinese pharmaceutical companies with an established leadership position in some of the largest and fastest-growing therapeutic areas in China with significant unmet clinical needs. Our Group was recognized as a "Leading Enterprise in the Internationalization of Pharmaceuticals (製劑國際化先導型企業)" by the China Chamber Of Commerce For Import & Export Of Medicines & Health Products (中國醫保商會) and China Pharmaceutical Enterprises Association (中國醫藥企業管理協會) in 2014. Since 2016, our Group has been recognized as a National Enterprise Technology Center (國家級企業技術中心) and National Intellectual Property Exemplary Enterprise (國家知識產權示範企業). Our Group has also been continuously recognized as the Top 100 Most Powerful Chinese Pharmaceutical Industrial Enterprises (中國醫藥工業百強企業) by the China Pharmaceutical Industry Information Center (中國醫藥工業信息中心).

Ms. Zhong is the vice president of the council of Jiangsu Pharmaceutical Association (江蘇省藥學會) and a standing supervisor of the China Quality Association for Pharmaceuticals (中國醫藥質量管理協會). Ms. Zhong was also elected as a representative of the 12th and 13th Jiangsu Provincial People's Congress (江蘇省人民代表大會).

Over the years, Ms. Zhong received numerous awards and recognitions for her contributions to both the pharmaceutical industry and pharmaceutical industrial and commercial enterprises. She received State Council Special Allowance in February 2013. In December 2013, she also received the "All China Federation of Industry Commerce Scientific and Technological Progress Award (first prize)" (中華全國工商業聯合會科技進步獎一等獎). In December 2014, Ms. Zhong received the "State Science and Technology Award (second prize)" (國家科技進步獎二等獎) from the State Council.

In July 1982, Ms. Zhong obtained her undergraduate degree in chemistry from Jiangsu Normal University (江蘇師範大學) (formerly known as Xuzhou Normal University (徐州師範學院)) in Xuzhou. She then obtained her Executive Master of Business Administration ("EMBA") from Nanjing University (南京大學) in December 2005.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Mr. LYU Aifeng (呂愛鋒), aged 46, is an executive Director of our Company. Mr. Lyu is the chairman of the ESG Committee and a member of the Strategy and Development Committee. Mr. Lyu was appointed as a Director on March 11, 2016, and is primarily responsible for the daily business operation and management of our Group, as well as the operation and management of certain subsidiaries. Mr. Lyu was appointed as president of Jiangsu Hansoh, the general manager of Shanghai Hansoh and the executive director of Hansoh Health Technology Co., Ltd. in December 2015, April 2016 and September 2019, respectively.

Mr. Lyu has more than 20 years of technical and management experience in R&D and product quality control systems in the pharmaceutical industry. Mr. Lyu joined our Group in July 1998 and has served in various positions, including director of product development in August 2001, and director of research institution in March 2009.

Mr. Lyu is currently the vice chairman of the Professional Committee of Industrial Pharmacy of the China Pharmaceutical Association (中國藥學會工業製劑學專業委員會) and the vice president of the 8th Council of the China Biochemical Pharmaceutical Industry Association (中國生化製藥工業協會第八屆理事會). Mr. Lyu is also elected as a representative of the 14th Jiangsu Provincial People's Congress (江蘇省人民代表大會).

Mr. Lyu has obtained numerous awards and recognitions. Mr. Lyu obtained the “State Science and Technology Progress Award (second prize)” (國家科技進步獎二等獎) in 2013 and 2014. Mr. Lyu was recognized as a “Young Expert with Outstanding Contributions” (有突出貢獻的中青年專家) by the People's Government of Jiangsu Province (江蘇省人民政府) in March 2015. He was also chosen for the “100 Million Talents Programme” (國家百千萬人才工程) by the PRC Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) in October 2017. He was further selected for the “Ten Thousand Talents Programme” (國家萬人計劃) by the PRC Ministry of Science and Technology (中華人民共和國科學技術部) in May 2018.

Mr. Lyu obtained both his bachelor of science degree in chemistry and his master of science degree in organic chemistry from Nanjing University (南京大學), in July 1998 and June 2005, respectively. Mr. Lyu also obtained his doctorate degree in biomedical engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in June 2015.

Ms. SUN Yuan (孫遠), aged 36, is an executive Director of our Company. Ms. Sun was appointed as a Director on December 2, 2015. Ms. Sun has served as a director of Jiangsu Hansoh from October 2011 to October 2019. Ms. Sun is primarily responsible for providing guidance on R&D strategies, business development, investment strategies and the scientific development of our Group, which includes monitoring and introducing latest industry development and pharmaceutical technologies to the Group and exploring overseas business opportunities. Ms. Sun is the daughter of Ms. Zhong.

Ms. Sun has approximately 15 years of experience in healthcare investment management and industry research. Prior to joining our Group in October 2011, Ms. Sun had worked as an analyst at Hony Capital since June 2009.

Ms. Sun received her bachelor's degree in biomedical sciences from Cambridge University in June 2007.

Biographical Details of Directors and Senior Management

DIRECTORS (Continued)

Independent Non-Executive Directors

Mr. LIN Guoqiang (林國強), aged 80, is an independent non-executive Director of our Company. Mr. Lin has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Lin is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lin is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Lin has more than 50 years of research experience in chemistry. Mr. Lin joined the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in 1968. He was promoted to researcher of such institute in 1990, served as deputy director from 1988 to 1993 and director of such institute from 1993 to 1999. Mr. Lin was a visiting scholar at the Royal Institute of Technology in Sweden in 1980, and also a visiting scientist at both the University of Pittsburgh and R&D Department of SmithKline in the U.S. in 1986. Since 1992, Mr. Lin has been the director and executive editor of the publication “Tetrahedron/Tetrahedron Letters” in China and served as deputy chief editor of “China Science: Chemistry” (《中國科學: 化學》) from 2008 to 2017. Mr. Lin was also elected as academician of the Chinese Academy of Sciences (中國科學院院士) in 2001.

Mr. Lin has received numerous awards, including State Natural Science Awards and Science Progress Awards. Examples are set out in the table below:

Honor/Award	Awarding Body	Timing of Granting the Award
Second Prize of State Natural Science Award of 2016	State Council	December 2016
Second Prize of State Scientific and Technological Progress Award of 2013	State Council	December 2013
Third Prize of State Scientific and Technology Progress Award of 1995	State Scientific and Technological Commission	December 1995
Second Prize of State Scientific and Technology Progress Award of 1987	State Science & Technology Award Judging Panel	July 1987
Third Prize of State Invention Award of 1987	State Scientific and Technological Commission	January 1987

Mr. Lin obtained his bachelor's degree in organic chemistry from Shanghai University of Science and Technology (上海科學技術大學) in July 1964, and obtained his master's degree in organic chemistry from Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in July 1968.

Biographical Details of Directors and Senior Management

DIRECTORS (Continued)

Independent Non-Executive Directors (Continued)

Mr. CHAN Charles Sheung Wai (陳尚偉), aged 69, is an independent non-executive Director of our Company. Mr. Chan has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Chan is the chairman of the Audit Committee and a member of the Strategy and Development Committee, the ESG Committee and the Nomination Committee. Mr. Chan is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Chan has more than 40 years of experience in corporate finance, financial regulations and risk management. Mr. Chan started his career as an auditor at the Canadian office of Arthur Andersen in 1977 and was promoted to partnership in 1988. He subsequently joined the China & Hong Kong office of Arthur Andersen as an audit partner in 1994. From July 2002 to June 2012, Mr. Chan was a partner of the China & Hong Kong office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Hong Kong Stock Exchange from 1998 to 2001 and also as a member of the Election Committee for the first Legislative Council of Hong Kong in 1998. From 1996 to 1999, Mr. Chan was a council member of the Hong Kong Institute of Certified Public Accountants. He also served as a member of the Accounting Standards Committee, Auditing Standards Committee and the chairman of the China Technical Committee of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan has been an independent non-executive director of Maoyan Entertainment (Stock Code: 1896), Sun Art Retail Group Limited (Stock Code: 6808) and Shanghai Bio-heart Biological Technology Co., Ltd. (Stock Code: 2185), all listed on the Stock Exchange of Hong Kong Limited. Mr. Chan is also currently an independent director of S.F. Holding Co., Ltd.* (順豐控股股份有限公司) (Stock Code: 002352), listed on the Shenzhen Stock Exchange. From September 2013 to April 2020, he served as an independent director of Changyou.com Ltd, a company listed on the NASDAQ (Stock Code: CYOU). From May 2016 to May 2019, he served as an independent non-executive director of CITIC Securities Company Limited (Stock Code: 6030), a company listed on the Stock Exchange. From July 2012 to October 2022, he served as an independent non-executive director of SRE Group Limited (Stock Code: 1207), a company listed on the Stock Exchange.

In May 1977, Mr. Chan obtained a Bachelor of Commerce degree from the University of Manitoba, in Canada. He is a member of both the Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants.

Ms. YANG Dongtao (楊東濤), aged 65, is an independent non-executive Director of our Company. Ms. Yang has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Ms. Yang is the chairlady of the Remuneration Committee and a member of the Audit Committee, the Strategy and Development Committee and the ESG Committee. Ms. Yang is primarily responsible for providing independent opinion and judgment to our Board.

Ms. Yang has over 40 years of experience in the field of education. She was an assistant professor in the Department of Chemical Machinery of the East China University of Science and Technology (華東理工大學化工機械系) from January 1982 to May 1983. She then served as lecturer from May 1983 to March 1992, as associate professor from March 1992 to March 1999 and as professor from March 1999 to February 2007 of the Management Department of Nanjing University School of Business (南京大學商學院管理學系). Ms. Yang has been a professor of the Human Resources Management Department of Nanjing University School of Business (南京大學商學院人力資源管理系) since February 2007. Since May 2016, she has also been the vice president of the Jiangsu Province Human Resources Society (江蘇省人力資源學會).

Ms. Yang is currently an independent director of Nanjing Chixia Development Co., Ltd.* (南京棲霞建設股份有限公司) (Stock Code: 600533), listed on the Shanghai Stock Exchange. From May 2017 to February 2021, she served as an independent director of a Shanghai Stock Exchange listed company, Jiangsu Novoray New Materials Co., Ltd. (江蘇聯瑞新材料股份有限公司) (Stock Code: 688300). From October 2016 to September 2022, she served as an independent director of a company listed on the Shanghai Stock Exchange, Perfect Group Corp., Ltd. (倍加潔集團股份有限公司) (Stock Code: 603059).

Ms. Yang received her bachelor of engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in July 1982. She obtained both her master's degree in economics and her doctorate degree in corporate management from Nanjing University (南京大學) in February 1992 and December 1998, respectively.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

The members of our senior management team and details of each of their experience are as follows:

Mr. WU Qiong (吳窮), aged 54, is the chief medical officer of the Group, responsible for the clinical research and development of innovative drugs of the Group.

Mr. Wu has worked in the field of clinical oncology for more than 20 years, participated in over 50 clinical trials of new drugs at home and abroad, and has extensive clinical practice and research experience. Mr. Wu has published more than 20 research papers included in the Science Citation Index (SCI) as the first/ corresponding author, presided more than 10 research projects including the National Natural Science Foundation of China (國家自然科學基金), and won the first prize of Science and Technology Award of Jiangsu Province* (江蘇省科技獎一等獎). Mr. Wu joined the Group in March 2018 and was appointed to his current position. Mr. Wu is currently the director of the Chinese Society of Clinical Oncology (中國臨床腫瘤學會) and the vice chairman of the Cancer Rehabilitation and Palliative Care Professional Committee of the Chinese Anti-Cancer Association (中國抗癌協會). Before joining the Group, Mr. Wu had been engaged in clinical oncology medical teaching and research work in the First Affiliated Hospital of Bengbu Medical College *(蚌埠醫學院第一附屬醫院) as the director of the Department of Medical Oncology and the deputy director of the National Drug Clinical Trials Agency of the hospital for 20 years.

Mr. Wu obtained a bachelor's degree in clinical medicine from Bengbu Medical College (蚌埠醫學院) in July 1991, a master's degree in internal medicine (hematology) from Jinan University (暨南大學) in June 1999, and in June 2008, he obtained a doctoral degree in clinical medicine (oncology) from the Second Military Medical University (第二軍醫大學).

Mr. SUN Weiyong (孫偉勇), aged 52, is the chief commercial officer of the Group, responsible for the Group's global business development. Mr. Sun joined the Group in March 2021 and was appointed to his current position.

Mr. Sun has more than 20 years of extensive experience in the field of medicine and BD. Before joining the Group, Mr. Sun served as a senior director of Daiichi Sankyo Company, Limited from April 2002 to March 2021, responsible for BD and innovative drug research and development in the United States and Japan respectively. From December 2000 to October 2001, he worked as a postdoctoral fellow at the Medical College of Wisconsin in the United States.

Mr. Sun obtained a bachelor's degree in clinical medicine from Beijing Medical University (北京醫科大學) (currently known as Peking University Health Science Center (北京大學醫學部)) in July 1993, and master's and doctoral degrees from the Cell Biochemistry Laboratory of the University of Tokyo in March 1999 and March 2002 respectively. He obtained a master's degree in business administration from Columbia University in May 2015.

Ms. ZHONG Chunhua (鍾春華), aged 48, is a senior vice president of our Group and has been appointed to this position since January 2013. Ms. Zhong Chunhua is primarily responsible for overseeing production and human resources management of our Group.

Ms. Zhong Chunhua has more than 20 years of managerial experience in pharmaceutical manufacturing quality control and human resources and joined our Group in July 2000. She was appointed as a quality assurance supervisor in February 2002, and was then promoted to quality assurance manager in August 2004. In March 2009, Ms. Zhong Chunhua was appointed as executive deputy general manager of the production division of Jiangsu Hansoh and has been responsible for managing the pharmaceutical production division.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT *(Continued)*

Ms. Zhong Chunhua received her bachelor of pharmaceutical sciences degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Nanjing in July 2000.

Mr. XU Chuanhe (徐傳合), aged 59, is a senior vice president of our Group and has been appointed to this position since March 2009. Mr. Xu is primarily responsible for matters related to business management of our Group.

Mr. Xu has more than 20 years of experience in pharmaceutical sales management. Mr. Xu joined our Group in August 1997 and was appointed as deputy general manager of the sales division in October 1997.

Mr. Xu obtained his bachelor of science degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京醫學院)) in Nanjing in July 1985 and his EMBA from Wuhan University (武漢大學) in December 2008.

Mr. Hu Min (胡旻), aged 46, is a chief financial officer of the Group. Mr. Hu joined our Group in September 2019 and was appointed to his current position.

Mr. Hu has years of experience in finance, auditing, consulting and capital markets in the pharmaceutical and healthcare industries. Before joining our Group, Mr. Hu served as an audit partner for the pharmaceutical and healthcare industries at Deloitte Touche Tohmatsu China. Mr. Hu holds qualifications of certified public accountant of China and the United States.

Mr. Hu obtained his bachelor of economics from Xiamen University (廈門大學) in July 1999.

JOINT COMPANY SECRETARIES

Ms. ZHONG Shengli (鍾勝利), aged 55, has served as a joint company secretary and a senior vice president of our Group since August 2018 and March 2012, respectively.

Ms. Zhong Shengli joined our Group in July 2010 as investment director and was responsible for investment management.

Before joining our Group, she had more than ten years of work experience in financial institutions. Ms. Zhong Shengli served as a senior manager for Ping An Bank from November 1998 to July 2010.

Ms. Zhong Shengli obtained her bachelor of arts degree from Beijing Foreign Studies University (北京外國語大學) (formerly known as Beijing Foreign Studies College (北京外國語學院)) in July 1991 and her master degree in economics from Peking University (北京大學) in January 2007. Ms. Zhong Shengli is an Affiliated Person of Hong Kong Chartered Governance Institute (“HKCGI”) (formerly “The Hong Kong Institute of Chartered Secretaries”).

Ms. LI Yan Wing Rita (李昕穎) was appointed as a joint company secretary of our Company with effect from the Listing Date. Ms. Li is an executive director of Corporate Services of Tricor Services Limited and has over 20 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

Ms. Li is a chartered secretary, a chartered governance professional and a fellow of both HKCGI and The Chartered Governance Institute (formerly “The Institute of Chartered Secretaries and Administrators”). She is also a holder of the Practitioner’s Endorsement from HKCGI. Ms. Li received her bachelor of arts degree from City University of Hong Kong in November 1994.

Independent Auditor's Report



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To the shareholders of Hansoh Pharmaceutical Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hansoh Pharmaceutical Group Company Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 58 to 128, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key audit matter

Expected credit losses on trade receivables

As at 31 December 2022, the Group's net trade receivables amounted to approximately RMB3,533,969,000, which represented approximately 12% of total assets of the Group.

According to Hong Kong Financial Reporting Standard 9 Financial Instruments ("**HKFRS 9**"), a forward-looking ECL approach was applied by the Group. The measurement of ECLs involves significant judgement and assumptions used in the ECL approach as the ECLs must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.

The Group's disclosures about the ECLs on the trade receivables are included in Note 2.4 Summary of significant accounting policies, Note 3 Significant accounting judgements and estimates, Note 18 Trade and bills receivables and Note 34 Financial instruments by category to the consolidated financial statements, which specifically disclose the accounting policies, management's judgements and estimates, and the overdue receivables and the related provision.

How our audit addressed the key audit matter

Our procedures in relation to management's assessment on ECLs on trade receivables included:

- Obtained an understanding of relevant controls that the Group had implemented to manage and monitor its credit risk;
- Inquired of the management about the status of each of the material balances of trade receivables which was past due as at year end and challenged the reasonableness of the management's grouping of various customers by searching their credit profiles, understanding on-going business relationships, and checking historical and subsequent settlement records and other correspondence with customers;
- With the assistance of our internal valuation specialists, assessed the appropriateness of valuation methodology and key assumptions adopted by the management in determining ECLs on the trade receivables;
- Tested the inputs used by the management to prepare the provision matrix, including the aging and historical collection records of trade receivables by comparing individual items in the analysis, on sample basis, to supporting billings and collections;

We also read and assessed the relevant disclosures made in the consolidated financial statements, including disclosures of the basis for this estimation.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Independent Auditor's Report

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2023

Consolidated Statement of Profit or Loss

Year ended 31 December 2022

	Notes	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
REVENUE	5	9,382,410	9,935,141
Cost of sales		(867,010)	(870,042)
Gross profit		8,515,400	9,065,099
Other income	5	448,687	393,188
Selling and distribution expenses		(3,550,230)	(3,427,818)
Administrative expenses		(597,460)	(943,423)
Research and development costs		(1,693,314)	(1,797,012)
Other (expenses)/gains, net	5	(116,513)	62,866
Finance costs	7	(58,142)	(52,818)
PROFIT BEFORE TAX	6	2,948,428	3,300,082
Income tax expense	10	(364,681)	(587,180)
PROFIT FOR THE YEAR		2,583,747	2,712,902
Attributable to:			
Owners of the parent		2,583,747	2,712,902
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic (RMB)		0.44	0.46
Diluted (RMB)		0.44	0.44

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
PROFIT FOR THE YEAR	2,583,747	2,712,902
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	632,886	(201,403)
Net other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods	632,886	(201,403)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX	632,886	(201,403)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,216,633	2,511,499
Attributable to:		
Owners of the parent	3,216,633	2,511,499

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,195,646	3,224,555
Right-of-use assets	14(a)	254,247	250,840
Intangible assets	15	33,422	17,037
Investments in associates	16	241,071	–
Financial assets at fair value through profit or loss	20	412,579	394,967
Prepayments for purchase of property, plant and equipment		33,294	93,404
Total non-current assets		4,170,259	3,980,803
CURRENT ASSETS			
Inventories	17	447,890	410,127
Trade and bills receivables	18	3,578,392	3,675,990
Prepayments, other receivables and other assets	19	181,886	160,207
Financial assets at fair value through profit or loss	20	2,544,426	2,357,215
Other financial assets	21	1,463,752	1,873,773
Cash and bank balances	22	17,615,274	14,702,056
Total current assets		25,831,620	23,179,368
CURRENT LIABILITIES			
Trade and bills payables	23	222,296	248,330
Other payables and accruals	24	2,265,631	2,609,035
Contract liabilities	25	25,097	22,201
Lease liabilities	14(b)	15,543	9,968
Tax payable		90,935	134,196
Total current liabilities		2,619,502	3,023,730
NET CURRENT ASSETS		23,212,118	20,155,638
TOTAL ASSETS LESS CURRENT LIABILITIES		27,382,377	24,136,441
NON-CURRENT LIABILITIES			
Convertible bonds	27	4,282,742	3,742,996
Lease liabilities	14(b)	79,571	74,917
Deferred tax liabilities	26	350,661	266,752
Other non-current liabilities		22,459	22,931
Total non-current liabilities		4,735,433	4,107,596
NET ASSETS		22,646,944	20,028,845

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	52	52
Treasury shares	29	(28,027)	(57,969)
Reserves	30	22,674,919	20,086,762
		<u>22,646,944</u>	<u>20,028,845</u>
Non-controlling interests		—	—
Total equity		<u>22,646,944</u>	<u>20,028,845</u>

Name of director
Director

Name of director
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Notes	Share capital RMB'000	Share premium* RMB'000 Note 30(a)	Share option reserve* RMB'000 Note 29	Treasury shares RMB'000 Note 29	Merger reserve/other reserve* RMB'000 Note 30(b)	Exchange fluctuation reserve* RMB'000 Note 30(c)	Statutory surplus reserves* RMB'000 Note 30(d)	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2021		52	14,008,766	68,590	-	(57,100)	(722,482)	846,908	3,730,864	17,875,598
Profit for the year		-	-	-	-	-	-	-	2,712,902	2,712,902
Exchange differences on translation of foreign operations		-	-	-	-	-	(201,403)	-	-	(201,403)
Total comprehensive income for the year		-	-	-	-	-	(201,403)	-	2,712,902	2,511,499
Issue of shares by private placement	28	-	15,111	-	-	-	-	-	-	15,111
Share-based payments	29	-	-	65,472	-	-	-	-	-	65,472
Repurchase of shares under share award scheme	29	-	-	-	(57,969)	-	-	-	-	(57,969)
Dividends declared	11	-	-	-	-	-	-	(380,866)	(380,866)	(380,866)
Transfer from retained profits		-	-	-	-	-	-	6,475	(6,475)	-
At 31 December 2021		52	14,023,877	134,062	(57,969)	(57,100)	(923,885)	853,383	6,056,425	20,028,845
	Notes	Share capital RMB'000	Share premium* RMB'000 Note 30(a)	Share option reserve* RMB'000 Note 29	Treasury shares RMB'000 Note 29	Merger reserve/other reserve* RMB'000 Note 30(b)	Exchange fluctuation reserve* RMB'000 Note 30(c)	Statutory surplus reserves* RMB'000 Note 30(d)	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2022		52	14,023,877	134,062	(57,969)	(57,100)	(923,885)	853,383	6,056,425	20,028,845
Profit for the year		-	-	-	-	-	-	-	2,583,747	2,583,747
Exchange differences on translation of foreign operations		-	-	-	-	-	632,886	-	-	632,886
Total comprehensive income for the year		-	-	-	-	-	632,886	-	2,583,747	3,216,633
Exercise of vested restricted share units		-	(92,336)	-	105,479	-	-	-	-	13,143
Share-based payments	29	-	-	179,416	-	-	-	-	-	179,416
Repurchase of shares under share award scheme	29	-	-	-	(76,618)	-	-	-	-	(76,618)
Dividends declared	11	-	-	-	1,081	-	-	-	(713,265)	(712,184)
Transfer from retained profits		-	-	-	-	-	-	36,796	(36,796)	-
Others		-	-	-	-	(2,291)	-	-	-	(2,291)
At 31 December 2022		52	13,931,541	313,478	(28,027)	(59,391)	(290,999)	890,179	7,890,111	22,646,944

* These reserve accounts comprise the consolidated reserves of RMB22,674,919,000 (2021: RMB20,086,762,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,948,428	3,300,082
Adjustments for:			
Impairment of trade receivables, net	5	7,152	817
Impairment of inventories, net	5	3,180	347
Depreciation of items of property, plant and equipment	6	315,538	257,165
Depreciation of right-of-use assets	6	20,230	15,046
Amortisation of deferred income		(472)	(472)
Amortisation of intangible assets	6	8,834	6,256
Gain on disposal of items of property, plant and equipment	5	(11,243)	(3,935)
Share of losses of associates	5	13,859	–
Fair value gains on financial assets at fair value through profit or loss	5	(67,583)	(26,279)
Fair value losses/(gains) of convertible bonds	5	159,124	(108,754)
Investment income	5	(22,431)	(89,758)
Interest income from deposits with initial terms of over three months when acquired		(241,154)	(143,927)
Finance costs	7	58,142	52,818
Share-based payments	6	179,416	65,472
		3,371,020	3,324,878
Decrease/(increase) in trade and bills receivables		90,446	(549,347)
Increase in prepayments, other receivables and other assets		(21,679)	(18,109)
Increase in inventories		(40,943)	(111,747)
(Decrease)/increase in trade and bills payables		(26,034)	123,948
(Decrease)/increase in other payables and accruals		(310,468)	300,365
Increase/(decrease) in contract liabilities		2,896	(173,487)
Cash generated from operations		3,065,238	2,896,501
Income tax paid		(324,033)	(319,439)
Net cash flows from operating activities		2,741,205	2,577,062

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		21,097	54,771
Proceeds from disposal of intangible assets		–	247
Purchases of items of property, plant and equipment		(272,821)	(460,033)
Purchases of intangible assets		(19,002)	(15,408)
Purchases of shareholdings in associates		(66,646)	–
Purchases of equity investments designated at fair value through profit or loss		(186,205)	(357,266)
Increase in time deposits with original maturity of over three months when acquired		(5,987,279)	(6,866,997)
Decrease of financial products included in other financial assets		532,146	7,295,931
Increase of financial products included in financial assets at fair value through profit or loss		(137,529)	(2,167,149)
Interest income received from deposits with initial terms of over three months when acquired		111,172	150,170
Investment income received from financial products included in other financial assets		22,431	89,758
Investment income received from financial products included in financial assets at fair value through profit or loss		47,563	16,819
Net cash flows used in investing activities		(5,935,073)	(2,259,157)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of convertible bonds	27	–	3,852,789
Repurchase of convertible bonds		(24,813)	–
Net proceeds from issue of new shares by private placement		–	15,111
Payments received for subscription of shares under share award scheme		13,143	–
Dividends paid		(712,184)	(380,866)
Lease payments		(17,672)	(12,289)
Repurchase of shares under share award scheme		(76,618)	(57,969)
Net cash flows (used in)/from financing activities	31	(818,144)	3,416,776
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(4,012,012)	3,734,681
Cash and cash equivalents at beginning of year		6,718,709	3,063,316
Effect of foreign exchange rate changes, net		(40,565)	(79,288)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,666,132	6,718,709
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	2,464,318	2,503,263
Non-pledged time deposits with original maturity of less than three months when acquired	22	201,814	4,215,446
Cash and cash equivalents as stated in the consolidated statement of cash flows		2,666,132	6,718,709

Notes to the Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is the offices of Maples Corporate Services Limited, PO Box 309, Uglund House, Grand Cayman, KY1-1104, Cayman Islands.

The holding company of the Company is Stellar Infinity Company Ltd. and the ultimate parent company of the Company is Harmonia Holding Investing (PTC) Limited. Both Stellar Infinity Company Ltd. and Harmonia Holding Investing (PTC) Limited are incorporated in BVI.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 14 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) were principally engaged in the research and development, production and sale of a series of pharmaceutical products in the People’s Republic of China (the “**PRC**”).

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, all of which are private limited liability companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong).

Particulars of the principal subsidiaries now comprising the Group are set out below:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Jiangsu Hansoh Pharmaceutical Group Co., Ltd. (“ Jiangsu Hansoh ”)	PRC/ Mainland China	RMB 1,000,000,000	July 1995	-	100%	Pharmaceutical
Shanghai Hansoh BioMedical Co., Ltd. (“ Shanghai Hansen ”)	PRC/ Mainland China	RMB 260,000,000	October 2011	-	100%	Pharmaceutical
Hansoh Pharma International Limited (“ Hansoh International ”)	PRC/ Hong Kong	HK\$100	December 2015	-	100%	Investment holding and trading
Hansoh (Shanghai) Health Technology Co., Ltd. (“ Hansoh Health ”)	PRC/ Mainland China	US\$ 90,000,000	September 2019	-	100%	Investment holding and trading
Changzhou Hansoh Pharmaceutical Co., Ltd. (“ Changzhou Hansoh ”)	PRC/ Mainland China	RMB 100,000,000	April 2018	-	100%	Pharmaceutical
Hansoh Investment Co., Ltd. (“ Hansoh Investment ”)	PRC/ Hong Kong	-	December 2020	-	100%	Investment holding and trading

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2022 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the reporting period, seven subsidiaries were controlled by agreements (“**VIE**”), which are not listed in the above table because they did not principally affect the results for the year ended 31 December 2022 or form a substantial portion of the net assets of the Group.

Notes to the Financial Statements

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Notes to the Financial Statements

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2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

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

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

Notes to the Financial Statements

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ²
HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1,5}
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> ⁶
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{2,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ²
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

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

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

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

⁵ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

⁶ An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

These new and revised HKFRSs are not expected to have any significant impact on the Group's financial statements.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

or

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	20-30 years
Leasehold improvements	2-3 years
Machinery and equipment	3-10 years
Computer and office equipment	3-5 years
Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Software	3-5 years
Patents	10 years

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

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

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

Acquired in-process research and development costs

The Group has acquired rights to develop and commercialise product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments, are immediately expensed as acquired in-process research and development in the period in which they are incurred, provided that the new drug compound did not also include processes or activities that would constitute a business, the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, has no established alternative future use. Milestone payments made to third parties subsequent to regulatory approval are capitalised as intangible assets and amortised over the estimated remaining useful life of the related product. Royalties owed on sales of the products licensed pursuant to the agreements are expensed in the period the related revenues are recognised.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	50 years
Property	3-12 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented in separate lines on the consolidated statement of financial position.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

(c) Short-term leases and leases of low-value assets

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

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee are accounted for as finance leases.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained..

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses (“**ECLs**”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 1 year past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group’s credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. Debt investments graded in the top investment categories (Very Good and Good) by the Chinese Credit Rating Agency are considered to be low credit risk investments. It is the Group’s policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Chinese Credit Rating Agency both to determine whether the credit risk of debt instruments have significantly increased and to estimate ECLs.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and convertible bonds.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

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

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Treasury shares

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal. If the cost of inventories is higher than the net realisable value, the provision of inventories is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) *Sale of pharmaceutical products*

Revenue from the sale of pharmaceutical products is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the pharmaceutical products by the customer.

Some contracts for the sale of pharmaceutical products provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) *Collaboration arrangements*

The Group's collaborative arrangements may contain more than one performance obligation, including grants of licenses to intellectual property rights, agreement to provide research and development services and other deliverables. The collaborative arrangements do not include a right of return for any deliverable. As part of the accounting for these arrangements, the Group must develop assumptions that require judgement to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, the Group considers competitor pricing for a similar or identical product, market awareness of and perception of the product, expected product life and current market trends. In general, the consideration allocated to each performance obligation is recognised when the respective obligation is satisfied either by delivering a good or providing a service, limited to the consideration that is not constrained. Non-refundable payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as advances from customers.

Licenses of intellectual property: Upfront non-refundable payments for licensing the Group's intellectual property are evaluated to determine if the license is distinct from the other performance obligations identified in the arrangement. For licenses determined to be distinct, the Group recognises revenues from non-refundable, up-front fees allocated to the license at a point in time, when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

Research and development services: The portion of the transaction price allocated to research and development service performance obligations is recognised as collaboration revenue at a point in time upon delivery of such services.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(b) Collaboration arrangements (Continued)

Milestone payments: At the inception of each arrangement that includes development milestone payments, the Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestones related to the development-based activities may include initiation of various phases of clinical trials. Due to the uncertainty involved in meeting these development-based targets, they are generally fully constrained at contract inception. The Group will assess whether the variable consideration is fully constrained in each reporting period based on the facts and circumstances surrounding the clinical trials. Upon changes to the constraint associated with the developmental milestones, variable consideration will be included in the transaction price when a significant reversal of revenue recognised is not expected to occur and allocated to the separate performance obligations. Regulatory milestones are fully constrained until the period in which those regulatory approvals are achieved due to the inherent uncertainty with the approval process. Regulatory milestones are included in the transaction price in the period in which regulatory approval is obtained.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Group recognises revenue at the later of (i) when the related sales occur, and (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

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

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

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to the Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

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

Dividends

Dividend distribution to the shareholders is recognised as a liability in the period in which the dividends are approved by the shareholders or directors, where appropriate.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year or period are translated into RMB at the weighted average exchange rates for the year.

Notes to the Financial Statements

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There were no deferred tax assets relating to recognised tax losses as at 31 December 2022 (2021: RMB924,000). The amount of tax losses that are not recognised as deferred tax assets as at 31 December 2022 was RMB1,146,087,000 (2021: RMB1,321,659,000). Further details are contained in note 26 to the financial statements.

Income tax

The Group is subject to income taxes in various regions. As a result, when certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the distribution sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements.

Notes to the Financial Statements

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Fair value measurements of financial instruments in Level 3

Unlisted equity investments amounting to RMB412,579,000 as at December 31, 2022 (December 31, 2021: RMB394,967,000) are measured at fair values with fair values being determined based on unobserved 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 investments. Further disclosures are detailed in Notes 20 and 35.

Valuation of the embedded derivatives in convertible bonds

The fair value for the embedded derivatives in convertible bonds are established by using valuation techniques. The valuation model is sensitive to changes in certain key inputs including volatility of share prices, risk-free rate and dividend yield that require significant management estimates. Any changes in the estimates and assumptions will affect the fair values of the embedded derivatives in convertible bonds. Further disclosures are detailed in Notes 27 and 35.

Inventory excess and obsolescence provisions

The management of the Group reviews the ageing analysis at the end of the reporting period and makes allowance for excess and obsolete inventory items identified that are not suitable for use in current production. Management estimates the net realisable value for such raw materials, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. Further disclosures are detailed in Note 17.

Research and development costs

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

4. OPERATING SEGMENT INFORMATION

Information about geographical areas

Since over 90% of the Group's revenue and operating profit were generated from the sale of pharmaceutical products in Mainland China and most of the Group's identifiable operating assets and liabilities were located in Mainland China, no geographical segment information in accordance with HKFRS 8 *Operating Segments* is presented.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the reporting period.

Notes to the Financial Statements

31 December 2022

5. REVENUE, OTHER INCOME AND OTHER (EXPENSES)/GAINS, NET

An analysis of revenue, other income and other (expenses)/gains, net is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers		
Sales of goods – at a point in time	9,298,594	9,707,761
Collaboration revenue – at a point in time	83,816	227,380
	<u>9,382,410</u>	<u>9,935,141</u>
Other income		
Investment income	22,431	89,758
Government grants	117,087	138,053
Bank interest income	309,085	164,093
Others	84	1,284
	<u>448,687</u>	<u>393,188</u>
Other (expenses)/gains, net		
Gain on disposal of items of property, plant and equipment	11,243	3,935
Share of losses of associates	(13,859)	–
Fair value gains on financial assets at fair value through profit or loss	67,583	35,739
Fair value (losses)/gains of convertible bonds	(159,124)	108,754
Donations	(47,386)	(64,299)
Foreign exchange gains/(losses), net	44,557	(9,307)
Impairment of trade receivables, net	(7,152)	(817)
Impairment of inventories, net	(3,180)	(347)
Others	(9,195)	(10,792)
	<u>(116,513)</u>	<u>62,866</u>

Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>334</u>	<u>10,441</u>

The Group enters into collaboration agreements with companies to license out intellectual property. The company may receive development, regulatory and commercial milestone payments and shares for the provision of relevant intellectual property rights and related services in the future. Payments under these agreements generally become due and receivable upon achievement of such milestones or sales. These commitments are not recorded on the consolidated statement of financial position because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognised in the consolidated financial statements.

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6. PROFIT BEFORE TAX

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

	Notes	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of inventories sold		565,756	590,142
Depreciation of property, plant and equipment	13	315,538	257,165
Depreciation of right-of-use assets	14	20,230	15,046
Amortisation of intangible assets	15	8,834	6,256
Impairment of trade receivables, net	18	7,152	817
Impairment of inventories, net		3,180	347
Operating lease expenses		8,651	29,421
Auditors' remuneration		3,700	3,820
Gain on disposal of items of property, plant and equipment		(11,243)	(3,935)
Investment income		(22,431)	(89,758)
Share of losses of associates		13,859	–
Fair value gains on financial assets at fair value through profit or loss		(67,583)	(35,739)
Fair value losses/(gains) of convertible bonds		159,124	(108,754)
Bank interest income		(309,085)	(164,093)
Foreign exchange (gains)/losses, net		(44,557)	9,307
Employee benefit expense (including directors' remuneration as set out in note 8):			
Wages and salaries		1,744,635	1,766,702
Social welfare and other benefits*		672,419	538,234
Share-based payments		179,416	65,472
		2,596,470	2,370,408

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on convertible bonds	54,222	49,554
Interest on lease liabilities	3,920	3,264
	58,142	52,818

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8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	10,747	17,786
Performance related bonuses	9,638	18,378
Share-based payments	11,523	2,174
Pension scheme contributions	135	190
	<u>32,043</u>	<u>38,528</u>
	<u>32,043</u>	<u>38,528</u>

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Note	2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Mr. Lin Guoqiang	(ii)	360	360
Mr. Chan Charles Sheung Wai	(ii)	360	360
Ms. Yang Dongtao	(ii)	360	360
		<u>1,080</u>	<u>1,080</u>

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

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8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and a non-executive director

	Note	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share-based payments RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022						
Executive directors:						
Ms. Zhong Huijuan	(i)	4,670	6,450	–	15	11,135
Ms. Sun Yuan		4,691	2,153	4,325	15	11,184
Mr. Lyu Aifeng		1,386	1,035	7,198	105	9,724
		<u>10,747</u>	<u>9,638</u>	<u>11,523</u>	<u>135</u>	<u>32,043</u>
Non-executive director:						
Ms. Ma Cuifang	(iii)	–	–	–	–	–
		<u>10,747</u>	<u>9,638</u>	<u>11,523</u>	<u>135</u>	<u>32,043</u>
	Note	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share-based payments RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021						
Executive directors:						
Ms. Zhong Huijuan	(i)	7,961	7,649	–	80	15,690
Ms. Sun Yuan		6,667	8,148	–	15	14,830
Mr. Lyu Aifeng		3,158	2,581	2,174	95	8,008
		<u>17,786</u>	<u>18,378</u>	<u>2,174</u>	<u>190</u>	<u>38,528</u>
Non-executive director:						
Ms. Ma Cuifang	(iii)	–	–	–	–	–
		<u>17,786</u>	<u>18,378</u>	<u>2,174</u>	<u>190</u>	<u>38,528</u>

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

Notes:

- (i) Ms. Zhong Huijuan is also the chief executive officer of the Company.
- (ii) Mr. Lin Guoqiang, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao were appointed as independent non-executive directors on 31 May 2019.
- (iii) Ms. Ma Cuifang resigned as the non-executive director of the Company on 6 September 2021.

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9. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2022, the five highest paid employees of the Group included three directors (2021: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2021: two) highest paid employees who are not directors of the Company are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Salaries, allowances and benefits in kind	5,730	7,273
Performance related bonuses	2,147	1,447
Share-based payments	6,811	1,993
Pension scheme contributions	254	284
	14,942	10,997

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
HK\$6,500,001 to HK\$7,000,000	–	2
HK\$8,500,001 to HK\$9,000,000	2	–
	2	2

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10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

The subsidiary incorporated in Hong Kong and subsidiaries registered as a Hong Kong tax resident are subject to income tax at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of each subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

In 2014, Jiangsu Hansoh Pharmaceutical Group Co., Ltd. (“Jiangsu Hansoh”), a subsidiary of the Company, was accredited as a “High and New Technology Enterprise” (“HNTE”) and was entitled to a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Jiangsu Hansoh subsequently renewed its HNTE qualification in 2017 and 2019, and was entitled to the preferential tax rate of 15% from 2020 to 2022.

In 2017, Shanghai Hansoh BioMedical Co., Ltd. (“Shanghai Hansen”), a subsidiary of the Company, was initially accredited as an HNTE, and thus entitled to a preferential income tax rate of 15% from 2017 to 2019. Shanghai Hansen subsequently renewed its HNTE qualification in 2020, and was entitled to the preferential tax rate of 15% from 2020 to 2022.

In 2021, Changzhou Hansoh Pharmaceutical Co., Ltd. (“Changzhou Hansoh”), a subsidiary of the Company, was initially accredited as an HNTE, and thus entitled to a preferential income tax rate of 15% from 2021 to 2023.

The income tax expense of the Group for the year is analysed as follows:

	2022	2021
	RMB'000	RMB'000
Current income tax	280,772	442,238
Deferred income tax (note 26)	83,909	144,942
Tax charge for the year	364,681	587,180

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10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before tax	2,948,428	3,300,082
Tax at the statutory tax rate (25%)	737,107	825,021
Preferential income tax rate applicable to certain subsidiaries	(146,083)	(293,401)
Additional deductible allowance for qualified research and development costs	(276,409)	(254,944)
Adjustments in respect of current income tax of previous years	(15,083)	(1,133)
Income not subject to tax	(77,810)	(42,191)
Expenses not deductible for tax	1,070	2,405
Accrual for withholding tax	164,963	151,181
Tax losses utilised from previous years	(142,517)	(42)
Tax losses not recognised	119,443	200,284
Tax charge at the Group's effective rate	<u>364,681</u>	<u>587,180</u>

11. DIVIDENDS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
2021 Final, Dividends declared – HK9.00 cents (2020 Final, Dividends declared – HK7.71 cents) per ordinary share	455,826	380,866
2022 Interim, Dividends declared – HK5.00 cents (2021: Nil) per ordinary share	257,439	–
	<u>713,265</u>	<u>380,866</u>

Pursuant to the resolution of the shareholders of the Company dated 10 June 2022 and the resolution of the board dated 26 August 2022, the Company declared dividends of HK\$9.00 cents (2021: HK\$7.71 cents) and HK\$5.00 (2021: Nil) cents separately per ordinary share, amounting to a total of approximately RMB713,265,000 (2021: RMB380,866,000).

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12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB2,583,747,000 (2021: RMB2,712,902,000), and the weighted average number of ordinary shares of 5,915,822,196 (2021: 5,921,040,161) in issue during the year, are adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest and the fair value on the convertible bonds. The weighted average number of ordinary shares used in the calculation of the diluted earnings per share is the weighted average number of ordinary shares in issue of the parent, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the conversion of all dilutive potential shares into ordinary shares.

The calculation of diluted earnings per share for the year did not apply the assumption of conversion of the convertible bonds because its conversion would have been anti-dilutive.

The calculations of basic and diluted earnings per share are based on:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	<u>2,583,747</u>	2,712,902
Interest on convertible bonds	–	49,554
Less: Fair value gain on the derivative component of the convertible bonds	–	108,754
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	<u>2,583,747</u>	2,653,702
	Adjusted number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>5,915,822,196</u>	5,921,040,161
Effect of dilution – weighted average number of ordinary shares:		
Restricted share units	13,661,114	3,749,136
Convertible bonds	–	73,068,427
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>5,929,483,310</u>	5,997,857,724
Basic earnings per share (RMB per share)	0.44	0.46
Diluted earnings per share (RMB per share)	0.44	0.44

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	1,324,808	9,925	1,244,007	164,636	75,733	347,726	3,166,835
Accumulated depreciation	(370,702)	(7,854)	(591,891)	(99,911)	(57,148)	-	(1,127,506)
Net carrying amount	954,106	2,071	652,116	64,725	18,585	347,726	2,039,329
At 1 January 2021, net of accumulated depreciation	954,106	2,071	652,116	64,725	18,585	347,726	2,039,329
Additions	10,776	-	142,187	40,894	11,048	1,289,088	1,493,993
Disposals	(23,036)	(1,348)	(16,795)	(315)	(495)	-	(41,989)
Transfer	968,827	2,693	169,802	(15,337)	-	(1,135,113)	(9,128)
Exchange realignment	-	-	(12)	(459)	-	(14)	(485)
Depreciation provided during the year	(67,991)	(325)	(151,390)	(29,841)	(7,618)	-	(257,165)
At 31 December 2021, net of accumulated depreciation	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
At 31 December 2021:							
Cost	2,278,724	10,897	1,528,095	183,446	81,468	501,687	4,584,317
Accumulated depreciation	(436,042)	(7,806)	(732,187)	(123,779)	(59,948)	-	(1,359,762)
Net carrying amount	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
31 December 2022							
At 1 January 2022							
Cost	2,278,724	10,897	1,528,095	183,446	81,468	501,687	4,584,317
Accumulated depreciation	(436,042)	(7,806)	(732,187)	(123,779)	(59,948)	-	(1,359,762)
Net carrying amount	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
At 1 January 2022, net of accumulated depreciation	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
Additions	3,529	1,569	88,988	12,376	2,610	193,149	302,221
Disposals	(5,602)	-	(539)	(7)	(587)	-	(6,735)
Transfer	38,748	28,779	276,717	(19,474)	-	(336,332)	(11,562)
Exchange realignment	-	-	2,509	180	-	16	2,705
Depreciation provided during the year	(85,463)	(8,915)	(194,020)	(18,663)	(8,477)	-	(315,538)
At 31 December 2022, net of accumulated depreciation	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646
At 31 December 2022:							
Cost	2,310,502	41,245	1,909,442	159,584	60,948	358,520	4,840,241
Accumulated depreciation	(516,608)	(16,721)	(939,879)	(125,505)	(45,882)	-	(1,644,595)
Net carrying amount	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646

Notes to the Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group was applying for the certificates of ownership for certain properties with a net book value of RMB130,059,753 as at 31 December 2022. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights and property. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms of 3 years to 12 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Leasehold land RMB'000	Property RMB'000	Total RMB'000
As at 1 January 2021	174,158	90,331	264,489
Additions	–	7,410	7,410
Disposals	–	(4,443)	(4,443)
Exchange realignment	–	(1,570)	(1,570)
Depreciation charge	(3,950)	(11,096)	(15,046)
As at 31 December 2021 and 1 January 2022	170,208	80,632	250,840
Additions	–	16,824	16,824
Exchange realignment	–	6,813	6,813
Depreciation charge	(3,950)	(16,280)	(20,230)
As at 31 December 2022	166,258	87,989	254,247

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14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Carrying amount at 1 January	84,885	92,749
New leases	16,824	7,410
Disposals	–	(4,724)
Accretion of interest recognised during the year	3,920	3,264
Exchange realignment	7,157	(1,525)
Payments	<u>(17,672)</u>	<u>(12,289)</u>
Carrying amount at 31 December	<u>95,114</u>	<u>84,885</u>
Analysed into:		
Current portion	15,543	9,968
Non-current portion	<u>79,571</u>	<u>74,917</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest on lease liabilities	3,920	3,264
Depreciation charge of right-of-use assets	20,230	15,046
Expense relating to short-term leases	<u>8,651</u>	<u>29,421</u>
Total amount recognised in profit or loss	<u>32,801</u>	<u>47,731</u>

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15. INTANGIBLE ASSETS

	Patents and Software RMB'000
31 December 2022	
Cost at 1 January 2022, net of accumulated amortisation	17,037
Additions	25,219
Amortisation provided during the year	(8,834)
At 31 December 2022	<u>33,422</u>
At 31 December 2022:	
Cost	80,434
Accumulated amortisation	(47,012)
Net carrying amount	<u>33,422</u>
31 December 2021	
Cost at 1 January 2021, net of accumulated amortisation	9,893
Additions	13,652
Disposals	(247)
Exchange realignment	(5)
Amortisation provided during the year	(6,256)
At 31 December 2021	<u>17,037</u>
At 31 December 2021:	
Cost	55,197
Accumulated amortisation	(38,160)
Net carrying amount	<u>17,037</u>

16. INVESTMENTS IN ASSOCIATES

	2022 RMB'000
Investments in associates	<u>241,071</u>

The directors of the Group consider each associate is not material to the Group. The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2022 RMB'000
Share of the associates' losses for the period	(13,999)
Share of the associates' total comprehensive expense	(13,999)
Aggregate carrying amount of the Group's investments in the associates	<u>241,071</u>

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17. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials	104,842	95,187
Work in progress	229,737	212,223
Finished goods	113,311	102,717
	447,890	410,127

18. TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	3,542,190	3,248,366
Impairment	(8,221)	(1,069)
	3,533,969	3,247,297
Bills receivable	44,423	428,693
	3,578,392	3,675,990

The Group's trading terms with its customers are mainly on credit, except for new customers, whose payment in advance is normally required. The credit period is generally from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 90 days	3,346,334	2,997,328
91 days to 180 days	8,406	217,159
Over 180 days	179,229	32,810
	3,533,969	3,247,297

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18. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of bills receivable as at the end of the reporting period, based on the billing date, is as follows:

	2022 RMB'000	2021 <i>RMB'000</i>
Within 90 days	44,423	394,604
91 days to 180 days	–	34,089
	44,423	428,693

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables and bills receivable.

To measure the expected credit losses for trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing. The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 <i>RMB'000</i>
At beginning of year	1,069	462
Impairment losses, net (note 6)	7,152	817
Amount written off as uncollectible	–	(210)
At end of year	8,221	1,069

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18. TRADE AND BILLS RECEIVABLES (Continued)

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

	Current	Past due			Total
		Within 90 days	90 days to 1 year	Over 1 year	
At 31 December 2022					
Expected credit loss rate	0.17%	0.17%	4.45%	100%	0.23%
Gross carrying amount (RMB'000)	3,199,965	303,229	38,468	528	3,542,190
Expected credit losses (RMB'000)	5,456	525	1,712	528	8,221
At 31 December 2021					
Expected credit loss rate	0%	0%	20%	100%	0.03%
Gross carrying amount (RMB'000)	2,952,695	291,128	4,343	200	3,248,366
Expected credit losses (RMB'000)	-	-	869	200	1,069

Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivable and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

At 31 December 2022, the Group endorsed and discounted certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to settle the dividends payable, trade payables and other payables with a carrying amount of RMB507,037,000 (2021: RMB302,698,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated dividends payable, trade payables and other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2022, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the reporting period and cumulatively.

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19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Prepayments	77,136	70,666
Deposits	7,137	8,455
Prepaid expenses	1,727	969
Value-added tax recoverable	12,979	52,736
Advance to employees	48,465	27,381
Other receivables	34,442	–
	181,886	160,207

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current		
Investments in financial products (note (a))	2,544,426	2,357,215
Non-current		
Other unlisted investments, at fair value (note (b))	412,579	394,967

Notes:

- (a) The above investments represent investments in certain financial products issued by commercial banks with expected return rates ranging from 1.20% to 5.80% per annum. The returns on all of these financial products are not guaranteed. The fair values of the investments approximate to their costs plus expected return. None of these investments are either past due or impaired.
- (b) The balance as at 31 December 2022 represents unlisted equity investments in eight venture capital which specialise in making equity investments in the life science industry and five innovative biopharmaceutical manufacturers. The Group has an intention of holding them as long-term investments.

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21. OTHER FINANCIAL ASSETS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Investments in financial products	<u>1,463,752</u>	<u>1,873,773</u>

The above investments represent investments in certain financial products issued by commercial banks. These financial products had terms of less than one year and had guaranteed annual return rates ranging from 0.39% to 5.34%. None of these investments are either past due or impaired.

22. CASH AND BANK BALANCES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cash and bank balances, unrestricted	2,464,318	2,503,263
Time deposits with original maturity of less than three months when acquired	201,814	4,215,446
Time deposits with original maturity of over three months when acquired (note (a))	<u>14,949,142</u>	<u>7,983,347</u>
Cash and bank balances	<u>17,615,274</u>	<u>14,702,056</u>
Denominated in:		
RMB	3,843,852	6,810,265
United States dollar	13,697,020	7,889,662
Hong Kong dollar	71,544	1,106
Others	<u>2,858</u>	<u>1,023</u>
	<u>17,615,274</u>	<u>14,702,056</u>

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Note:

- (a) The above investments represent time deposits with initial terms of over three months when acquired (including three months) issued by commercial banks with annual return rates ranging from 0.55% to 5.55%. None of these investments are either past due or impaired. None of these deposits are pledged.

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23. TRADE AND BILLS PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	133,959	116,103
Bills payable	88,337	132,227
	<u>222,296</u>	<u>248,330</u>

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 90 days	220,947	247,069
91 days to 180 days	–	193
181 days to 1 year	–	12
Over 1 year	1,349	1,056
	<u>222,296</u>	<u>248,330</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

24. OTHER PAYABLES AND ACCRUALS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Accrued expenses	1,597,138	1,725,012
Staff payroll, welfare and bonus payables	267,430	362,688
Payables for purchase of items of property, plant and equipment	85,385	102,800
Other tax payables	60,131	112,861
Other payables	255,547	305,674
	<u>2,265,631</u>	<u>2,609,035</u>

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25. CONTRACT LIABILITIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Amounts received in advance of delivery of products and services	25,097	22,201

Set out below is the amount of revenue and other income recognised from:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Amounts included in contract liabilities at the beginning of the year	22,201	185,811

26. DEFERRED TAX

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

Deferred tax assets

	Losses available for offsetting against future taxable profits <i>RMB'000</i>	Decelerated depreciation/ amortisation for tax purposes <i>RMB'000</i>	Accrued expenses <i>RMB'000</i>	Provision for impairment of trade receivables and inventories <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2022	924	58,934	57,389	1,765	119,012
Deferred tax recognised in the consolidated statement of profit or loss during the year	(924)	84,552	(1,790)	1,549	83,387
At 31 December 2022	-	143,486	55,599	3,314	202,399
At 1 January 2021	2,641	65,095	50,301	1,622	119,659
Deferred tax recognised in the consolidated statement of profit or loss during the year	(1,717)	(6,161)	7,088	143	(647)
At 31 December 2021	924	58,934	57,389	1,765	119,012

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26. DEFERRED TAX (Continued)

Deferred tax liabilities

	Accelerated depreciation for tax purposes RMB'000	Accrual for withholding tax RMB'000	Total RMB'000
At 1 January 2022	(60,333)	(325,431)	(385,764)
Deferred tax recognised in the consolidated statement of profit or loss during the year	<u>(26,571)</u>	<u>(140,725)</u>	<u>(167,296)</u>
At 31 December 2022	<u>(86,904)</u>	<u>(466,156)</u>	<u>(553,060)</u>
At 1 January 2021	(53,192)	(188,277)	(241,469)
Deferred tax recognised in the consolidated statement of profit or loss during the year	<u>(7,141)</u>	<u>(137,154)</u>	<u>(144,295)</u>
At 31 December 2021	<u>(60,333)</u>	<u>(325,431)</u>	<u>(385,764)</u>

The Group has no tax losses arising in Hong Kong (2021: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Mainland China of RMB835,788,000 (2021: RMB1,126,318,000) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign invested enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors.

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

	2022 RMB'000	2021 RMB'000
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>350,661</u>	<u>266,752</u>

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27. CONVERTIBLE BONDS

On 22 January 2021, the Company issued US\$600,000,000 zero coupon convertible bonds due 2026. The bonds are convertible at the option of the bondholders into ordinary shares after 4 March 2021 on the basic conversion price of HK\$59.33 per share. The bonds are redeemable at the option of the bondholders on 22 January 2024. Any convertible bonds not converted, redeemed or purchased and cancelled will be redeemed by the Company on 22 January 2026 at the price of the par value.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option.

The convertible bonds comprise two components:

The debt component was initially measured at fair value amounting to US\$562,489,000 (equivalent to RMB3,634,633,000). It is subsequently measured at amortized cost using the effective interest method after considering the effect of the transaction costs.

The derivative component comprises conversion options and early redemption options (not closely related to the debt component), which were initially measured at fair value amounting to US\$37,511,000 (equivalent to RMB242,387,000) and subsequently measured at fair value with changes in fair value recognised in profit or loss.

The total transaction costs of US\$4,000,000 (equivalent to RMB25,847,000) related to the issue of the convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values.

On 28 December 2022, the Company redeemed USD\$4,000,000 zero coupon convertible bonds with total consideration of USD\$3,720,000.

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

	Debt component RMB'000	Embedded derivative component RMB'000	Total RMB'000
As at 1 January 2022	3,611,331	131,665	3,742,996
Repurchase	(25,549)	(1,979)	(27,528)
Exchange realignment	334,831	19,097	353,928
Interest charged	54,222	–	54,222
Losses arising on changes of fair value	–	159,124	159,124
As at 31 December 2022	3,974,835	307,907	4,282,742

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27. CONVERTIBLE BONDS (Continued)

	Debt component <i>RMB'000</i>	Embedded derivative component <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2021	–	–	–
Issue of US\$600,000,000 convertible bonds	3,634,633	242,387	3,877,020
Allocated transaction costs	(24,231)	–	(24,231)
Exchange realignment	(48,625)	(1,968)	(50,593)
Interest charged	49,554	–	49,554
Gains arising on changes of fair value	–	(108,754)	(108,754)
As at 31 December 2021	<u>3,611,331</u>	<u>131,665</u>	<u>3,742,996</u>

As the redeemable option will not be in effect until 22 January 2024, convertible bonds were classified as non-current liabilities as at December 31 2022.

28. SHARE CAPITAL

	2022 <i>RMB</i>	2021 <i>RMB</i>
Issued and fully paid:		
5,922,350,070 shares of HK\$0.00001 each		
(31 December 2021: 5,922,350,070 shares of HK\$0.00001 each)	<u>52,169</u>	<u>52,169</u>

There was no movements in the Company's share capital during the year.

29. SHARE-BASED PAYMENTS

The Group's Restricted Share Unit Scheme (the "RSU Scheme") was adopted pursuant to a resolution passed on 27 May 2019 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 June 2029.

The table below discloses movements of the RSU Scheme:

	2022 Number of restricted share unit	2021 Number of restricted share unit
Outstanding as at 1 January	5,293,560	8,873,900
Granted during the year	36,786,600	17,542,000
Forfeited during the year*	1,027,200	17,763,470
Exercised during the year	<u>8,688,340</u>	<u>3,358,870</u>
Outstanding as at 31 December	<u>32,364,620</u>	<u>5,293,560</u>

* During the year ended 31 December 2022, no granted restricted share units were forfeited because of failure to satisfy the certain performance condition (2021: 17,037,300 share units).

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29. SHARE-BASED PAYMENTS (Continued)

During the year ended 31 December 2022, 36,240,000 and 546,600 restricted share units were granted on 29 Apr 2022 and 29 Oct 2022, respectively. The closing price of the Group's shares immediately before 29 Apr 2022 and 29 Oct 2022, the date of grant, was HK\$12.58 per share and HK\$12.84 per share.

The fair value of the restricted share units determined on 29 Apr 2022 and 29 Oct 2022 using the Binomial model was HK\$10.42 per unit and HK\$10.40 per unit. The following assumptions were used to calculate the fair value of the restricted share units:

	12 May 2021	29 Apr 2022	29 Oct 2022
Weighted average closing price	HK\$30.18	HK\$13.02	HK\$13.00
Exercise price	HK\$6.40	HK\$2.60	HK\$2.60
Exercise life	3 years	3 years	2.5 years
Exercise volatility	31.9%-40.7%	44.6%-54.2%	46.4%-53.8%
Dividend yield	0%	0%	0%
Risk-free interest rate	0.07%-0.21%	2.19%-2.35%	4.28%-4.33%

The binomial model has been used to estimate the fair value of the restricted share units. The variables and assumptions used in computing the fair value of the restricted share units are based on the directors' best estimate. Changes in estimates and assumptions may result in changes in fair value of the restricted share units.

At the end of each reporting period, the Group revises its estimates of the number of restricted share units that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share-based payment reserve.

As instructed by the Board, Computershare Hong Kong Trustee ("the Trustee") is appointed to acquire a certain number of shares from the open market for the RSU Scheme, and the purchased shares will be held by the Trustee until such shares are vested in accordance with the provisions of the Scheme.

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

31 December 2022	Number of shares	Treasury shares RMB'000
At 1 January 2022	4,000,000	57,969
Shares repurchased for RSU Scheme	7,086,000	76,618
Exercised	(8,688,340)	(105,479)
Dividends declared	–	(1,081)
At 31 December 2022	2,397,660	28,027
31 December 2021	Number of shares	Treasury shares RMB'000
At 1 January 2021	–	–
Shares repurchased for RSU Scheme	4,000,000	57,969
At 31 December 2021	4,000,000	57,969

Notes to the Financial Statements

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30. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Share premium

The proceeds from the issue of shares that exceed the nominal value of the shares were credited into the share premium.

(b) Merger reserve

The merger reserve of the Group represents the capital contributions from the then shareholders of the subsidiaries.

(c) Exchange fluctuation reserve

The functional currencies of certain overseas subsidiaries are currencies other than the Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(d) Statutory surplus reserves

In accordance with the Company Law of the People's Republic of China (the "PRC"), a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC Generally Accepted Accounting Principles, to its statutory surplus reserves until the reserves reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

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31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Except for the transactions mentioned in note 18, there were no major non-cash transactions during the years ended 31 December 2022 and 2021.

(b) Changes in liabilities arising from financing activities

	Dividends payable RMB'000	Lease liabilities RMB'000	Convertible bonds RMB'000	Total RMB'000
At 1 January 2022	–	84,885	3,742,996	3,827,881
Changes from financing cash flows:				
Dividend paid to the shareholders	(712,184)	–	–	(712,184)
Repurchase of convertible bonds	–	–	(24,813)	(24,813)
Principal portion of lease payments	–	(17,672)	–	(17,672)
Total changes from financing cash flows	(712,184)	(17,672)	(24,813)	(754,669)
Other changes:				
Dividend declared to the shareholders	712,184	–	–	712,184
Interest charged on convertible bonds	–	–	54,222	54,222
Losses arising on changes of fair value	–	–	159,124	159,124
Gain on repurchase of convertible bonds	–	–	(2,715)	(2,715)
Additions to lease liabilities	–	16,824	–	16,824
Accretion of interest recognised during the year	–	3,920	–	3,920
Exchange realignment	–	7,157	353,928	361,085
Total other changes	712,184	27,901	564,559	1,304,644
At 31 December 2022	–	95,114	4,282,742	4,377,856
At 1 January 2021	–	92,749	–	92,749
Changes from financing cash flows:				
Dividend paid to the shareholders	(380,866)	–	–	(380,866)
Issue of convertible bonds	–	–	3,852,789	3,852,789
Principal portion of lease payments	–	(12,289)	–	(12,289)
Total changes from financing cash flows	(380,866)	(12,289)	3,852,789	3,459,634
Other changes:				
Dividend declared to the shareholders	380,866	–	–	380,866
Interest charged on convertible bonds	–	–	49,554	49,554
Gains arising on changes of fair value	–	–	(108,754)	(108,754)
Additions to lease liabilities	–	7,410	–	7,410
Disposals of lease liabilities	–	(4,724)	–	(4,724)
Accretion of interest recognised during the year	–	3,264	–	3,264
Exchange realignment	–	(1,525)	(50,593)	(52,118)
Total other changes	380,866	4,425	(109,793)	275,498
At 31 December 2021	–	84,885	3,742,996	3,827,881

Notes to the Financial Statements

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31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within operating activities	8,651	29,421
Within investing activities	–	–
Within financing activities	17,672	12,289
	<u>26,323</u>	<u>41,710</u>

32. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Contracted, but not provided for acquisition of property, plant and equipment	<u>39,341</u>	<u>202,836</u>

Other business agreements

The Group enters into collaboration agreements with institutions and companies to license intellectual property. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded on the consolidated statement of financial position because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognised in the consolidated financial statements.

Notes to the Financial Statements

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33. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Name of and relationship with a related party

Name	Relationship
江蘇恒瑞醫藥股份有限公司 ("Jiangsu Hengrui Medicine")	Investee of a close family member of a director

(b) Transactions with a related party

The following transactions were carried out with a related party:

	2022 RMB'000	2021 RMB'000
Expense for services received		
Jiangsu Hengrui Medicine	—	208

The directors of the Company are of the opinion that the above sales to related parties were conducted in the ordinary course of business and on normal commercial terms.

(c) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	52,894	47,683
Performance related bonuses	14,566	32,761
Share-based payments	80,920	31,892
Pension scheme contributions	3,607	3,161
Total compensation paid to key management personnel	151,987	115,497

Further details of directors' emoluments are included in note 8 to the financial statements.

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34. FINANCIAL INSTRUMENTS BY CATEGORY

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

2022

Financial assets

	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at fair value through other comprehensive income Debt investments <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	–	–	3,533,969	3,533,969
Bills receivable	–	44,423	–	44,423
Financial assets at fair value through profit or loss	2,957,005	–	–	2,957,005
Financial assets included in prepayments, other receivables and other assets	–	–	103,023	103,023
Other financial assets	–	–	1,463,752	1,463,752
Cash and bank balances	–	–	17,615,274	17,615,274
	<u>2,957,005</u>	<u>44,423</u>	<u>22,716,018</u>	<u>25,717,446</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Financial liabilities at fair value through profit or loss Designated as such upon initial recognition <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	222,296	–	222,296
Financial liabilities included in other payables and accruals	1,938,070	–	1,938,070
Lease liabilities	95,114	–	95,114
Convertible bonds – debt component	3,974,835	–	3,974,835
Convertible bonds – embedded derivative instruments	–	307,907	307,907
	<u>6,230,315</u>	<u>307,907</u>	<u>6,538,222</u>

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34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2021

Financial assets

	Financial assets at fair value through profit or loss <i>RMB'000</i>	Financial assets at fair value through other comprehensive income Debt investments <i>RMB'000</i>	Financial assets at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade receivables	–	–	3,247,297	3,247,297
Bills receivable	–	428,693	–	428,693
Financial assets at fair value through profit or loss	2,752,182	–	–	2,752,182
Financial assets included in prepayments, other receivables and other assets	–	–	114,353	114,353
Other financial assets	–	–	1,873,773	1,873,773
Cash and bank balances	–	–	14,702,056	14,702,056
	<u>2,752,182</u>	<u>428,693</u>	<u>19,937,479</u>	<u>23,118,354</u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Financial liabilities at fair value through profit or loss Designated as such upon initial recognition <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bills payables	248,330	–	248,330
Financial liabilities included in other payables and accruals	2,133,486	–	2,133,486
Lease liabilities	84,885	–	84,885
Convertible bonds – debt component	3,611,331	–	3,611,331
Convertible bonds – embedded derivative instruments	–	131,665	131,665
	<u>6,078,032</u>	<u>131,665</u>	<u>6,209,697</u>

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Financial assets

	Carrying amount		Fair value	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Financial assets at fair value through profit or loss	2,957,005	2,752,182	2,957,005	2,752,182
Debt investments at fair value through other comprehensive income	44,423	428,693	44,055	423,251
	3,001,428	3,180,875	3,001,060	3,175,433

Financial liabilities

	Carrying amount		Fair value	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Convertible bonds	4,282,742	3,742,996	4,282,742	3,742,996

Management has assessed that the fair values of cash and cash equivalents, time deposits with original maturity of over three months when acquired, trade and bills receivables, trade and bills payables, other financial assets, deposits and other receivables, financial liabilities included in other payables and accruals and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

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

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2022 were assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The Group held bills receivable within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Bills receivable is measured at fair value through other comprehensive income. The Group has estimated the fair value of bills receivable by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair value of unlisted equity investments designated at fair value through profit or loss has been estimated at the most recent transaction price which equals to the original cost amounting to RMB412,579,000.

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

Financial instruments	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum	4.13% to 4.57% (2021: 4.13% to 4.57%)	5% (2021: 5%) increase/decrease in discount rate would result in decrease/increase in fair value by 0.01% (2021: 0.5%)
Convertible bonds – embedded derivative instruments	Binominal option pricing with the volatilities and risk-free rates as key inputs	Expected volatility	26.33% to 29.11% (2021: 22.99% to 25.41%)	5% (2021:5%) increase in expected volatility would result in increase in fair value by 0.00% (2021:0.93%) 5% (2021:5%) decrease in expected volatility would result in decrease in fair value by 0.00% (2021:0.47%)

Fair value hierarchy

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

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2022				
Financial assets at fair value through profit or loss	–	2,544,426	412,579	2,957,005
Bills receivable	–	–	44,055	44,055
As at 31 December 2021				
Financial assets at fair value through profit or loss	–	2,357,215	394,967	2,752,182
Bills receivable	–	–	423,251	423,251

Notes to the Financial Statements

31 December 2022

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2022				
Convertible bonds – embedded derivative instruments	–	–	307,907	307,907
As at 31 December 2021				
Convertible bonds – embedded derivative instruments	–	–	131,665	131,665

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2022				
Convertible bonds – debt component	–	–	3,974,835	3,974,835
As at 31 December 2021				
Convertible bonds – debt component	–	–	3,611,311	3,611,311

Notes to the Financial Statements

31 December 2022

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents, time deposits with original maturity of over three months when acquired, financial assets at fair value through profit or loss and other financial assets. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Foreign currency risk

Foreign currency risk is the risk of losses resulting from changes in foreign currency exchange rates. The Group's businesses are located in Mainland China and nearly all transactions are conducted in RMB. As nearly all of the assets and liabilities of subsidiaries in Mainland China were denominated in RMB, these subsidiaries were not subject to significant foreign currency risk. As at 31 December 2022, the Group's assets and liabilities denominated in currencies other than RMB were mainly held by the Company and certain subsidiaries incorporated outside Mainland China which had currencies other than RMB as their functional currencies. The Company and those subsidiaries incorporated outside Mainland China also held bank balances denominated in currencies other than their functional currencies, from which foreign currency exposures arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in profit for the year RMB'000
2022			
If the RMB weakens against the United States dollar	5	22,701	19,296
If the RMB strengthens against the United States dollar	(5)	(22,701)	(19,296)
2021			
If the RMB weakens against the United States dollar	5	8,817	7,494
If the RMB strengthens against the United States dollar	(5)	(8,817)	(7,494)

Notes to the Financial Statements

31 December 2022

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets, financial assets at fair value through profit or loss, trade receivables and other receivables represent the Group's maximum exposure equal to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets and financial assets at fair value through profit or loss since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group measures the loss allowance for bills receivable at an amount equal to lifetime ECLs. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivable and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experiences do not indicate significantly different loss patterns for different segments, the loss allowance based on the past due status is not further distinguished between the Group's different customer bases.

The Group also expects that there is no significant credit risk associated with amounts due from related parties and other receivables since counterparties to these financial assets have no history of default.

For other financial assets, amounts due from related parties and other receivables, impairment is measured at 12-month expected credit losses as there has been no significant increase in credit risk since initial recognition.

Notes to the Financial Statements

31 December 2022

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

	2022				Total RMB'000
	Within 3 months or on demand RMB'000	3 months to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	
Lease liabilities	4,305	14,648	49,201	40,931	109,085
Financial liabilities included in other payables and accruals	1,938,070	–	–	–	1,938,070
Trade and bills payables	220,947	–	1,349	–	222,296
Convertible bonds	–	–	4,150,902	–	4,150,902
	2,163,322	14,648	4,201,452	40,931	6,420,353
	2021				
	Within 3 months or on demand RMB'000	3 months to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	2,976	10,143	42,212	44,739	100,070
Financial liabilities included in other payables and accruals	2,133,486	–	–	–	2,133,486
Trade and bills payables	247,069	205	1,056	–	248,330
Convertible bonds	–	–	3,877,020	–	3,877,020
	2,383,531	10,348	3,920,288	44,739	6,358,906

Notes to the Financial Statements

31 December 2022

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of the reporting periods were as follows:

	2022 RMB'000	2021 <i>RMB'000</i>
Total liabilities	7,354,935	7,131,326
Total assets	30,001,879	27,160,171
Debt-to-asset ratio	25%	26%

37. CONTINGENT LIABILITIES

As at 31 December 2022, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

Notes to the Financial Statements

31 December 2022

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		533,985	134,062
Financial assets at fair value through profit or loss		–	129,563
Amounts due from subsidiaries		16,830,943	16,573,629
Total non-current assets		17,364,928	16,837,254
CURRENT ASSETS			
Amounts due from subsidiaries		435,429	239,218
Prepayments, other receivables and other assets		34,459	830
Cash and bank balances		70,622	169
Total current assets		540,510	240,217
CURRENT LIABILITIES			
Other payables and accruals		73,117	81,456
Total current liabilities		73,117	81,456
NET CURRENT ASSETS		467,393	158,761
TOTAL ASSETS LESS CURRENT LIABILITIES		17,832,321	16,996,015
NON-CURRENT LIABILITIES			
Convertible bonds		4,282,742	3,742,996
Amounts due to subsidiaries		–	60,005
Total non-current liabilities		4,282,742	3,803,001
NET ASSETS		13,549,579	13,193,014
EQUITY			
Share capital		52	52
Treasure shares		(28,027)	(57,969)
Reserves	(a)	13,577,554	13,250,931
Total equity		13,549,579	13,193,014

Notes to the Financial Statements

31 December 2022

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

(a) A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2021	14,008,766	68,590	(730,482)	102,976	13,449,850
Profit for the year	-	-	-	406,211	406,211
Exchange differences related to foreign operations	-	-	(304,847)	-	(304,847)
Total comprehensive income for the year	-	-	(304,847)	406,211	101,364
Issue of shares by private placement	15,111	-	-	-	15,111
Share-based payments	-	65,472	-	-	65,472
Dividends declared	-	-	-	(380,866)	(380,866)
At 31 December 2021	14,023,877	134,062	(1,035,329)	128,321	13,250,931

	Share premium RMB'000	Share option reserve RMB'000	Other Reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2022	14,023,877	134,062	-	(1,035,329)	128,321	13,250,931
Loss for the year	-	-	-	-	(201,432)	(201,432)
Exchange differences related to foreign operations	-	-	-	1,156,531	-	1,156,531
Total comprehensive income for the year	-	-	-	1,156,531	(201,432)	955,099
Issue of shares by private placement	-	-	-	-	-	-
Others	-	-	(2,291)	-	-	(2,291)
Exercise of vested restricted share units	(92,336)	-	-	-	-	(92,336)
Share-based payments	-	179,416	-	-	-	179,416
Repurchase of shares under share award scheme	-	-	-	-	-	-
Dividends declared	-	-	-	-	(713,265)	(713,265)
Transfer from retained profits	-	-	-	-	-	-
At 31 December 2022	13,931,541	313,478	(2,291)	121,202	(786,376)	13,577,554

The Company may pay dividends out of its share premium account and retained earnings.

As at 31 December 2022, the Company had distributable reserves for share premium of RMB13,931,541,000 (2021: RMB14,023,877,000).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2023.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

“AACR”	the American Association for Cancer Research
“AGM”	the annual general meeting of the Company proposed to be held on Thursday, June 1, 2023
“Apex Medical”	APEX MEDICAL COMPANY LTD., a company incorporated in the BVI as a limited liability company and wholly-owned by Mr. Cen Junda
“Articles of Association”	the articles of association of the Company (as amended from time to time), conditionally adopted on May 27, 2019
“associate”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Bcr-Abl TKI”	BCR-ABL protein tyrosine kinase inhibitor (TKI)
“BD”	business development
“Biotheus”	Biotheus Inc. *(普米斯生物技術(珠海)有限公司)
“Board”	the board of Directors of the Company
“Board Diversity Policy”	the Board Diversity Policy of the Company adopted on November 26, 2018
“BVI”	the British Virgin Islands
“Changzhou Hansoh”	Changzhou Hansoh Pharmaceutical Company Limited* (常州恒邦藥業有限公司), a company incorporated in the PRC with limited liability and a wholly – owned subsidiary of the Company
“China” or “the PRC”	the People’s Republic of China
“close associate”	has the meaning ascribed thereto under the Listing Rules
“CML”	chronic myelogenous leukemia
“CNS”	central nervous system
“Code Provisions”	provisions under Corporate Governance Code
“Company” or “our Company”	Hansoh Pharmaceutical Group Company Limited, a company incorporated in the Cayman Islands with limited liability, its shares are listed and traded on the Main Board of the Stock Exchange
“Company Code”	the Company’s own code of conduct regarding securities transactions of the Company by Directors and relevant employees
“connected person”	has the meaning ascribed thereto under the Listing Rules
“connected transaction”	has the meaning ascribed thereto under the Listing Rules

Definitions

“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Stellar Infinity, Sunrise Investment and Ms. Zhong Huijuan
“Convertible Bonds”	On January 22, 2021, the Company completed the issuance of US\$600 million of zero-coupon convertible bonds due in 2026 to professional investors (has the meaning given to it in the Securities and Futures Ordinance (Cap. 571) and the Securities and Futures (Professional Investors) Rules (Cap. 571D)), which are listed and traded on the Stock Exchange with bond code of 40546
“core connected person”	has the meaning ascribed thereto under the Listing Rules
“Cormorant Asset Management”	Cormorant Asset Management
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Director Nomination Policy”	the Director Nomination Policy of the Company adopted on November 26, 2018
“EGFR-TKI”	epidermal growth factor receptor (EGFR)-tyrosine kinase inhibitor (TKI)
“EQRx”	EQRx, Inc.
“EMA”	European Medicines Agency
“ESG”	environmental, social and governance
“ESG Committee”	the environmental, social and governance committee of the Board
“Fortune Peak”	Fortune Peak (HS) Company Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“GHDDI”	Beijing Huayi Health Drug Discovery Institute* (北京華益健康藥物研究中心) (also known as the Global Health Drug Discovery Institute)
“GMP”	Good Manufacturing Practice
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries and, in respect of the period before the Company became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Shanghai Hansoh”	Shanghai Hansoh Biomedical Co., Ltd.* (上海翰森生物醫藥科技有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Hansoh International”	Hansoh Pharma International Limited (翰森製藥國際有限公司), a company incorporated in Hong Kong as a limited liability company and a wholly-owned subsidiary of the Company

Definitions

“HK\$” or “Hong Kong dollar(s)” or “cent”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Jiangsu Hansoh”	Jiangsu Hansoh Pharmaceutical Group Co., Ltd.* (江蘇豪森藥業集團有限公司), a company incorporated in the PRC with limited liability and a wholly – owned subsidiary of the Company
“KiOmed”	KiOmed Pharma SA
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“MAA”	marketing authorization application
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market of the Stock Exchange
“MHRA”	the United Kingdom (U.K.)’s Medicines and Healthcare products Regulatory Agency
“NMOSD”	neuromyelitis optica spectrum disorders
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“NHSA”	the National Healthcare Security Administration of the People’s Republic of China (中華人民共和國國家醫療保障局)
“NiKang Therapeutics”	NiKang Therapeutics Inc.
“NMPA”	the National Medical Products Administration of the People’s Republic of China (中華人民共和國國家藥品監督管理局)
“Nomination Committee”	the nomination committee of the Board
“Non-Competition Undertaking”	a deed of non-competition undertaking dated May 27, 2019 entered into between Controlling Shareholder(s) and the Company
“NRDL”	the National Reimbursement Drug List for Basic Medical Insurance, Work – Related Injury Insurance and Maternity Insurance Catalogue* (國家基本醫療保險、工傷保險和生育保險藥品目錄) released by the NHSA
“NSCLC”	non-small cell lung cancer
“PK”	pharmacokinetic
“Prospectus”	the prospectus of the Company dated May 31, 2019
“R&D”	research and development
“Remuneration Committee”	the remuneration committee of the Board

Definitions

“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reporting Period”	the period of 12 months from January 1, 2022 to December 31, 2022
“RSU Scheme”	the scheme conditionally approved and adopted by the Company on May 27, 2019, which has granted restricted share units (“RSUs”) upon completion of the Global Offering, the details of which are set out in the section headed “Statutory and General Information” in Appendix IV of the Company’s Prospectus
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of the Company with nominal value of HK\$0.00001 each, which are listed and traded on the Stock Exchange
“Shareholder(s)”	holder(s) of Shares
“State Council”	the State Council of the People’s Republic of China (中華人民共和國國務院)
“Stellar Infinity”	Stellar Infinity Company Ltd., a company incorporated in the BVI as a limited liability company and held as to 100% by Sunrise Investment
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Strategy and Development Committee”	the strategy and development committee of the Board
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Sunrise Investment”	Sunrise Investment Advisors Limited, a company incorporated in the BVI with limited liability and held as to 100% by the Sunrise Trust Trustee
“Sunrise Trust”	Sunrise Trust, a discretionary trust set up by Ms. Sun, of which the Sunrise Trust Trustee acts as the trustee pursuant to a trust deed dated January 28, 2016
“Sunrise Trust Trustee”	Harmonia Holding Investing (PTC) Limited
“TiumBio”	TiumBio Co., Ltd.
“U.S. FDA”	the United States Food and Drug Administration
“Viela Bio”	Viela Bio, Inc.
“%”	Percentage

* For identification purposes only