国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

2021 Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. CHENG Xueren *(Managing Director)*
Mr. YANG Wenming

Non-executive Directors

Mr. YANG Shanhua
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. KUI Kaipin

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. NG Sau Mei

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong
Mr. YANG Shanhua

REMUNERATION AND EVALUATION COMMITTEE

Mr. QIN Ling *(Chairman)*
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LI Weidong
Mr. YANG Shanhua

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

STRATEGIC COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. YU Tze Shan Hailson
Mr. QIN Ling

REGISTERED OFFICE

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STOCK CODE

The shares of China Traditional Chinese Medicine Holdings Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITOR

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

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
Ping An Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Bank of China (Hong Kong) Limited

WEBSITE

http://www.china-tcm.com.cn

Five Year Financial Summary

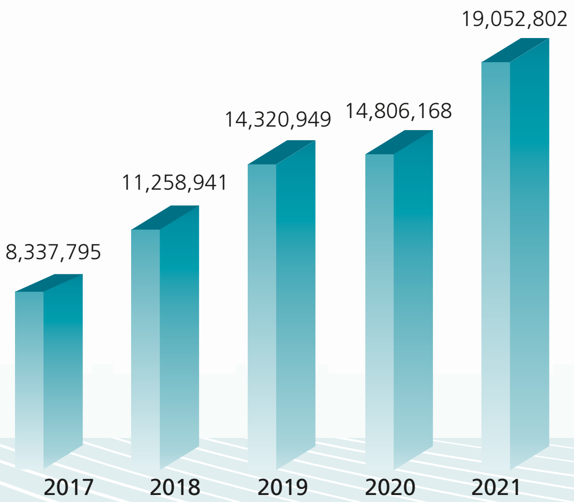
(Expressed in RMB)

	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**	2017-2021 Compound Annual Growth Rate
Results						
Revenue	8,337,795	11,258,941	14,320,949	14,806,168	**19,052,802**	22.95%
Gross profit	4,651,582	6,193,573	8,575,788	9,126,075	**11,829,163**	26.28%
Profit from operations	1,786,453	2,156,025	2,460,716	2,490,631	**2,753,058**	11.42%
Profit before taxation	1,567,237	1,856,697	2,154,618	2,230,091	**2,520,280**	12.61%
Profit attributable to the shareholders of the Company	1,170,434	1,439,018	1,588,114	1,663,255	**1,932,858**	13.36%
Profitability						
Gross profit margin	55.79%	55.01%	59.88%	61.64%	**62.09%**	
Operating profit margin	21.43%	19.15%	17.18%	16.82%	**14.45%**	
Net profit margin	15.73%	13.92%	12.38%	12.57%	**11.14%**	
Earnings per share						
Basic & Diluted	26.41 cents	29.84 cents	31.54 cents	33.03 cents	**38.38 cents**	9.80%
Financial position						
Total assets	24,885,307	30,287,390	32,473,725	33,088,383	**36,389,268**	
Total equity attributable to equity shareholders of the Company	12,436,778	15,551,433	16,623,415	18,064,086	**19,718,669**	
Total liabilities	11,070,050	12,776,819	13,423,000	12,191,962	**13,728,339**	
Cash and cash equivalents	4,787,781	6,349,714	5,613,633	3,440,240	**2,894,757**	
Debt asset ratio	44.48%	42.19%	41.33%	36.85%	**37.73%**	

Five Year Financial Summary

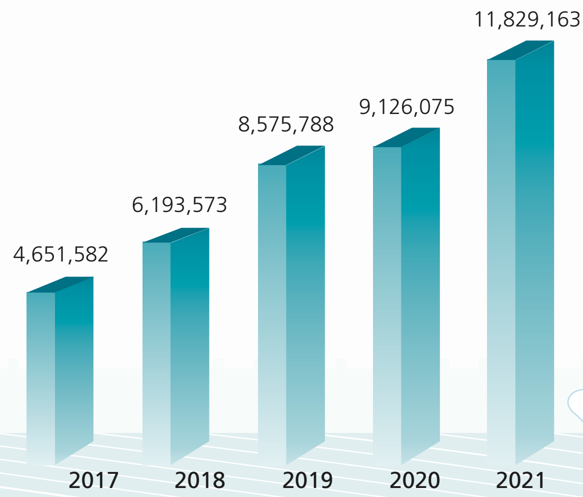
(Expressed in RMB)

REVENUE — RMB'000



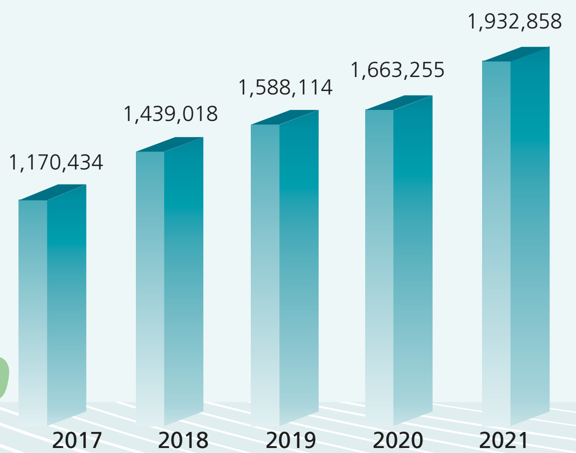
Annual Growth of 2020-2021 **28.68%**

GROSS PROFIT — RMB'000



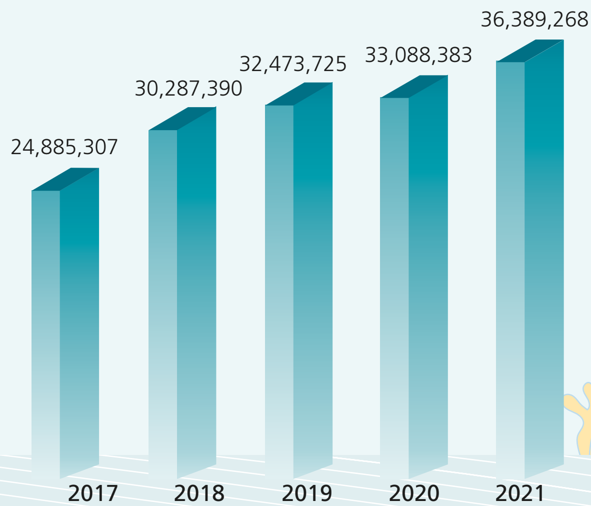
Annual Growth of 2020-2021 **29.62%**

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY — RMB'000



Annual Growth of 2020-2021 **16.21%**

TOTAL ASSETS — RMB'000



Annual Growth of 2020-2021 **9.98%**

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear shareholders,

Looking back to 2021, the ongoing and repeated resurgence of COVID-19 pandemic throughout the world coupling with the mutation of the virus strains, made the global economy still shroud in the haze of the COVID-19 pandemic. However, following the development trend of normalisation respect to the global economy in the post-pandemic era and under new economic pattern of dual circulation in China in 2021, China's Gross Domestic Product ("GDP") has increased by 8.1% compared with 2020, and its pace of economic recovery appears to be faster than any other major countries around the world.

In March 2021, the full text of "14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" was promulgated, emphasizing the necessity to make continuous effort to boost the comprehensive building of a "Healthy China", reinforce complementary advantages of Chinese and western medicine with equal emphasis, vigorously develop TCM industry, perfect the national healthcare system of TCM, and give full play to the superiority of TCM in the prevention, treatment and rehabilitation of disease. The state elevated the inheritance, innovation and development of TCM industry to national strategic level, promoted strategic plan regarding "inheritance of essence", "pioneering with innovative spirit" and "taking full advantage of the superiority of TCM" via integrating them with the aforementioned theme of "Healthy China", the enhancements in safeguarding people's health and improvements in the accomplishment, accessibility and appreciation of TCM, all of which presents a hard-won opportunity for the high-quality development of TCM industry.

Based on statistics collecting during the fight against the pandemic, TCM has proved its effectiveness in reducing the prevalent rate, progression-to-severity rate and case fatality rate as well as improving the cure rate making great contributions to the battle with COVID-19 pandemic and safeguarding people's lives and health. In January 2022, Mr. Huang Luqi, vice commissioner of the National Administration of Traditional Chinese Medicine, President of China Academy of Chinese Medical Sciences and academician of the Chinese Academy of Engineering, led a delegation to visit the headquarters of the World Health Organization and submitted the "Evidence-based Evaluation and Researching Report on the Treatment for COVID-19 with Traditional Chinese Medicine" to Mr. Tedros, Director-General of the World Health Organization, which applied systemic scientific methods in performing the assessment for the drug effects and safety of TCM. A widen acceptance of TCM in the international community is therefore being propelled.

BUSINESS PERFORMANCE

In 2021, following the intensive introduction of national policies and implementation rules with respect to the reform of national healthcare system, the integral level of standardization in TCM industry was enhanced and a smooth transmission and development in all sectors of TCM industry was ensured by a more supportive macro environment. During the year, facing with various engraved challenges, including but not limited to the uncertainties caused by the normalization of COVID-19 pandemic, the changes in relevant policies of the TCM industry, the inflations in the price of Chinese medicinal herbs and the repeal of the regulations related to National Pilot Program of concentrated TCM granule, the Group took "practicing national TCM development strategy, leading the high-quality development of TCM industry" as its mission, and "all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industrial group" as its vision, which finally flourished the key performance indicators of our Group and made a high jumping-off point for our business during the "14th Five-Year" Plan period. For the year ended 31 December 2021 (the "Reporting Period"), the Group's revenue amounted to RMB19.053 billion, representing an increase of 28.7% as compared with approximately RMB14.806 billion in 2020.

DIVIDENDS

The Board is pleased to propose the 2021 final dividend of RMB5.98 cents (i.e. HK7.36 cents) per share.

STRATEGIC PROGRESS

Spreading out the "Comprehensive Industry Chain of TCM healthcare" across China forms the Group's distinctive features and unique advantages. We believe, along with the enhancements in the comprehensive supervision of the TCM industry via legalization, standardization and normalization, only TCM enterprises with superior and diversified product portfolio, extraordinary research and development capacities, well-established distribution network and scrupulous regulatory compliance, are capable to be more competitive in the TCM market and more propitious to resist business risk. During the Reporting Period, in order to make full preparation for the most recent changes in the market, accomplish the Group's annual goals and tasks , and lay a solid foundation for sustainable and high-quality development of the Group's business, the Group unswervingly implemented the strategies of "14th Five-Year" Plan, actively optimized and developed various strategic initiatives, collaboratively coordinated all business segments for joint force, continuously increased the investment in scientific research and strengthened the internal controls and corporate governance.

SUSTAINABLE DEVELOPMENT

As the core platform of the modern TCM segment under China National Pharmaceutical Group Corporation ("CNPGC"), we always take contenting the health needs of the people as our intent and purpose, proactively engaged in the building of "Healthy China", dedicate to fulfilling various crucial tasks proposed by the Chinese government with respect to the inheritance, innovation and development of the TCM industry, take unremitting efforts in building up a sustainable, synergistic and collaborative Comprehensive Industry Chain of TCM Healthcare, and endeavour to contribute to the advancing and guiding the high-quality development of the TCM industry in China. We are committed to driving changes and setting best practices in the TCM industry, and are of willingness to jointly promote the sustainable development of the industry and society with people from all walks of life.

In 2021, we put more emphasis on the significance with respect to the sustainable development and social responsibility affecting the implementation of the Group's strategies, and included environmental, social responsibility and corporate governance matters into the terms of reference of the strategic committee under the Board. Details will be set out in our Environmental, Social and Governance Report 2021, which will be published with the Company's Annual Report 2021 simultaneously.

PROSPECTS

Leveraging the advantages of Comprehensive Industry Chain of TCM Healthcare, the Group will continue to resolutely make unremitting efforts to prompt the constructions of the bases for Chinese medicinal herb sources with Good Agriculture and Collection Practices for Medicinal Plants ("GACP") and conscientiously enhance the independence and self-sufficient in our supply chains in order to facilitate the effective convergence and coordinated operation of upstream and downstream, production, supply and sales. For the sake of increasing our market share and industry influence, the Group targets to gradually turn around current situation of low industrial concentration and Gresham's Law phenomenon in the decoction pieces industry by leveraging the advantages of localising the production to origin and iterative accumulation of existing experience. The Group will also seize the opportunity triggered by the repeal of the regulations related to National Pilot Program of concentrated TCM granule, and give full play to our superiorities in sophisticated technical expertise, leading market share, outstanding innovation capability, quality products with high economic returns and Comprehensive Industry Chain of TCM Healthcare in order to further consolidate and enhance our leading position in the concentrated TCM granules industry. To actively cope with the policy changes such as centralized procurement of TCM finished drugs, the Group will refine its product mix and sales model for TCM finished drugs. Through summarizing and analyzing consumer needs and consumption pattern by using big data, the Group will be capable to appropriately optimize the subdivision of the health products and business segments in TCM clinics and selection of targeting market, precisely tailored product positioning and service architecture, and deliver suitable products and services that meet the genuine needs in the modern consumer market.

ACKNOWLEDGEMENT

I would like to extend my gratitude to all members of the Board for their support and dedication in 2021. On behalf of the Board, I would like to express my sincere gratitude to Mr. WANG Xiaochun, who resigned as a managing director of the Company on 13 July 2021 and subsequently resigned as a Director on 25 March 2022, for his outstanding leadership and contribution to the Group during his service period. During his service period as managing director of the Company, Mr. WANG effectively implemented the policies, business objectives and plans formulated by the Board and led the Group to realize the industrial layout in more than 20 key provinces and regions across China, laying a solid foundation for the sustainable and high-quality development of the Comprehensive Industry Chain of TCM Healthcare.

We also welcomed Mr. CHENG Xueren, who has been president of the Company since 3 September 2021 and subsequently joined the Board on 25 March 2022. Mr. CHENG has been specialised in concentrated TCM granules industry for 30 years and fully recognized our development plan for Comprehensive Industry Chain of TCM Healthcare. He will lead the Group to continuously strengthen the capability in implementation of our business strategy and proactively enhance the synergy and effectiveness among our business segments and further strengthen the resource integration and internal controls, striving to make contribution to the high-quality development of the TCM industry.

Finally, I would like to take this opportunity to extend the sincere appreciation on behalf of the Board to all employees for keeping their original aspiration and fulfilling their duties in a conscientious and diligent manner during this challenging year which ensures the continuing success of the Group's business. Our appreciation also extends to our shareholders and investors for their ongoing support and trust in the Group.

WU XIAN
Chairman

Hong Kong, 25 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

OVERVIEW

In recent years, "Opinions on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine", "Several Policies and Measures on Accelerating the Featured Development of Traditional Chinese Medicine" and other policies were introduced, which pushed the development of TCM to a new historical level, demonstrating the strategic value of TCM in the nation's socio-economic development. The issuance of documents such as "Law of the People's Republic of China on Traditional Chinese Medicine", "Outline of the Strategic Plan for the Development of Traditional Chinese Medicine (2016-2030)" (《中醫藥發展戰略規劃綱要(2016-2030年)》) and "National Production Bases of Authentic Chinese Medicinal Materials Construction Plan (2018-2025)" (《全國道地藥材生產基地建設規劃(2018-2025年)》), reflecting that the high attention paid by the central government to the standardization and modernization of TCM industry has been gradually brought to the implementation stage. TCM played an all-round role in the regular pandemic prevention and control stage, and the development of the industry ushered in a rare opportunity. While seizing the opportunity, the Group has adapted to the changes in the economic, social and market environment in the post-pandemic era and successfully completed the tasks and targets set in the initial year of the "14th Five-year" Plan.

During the Reporting Period, the Group's revenue was approximately RMB19,052,802,000, representing an increase of 28.7% from approximately RMB14,806,168,000 for the same period of the last year. This was mainly attributed to the evident strengths of quality controllability and convenience of concentrated TCM granules, as well as effective academic promotion, resulting in continuous improvement in market recognition and promoting the steady development of business. As the pandemic subsided, TCM finished drugs business gradually recovered, sales of key prescription products specification maintained growth. TCM decoction pieces, TCM great health products, TCM clinic comprehensive services expanded new business, which contributed to the growth. For Chinese medicinal herbs integration business, we stepped up construction of bases, actively explored and expanded authentic Chinese medicinal herbs operation business, and external operation saw a rapid growth. To analyze by revenue of each of the operating product, revenue of the Chinese medicinal herbs integration business contributed approximately RMB753,006,000, representing 4.0% of total revenue; revenue of the concentrated TCM granules products contributed approximately RMB13,400,064,000, representing 70.3% of total revenue; revenue of TCM decoction pieces products was approximately RMB1,467,420,000, representing 7.7% of total revenue; revenue of finished drugs products was approximately RMB3,194,217,000, representing 16.7% of total revenue; revenue of the TCM great health products was approximately RMB93,515,000, representing 0.5% of total revenue; revenue of TCM clinic comprehensive services was approximately RMB144,580,000, representing 0.8% of total revenue.

BUSINESS REVIEW

In 2021, the Group focused on the development goal of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain to create an industry-leading TCM healthcare industrial group". Combining with the overall situation of the TCM industry and the subdivisions of the Company's business, we formulated and comprehensively promoted the "14th Five-Year" strategic plan, constantly strengthened the capability to implement the strategy as well as consolidated the strengths of manufacturing edges. We made more investment in scientific research and innovation, actively optimized the coordination of various sectors, and further enhanced the capability of resource integration, enabling us to move closer to the goal of becoming the leader in the TCM industry.

I. Comprehensively promote the Group's mission and vision and decompose the strategic planning of the "14th Five-Year" Plan

2021 marked the opening year for "14th Five-Year" Plan of China, which involved the strategic planning for the development of TCM. The Group also adjusted its mission and vision accordingly, and decomposed the strategic planning of its "14th Five-Year" Plan.

With the mission of "practicing national TCM development strategy, leading the high-quality development of TCM industrial group" and the vision of "all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry", the Group was committed to realizing six strategic objectives covering "leading economic benefits, highlighting market position, leading technological innovation, gathering professionals, enhancing lean management, and doubling brand value".

The Group also implemented the "6+8" strategic initiative, that is, identified the six major business sectors of "planting and management of Chinese medicinal herbs, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM healthcare products, and TCM clinics", conducted eight key tasks of "strategy, talent, technology, brand, culture, synergy, digitization and public relations" and constructed five guarantees of "political guarantee, responsibility guarantee, resource guarantee, information guarantee and risk management and control guarantee".

II. Optimize the synergy of business segments and give full play to the strengths of comprehensive industry chain of TCM healthcare

(I) Stringent control of source resources to strengthen the planting and management of Chinese medicinal herbs

As the source and material basis of the development of TCM industry, Chinese medicinal herb sources are the key link to support the high-quality development of TCM industry, thereby controlling the source quality of Chinese medicinal herbs being treated as the top priority of quality management of TCM industry. The Group took Chinese medicinal herb resources as the starting point for the construction of comprehensive industry chain of TCM healthcare, aiming at serving market demand, striving to develop authentic Chinese medicinal herbs plantation bases, establishing a quality management and traceability system for the whole process of planting, production and circulation of Chinese medicinal herbs to ensure that the Group's midstream and downstream production enterprises have the competitive strength of high-quality source medicinal herbs, and providing high-quality medicinal herbs for TCM industry at the same time.

During the Reporting Period, the Group vigorously promoted to the construction of GACP bases. 207 GACP bases were self constructed or jointly constructed in 23 provinces, municipalities directly under the Central Government or autonomous regions, with a planting area of more than 150,000 mus, involving a total of 74 varieties Chinese medicinal herbs. For example, Shandong Zhongping Pharmaceutical Co., Ltd. ("Shandong Zhongping"), one of the Company's subsidiaries located in Pingyi, Shandong, built a GACP plantation demonstration base and alliance cooperation base for honeysuckle to realize large-scale plantation of the base and standardize the production processing, established a sound supply relationship with certain large domestic pharmaceutical companies, and laid a solid foundation for the healthy and sustainable development of honeysuckle industry.

Under the "14th Five-Year" Plan, the Group will aim to build a supply guarantee platform for high-quality TCM resources shared by the industry. Led by the brand "SINO TCM", the Group will enhance the quality and value of Chinese medicinal herbs through technological innovation and standard empowering, and promote the high-quality development of the TCM comprehensive industry chain in China.

(II) Accelerate the research and formulation of national and provincial standards to maintain the leading advantages of concentrated TCM granules

On 10 February 2021, the National Medical Products Administration ("NMPA"), National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement on Ending the Pilot Scheme of Concentrated TCM Granules (the "Announcement"), which was officially implemented on 1 November 2021.

Pursuant to the requirements of the Announcement, since 1 November 2021, the varieties of concentrated TCM granules produced by concentrated TCM granules production enterprises shall be qualified for the national drug standards, and those not specified in the national drug standards shall meet the standards formulated by the provincial drug regulatory departments. As the leading enterprises in the concentrated TCM granules industry, Guangdong Yifang Pharmaceutical Co, Ltd. ("Guangdong Yifang") and Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang"), the Group's subsidiaries, launched the national standard research plan for concentrated TCM granules as early as in 2016, and formed a national standard research team, including purchasing, production, quality, technology and R&D departments. They invested abundant capital and resources in actively carrying out the research and development of the standard of concentrated TCM granules. In April and October 2021, NMPA approved the issuance of a total of 196 national drug standards for the first and second batches of concentrated TCM granules, of which 102 were drafted by the Group, ranking first among 15 standard providers.

According to the statistics of the China National Pharmaceutical Industry Information Center, a third-party organization, the total market volume of concentrated TCM granules in China was approximately RMB19 billion in 2020, and the Group accounted for more than 52% of the total market share in that year. After the end of the pilot policy, the sales scope of concentrated TCM granules has been extended from Class II and higher tier TCM hospitals to all medical institutions qualified for the practice of TCM.

During the Reporting Period, the Group seized the transition period of the conversion of concentrated TCM granules standards, actively organized the listing and inter-provincial filing, and production and marketing synergies of varieties required by national and provincial standards, and made every effort to ensure the supply of all varieties of concentrated TCM granules. We will seize the opportunities brought about by the reform, further expand the market share, consolidate the leading position in the concentrated TCM granules industry, and lead the high-quality development of the concentrated TCM granules industry.

Entering a new period of all-round development of the concentrated TCM granules industry, the Group has implemented the optimization and restructuring of the shareholding and business structure of Jiangyin Tianjiang and Guangdong Yifang, further releasing their competitive vitality in market and further consolidating and enhancing the Group's leading position in the concentrated TCM granules industry in a broader and more competitive market.

(III) Complete the planning of TCM decoction pieces and maintain the sound development momentum of TCM decoction pieces

The Group's TCM decoction pieces products mainly consist of industrial decoction pieces and medical decoction pieces. In terms of the business of industrial decoction pieces, the subsidiaries of the Group with the production capacity of TCM decoction pieces actively gave full play to their initiative and synergy, focused on the resources strengths of Chinese medicinal herbs, and timely adjusted the strategy of synergistic supply of TCM decoction pieces to resolve the contradiction between the supply side and the demand side. As of the end of the Reporting Period, the Group had a total of 28 enterprises with production licenses for decoction pieces in 19 provinces across the country, with a production capacity of more than 80,000 tonnes. Meanwhile, in order to fully meet the demand for TCM decoction pieces in medical terminals across the country, the Group has made great efforts to establish enterprises operating decoction pieces with drug business licenses to create a complete national supply chain system for TCM decoction pieces.

In terms of medical decoction pieces business, the Group stepped up efforts to develop large-scale hospitals and medical institutions to proactively capture the incremental market, continuously deepened the "hospital-enterprise cooperation" and steadily increased the sales growth of existing hospitals. During the Reporting Period, the Group has developed 107 Class II and higher tier medical institutions, 356 primary medical institutions and 381 pharmaceutical enterprises.

With further expansion of market development and terminal coverage, the sales model of enterprises such as Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices") and Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), which produce and operate a full range of TCM decoction pieces, tends to be carried out through modern cluster supply chain models such as sharing of TCM and intelligent distribution center business, with high-quality TCM decoction pieces and high-standard terminal service as the core competitiveness, finally forming diversified marketing models featured with regional center, large-scale hospitals exclusive, small and medium-sized hospitals embedded. During the Reporting Period, system for the 18 sharing of TCM and intelligent distribution centers was running steadily, with the volume received from the terminals continuing to grow. The business of paste formula, preparations and decoction continued to increase and over 3.60 million prescription orders were processed and distributed.

Meanwhile, the Group actively catered to market opportunities, actively explored overseas decoction pieces and medicinal herbs business, and achieved major breakthroughs in export business driven by policies such as "The Belt and Road" and "Construction Plan for the Chinese Medicine Highlands in the Guangdong-Hong Kong-Macau Greater Bay Area (2020-2025)" (粵港澳大灣區中醫藥高地建設方案(2020-2025年)). During the Reporting Period, the Group exported TCM decoction pieces and medicinal herbs to countries and regions such as Netherlands, Russia, Australia, New Zealand, Hong Kong, China, and the export of TCM decoction pieces expanded to Germany, France, Belgium, Italy and other regions leveraging the status of the Netherlands as the European bridgehead, engaging in a variety of transport routes such as air transportation, Eurasian railway, sea transportation and vehicle land transportation to ensure smooth supply chains in different countries and regions. Product varieties exported increased from 9 in 2020 to 339 in 2021, and 549 decoction pieces products specification were recognized by three medical institutions in Hong Kong, including the Hospital Authority, ranking first in total.

(IV) Consolidate the core product competitiveness of finished drugs and actively respond to the normalization of centralized procurement of TCM finished drugs

As of the end of the Reporting Period, the top 10 key varieties of TCM finished drugs were: Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊／片), Yu Ping Feng Granules (玉屏風顆粒), Moisturizing and Ati-Itching Capsules (潤燥止癢膠囊), Jingshu Granules (頸舒顆粒), Bi Yan Kang Tablets (鼻炎康片), Zaoren Anshen Capsules (棗仁安神膠囊), Jinye Baidu Granules (金葉敗毒顆粒), Fengshi Gutong Capsules (風濕骨痛膠囊), Waimaining Capsules (威麥寧膠囊) and Trionycis Bolus (鱉甲煎丸). In terms of finished drugs marketing, based on "Longgu Project" management, the Group formed a closed-loop management of factory product→target business→medical pharmacy terminal→consumer. Through online and offline promotion, the shelf sales ratio of the products has been increased, realizing growth to a certain extent.

At the beginning of 2021, the State Council issued the "Opinions on Promoting Normalized and Systematized Centralized Quantity Pharmaceutical Procurement" (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》), which included TCM finished drugs into the scope of centralized procurement of drugs. Subsequently, Hubei, Guangdong, Shandong and other places successively organized a centralized procurement alliance to carry out the procurement of TCM finished drugs, and the centralized procurement of TCM finished drugs was officially launched. On 21 December 2021, Hubei Province, as the head, led TCM finished drugs centralized procurement in 19 provinces, and announced the proposed election results, including 111 proposed results eventually, with a success rate of about 60% and an average price drop of 42.27%. The Group's TCM finished drugs varieties such as Xianling Gubao Capsules (仙靈骨葆膠囊), Ginkgo Leaves Tablets (銀杏葉片), Shengmai Capsule (生脈膠囊) and Yimucao Tablets (益母草片) were included in the centralized procurement scope of Hubei, Guangdong and Shandong, which was expected to have an uncertain impact on the sales of the Group's TCM finished drugs. The Group will respond positively to the national policy, pay close attention to the latest developments in the centralized procurement work, focus on the cultivation of new varieties, expand the OTC channels, and cope with the changes brought about by the normalization of centralized procurement.

During the Reporting Period, the Group inspired the vitality of the ancient classical formulae through scientific argumentation and clinical practice. Huashi Baidu Granules, whose application was done by Guangdong Yifang, was granted by NMPA a drug registration certificate in March 2021 and successfully included in the 2021 National Reimbursement Drug List in December 2021. Huashi Baidu Granules was optimized by the national TCM medical team led by Academician Huang Luqi in combination with clinical practice in Jinyintan Hospital. By carrying out a large number of clinical observations, Huashi Baidu Granules were proved to have the efficacy of blocking the development of the disease and improving symptoms. In particular, it has a good effect in shortening the course of the disease. It is the actual carrier of anti-pandemic experience of TCM, and has been included in the sixth, seventh, eighth and ninth editions of COVID-19's Diagnosis and Treatment Plan, fully demonstrating the unique advantages and role of TCM in dealing with new and major public health incidents.

In December 2021, the Group, together with the team of Professor Zhong Nanshan, an academician of Chinese Academy of Engineering and a famous respiratory disease scientist, launched a study on the clinical efficacy and mechanism of Yu Ping Feng Granules in stable phase of chronic obstructive pulmonary disease, further explored and constructed the product evidence chain by conducting clinical forensic medical research. A new modern research paradigm was used to explore the clinical efficacy and mechanism of classical formulae of Yu Ping Feng Granules in the prevention and treatment of COPD. Especially from the perspective of the combination of respiratory tract flora and immunity to explore the mechanism, western medicine diagnosis and treatment and TCM dialectical treatment were combined at the same time to explore the path of integrated traditional Chinese and western medicine treatment.

(V) Relying on its own high-quality resources to plan TCM healthcare products field

With the consumption upgrade and the rise of online channels, the demand of consumers for the organic combination of health care elements of TCM and daily life is increasing day by day, and there are great market prospects and development potential in the field of TCM healthcare. However, healthcare products serve the consumer product market with low threshold and intense competition with similar products, while its core is to construct the recognition of brand value and the influence of the channel.

During the Reporting Period, in the process of engaging the field of consumer goods, several subsidiaries of the Group examined and defined brands, products, channels, supply chain management and consumer demand from a new perspective, and explored the business of healthcare products in multi-mode and multi-channel. Giving full play to the strengths of authentic medicinal herbs, Shandong Zhongping launched the pure fresh flower dew of honeysuckle "Qingyi" (青燚), which is different from the traditional ones made from dried flowers. Through distillation and condensation extraction, the aroma and efficacy of honeysuckle flowers are preserved to the greatest extent, and the active ingredients are much higher than those of similar honeysuckle beverages, which are well recognized by consumers. Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou Tongjitang") set up a healthcare joint laboratory for Guizhou characteristic fruit (medicinal herbs) roxburgh rose, and launched cosmetic masks, fruit juice drinks, pressed candies, dried fruits and other products to enhance the added value of roxburgh rose industry. Guangdong Yifang launched "Chao Ge Chao Jie" (超葛超解) jelly for drinkers and "Rose Collagen" (玫瑰膠原蛋白) jelly for beauty lovers, which optimized the taste of traditional herbal medicine through jelly form, fulfilling the demands of modern consumers.

Meanwhile, the Group empowered brands and channels through the Internet platform and established online flagship stores such as "SINO TCM", "Yifang Seasons" (一方四季) and "Yuejian Bencao" (閱鑒本草) to explore the e-commerce operation model of healthcare products. Through the development of OEM/ODM business, we provide quality products and services for certain well-known consumer goods enterprises at home and abroad in the long term.

(VI) Actively explore the terminal market and develop the characteristic service of TCM clinics

Along with the improvement of China's national income and the upgrading of consumption structure, high-level TCM medical services are favored by the market, and institutions providing high-level TCM prevention and medical care, healthcare, rehabilitation and disease management services have emerged across the country. The Group actively responds to the state's policy of encouraging social forces to set up standardized TCM healthcare institutions and speed up the development of healthcare services. In the process of building a TCM healthcare industry chain, while perfecting the industrial layout in mid-to-upstream, we fostered new economic growth points and business innovation experimental platform, actively developed our own medical terminal- TCM clinics, and rose its positioning to a new strategic height to promote the closed loop of TCM healthcare industry chain.

During the Reporting Period, the Group's eight TCM clinics in operation vigorously developed the three business lines of specialties, physical therapy and rehabilitation, and home healthcare, providing consumers with comprehensive TCM medical services and products with regional characteristics. While making effective supplement with public hospitals and increasing the supply of medical health services, we built a TCM medical rehabilitation technology and service system different from that of public hospitals to provide consumers with differentiated and high-quality comprehensive TCM medical services. Meanwhile, TCM clinics actively interacted with the Group's other business segments to improve the promotion and application of its own TCM products such as authentic medicinal herbs, TCM decoction pieces and concentrated TCM granules in the terminal.

III. Adhere to technology-driven innovation and cultivate a strong momentum for development

(I) Continuously strengthen the construction of scientific research team and platform

The Group has continuously strengthened the building of scientific and technological talent teams and talent platform carriers. The Group is well aware that an excellent technological innovation team is the symbol of the enterprise's core competitiveness and security of enterprise's continuous creation of value. During the Reporting Period, the Group's R&D team has a total of 1,192 employees, including 3 experts entitled with special government allowances from the State Council, 1 leader in science and technology innovation from the "Ten Thousand Talent Plan" of China and 2 scientific CNPGC research leaders; 26 persons with senior title and 101 persons with vice-senior title; 5 postdoctorates, 13 doctors and 154 masters. During the Reporting Period, 7 persons with senior title, 27 persons with vice-senior title and 20 masters were engaged to the Group's scientific and research talent teams.

During the Reporting Period, the Group had a total of 29 laboratories and technology platforms recognized by the government at or above the provincial level, including 1 National Enterprise Technology Center, 2 TCM Master's Studios, 4 CNAS Laboratories, 2 Academician & Expert Enterprise Workstations, 3 Post-doctoral Research Enterprise Stations, 7 Engineering Technology Research and Development Centers of Provincial Level and 10 Enterprises Technical Centers of Provincial Level.

(II) Maintain leading position in the research of national standard and provincial standard of concentrated TCM granules

In order to strengthen the management of concentrated TCM granules and standardize its quality control and standard research, NMPA organized and formulated the "Technical Requirements for Establishing the Quality Control and Standards of Concentrated Traditional Chinese Medicine Granules" (《中藥配方顆粒質量控制與標準制定技術要求》) ("Technical Requirements"). Enterprises producing concentrated TCM granules shall carry out the research, drafting, production verification and standard review of national standard of concentrated TCM granules in accordance with the Technical Requirements. The formation of national standard of concentrated TCM granules is subject to the completion of expert review, publicity and examination organized by Chinese Pharmacopoeia Commission.

During the Reporting Period, 52% of the 196 released national standards for concentrated TCM granules were drafted by the Group, fully demonstrating the Group's role as a pioneer and leader in the concentrated TCM granules industry. During the Reporting Period, the Group also completed 74 national standard variety studies and 210 provincial standard studies, and 176 provincial standard varieties were publicized.

(III) New progress has been made on research work on the processing of TCM decoction pieces

In terms of the research work on the processing of TCM decoction pieces, the Group has deeply carried out the research on the processing standards of TCM decoction pieces, undertook a number of national and provincial research projects, and made significant progress, including carrying out the research and verification on 5 varieties of the national standards for the processing of TCM decoction pieces, and completing the submission of a draft standard for fried grain sprouts (炒谷芽). The Group carried out the research on 24 varieties, supplementary research on 6 varieties and verification of 7 varieties of the Beijing standards for the processing of TCM decoction pieces, of which 24 varieties have been approved at the review meeting and 16 varieties have been reviewed.

(IV) Steady progress in the research and development of TCM finished drugs

During the Reporting Period, the Group continued to promote the research work of 35 classical formulae for TCM compound preparations, and established 28 preliminary research methods for classic prescription, 18 substance benchmark researches on classical formulae, 12 pilot-scale production studies on classical formulae, and 2 classical formulae have completed non-clinical safety evaluation.

During the Reporting Period, the Group cooperated with the team of Academician Chen Keji, a clinical expert on integrated traditional Chinese and western medicine, to carry out R&D on innovative TCM drug "Qingda granule" (清達顆粒), a clinical prescription for the treatment of hypertension, and completed pharmaceutical research as well as submitted clinical data to the evaluation center. The 11 b clinical trial on Yushuda tablet (Wuwei Huoxiang Tablet) has completed, which was come from the clinical experience formula of academician Wang Yongyan in internal medicine of TCM and neurology. Currently, Phase III clinical trial of Yushuda tablets has been carried out in accordance with the requirements of category 1.1 of innovative TCM. In addition, Paracetamol Tablets (乙酰氨基酚片) have completed the consistency evaluation study and been approved.

(V) Fruitful scientific research results

During the Reporting Period, the Group's scientific research projects yielded fruitful results. "Guitong Jianye No. 2" (貴同箭葉2號) and "Guitong Roumao No. 1" (貴同柔毛1號) applied by Tongjitang Pharmaceutical have been approved as new varieties of Chinese medical herbs by Guizhou Province. The Group has applied for 65 government projects above the municipal level, including 3 national projects, 37 provincial and ministerial projects, 25 municipal projects, and 22 government projects have been approved, including 10 provincial and ministerial projects and 12 projects at municipal level or below, with a proposed government subsidy of RMB26.8492 million.

In addition, the Group applied for 138 patents, including 73 invention patents and 176 patents were authorized, of which 41 were invention patents.

IV. Continue to deepen systematic management and effectively enhance the ability to execute strategies

The Group is committed to becoming a leader of the industry, which means that our development speed and quality must be coordinated, and short-term interests and long-term interests must be organically balanced. During the "14th Five-Year" Plan period, we no longer simply pursue high-speed scale development, but focus on achieving higher efficiency, more efficient supply, higher-end structure, and greener and more sustainable economic growth. The Group has created a modern management model with industry characteristics, coordinated the dimensions of value strategy, management structure, organizational process and mechanism construction, and comprehensively promoted the innovation and capability improvement of the whole system, the whole chain and the whole process. Besides, the Group will expand the coverage dimension of the collaborative lean management system from the manufacturing system to the whole process, push the management upgrade to a new height of informatization and digitalization, continue to promote the modernization of the value-oriented management system and management capabilities, and continuously improve the ability and level of enterprise value creation.

(I) Comprehensively deepen the reform and promote the improvement of the governance level

The Board gave full play to its responsibilities of "formulating strategies, making decisions and preventing risks", and adhered to high standards governance for the Group. Relevant details can be referred to the section of "Corporate Governance Report" in the Company's 2021 annual report. To ensure that the entire group can maintain high level of governance in line with an integrated and consistent approach, the Company regularly reviewed and strengthened the governance structures and procedures of its subsidiaries. To ensure the effective supervision of its subsidiaries, the Company appointed senior management to serve as the chairmen of the board of directors of the directly managed subsidiaries, thereby promoting governance linkages across the Group. Meanwhile, the Company implemented a number of governance policies which put into practice in the entire group and conducted regular training, so as to implement the improvement of management capabilities and governance levels, and continued to enhance its competitiveness, abilities for innovation, control, influence and risk resistance.

(II) Optimize our human resources management system, and stimulate the innovation and creativity of talents

During the Reporting Period, the Group formulated a special plan for human resources during the "14th Five-Year" Plan, and established a relatively sound, standardized, scientific and reasonable human resources management system covering modules such as planning management, recruitment and allocation, selection and appointment, training and development, and incentive allocation. The Group continued to improve the talent career development system and talent echelon construction mechanism, aiming to gradually develop a strong reserve of the Group's talents to promote win-win development between employees and the enterprise.

At the same time, the Group has further promoted the tenure system and contractual management of the managers, achieved full coverage of the tenure system and contractual management of the managers within the Group, fully stimulated the vitality and creativity of managers, and improved the level of market-oriented and modernized operation of the enterprise.

(III) Strengthen internal control and risk control management to ensure the effective implementation of strategies

The Group has comprehensively built a "horizontally and vertically coordinated" institutional management system, clarified the responsibilities, management and control standards, as well as management and control procedures of system establishment departments at all levels and professional line functional departments in terms of system establishment, and formed an institutionalized management system that is unified, standardized, and coordinated and efficient, to maintain a solid institutional foundation for the construction of the internal control system.

During the Reporting Period, the Group continued to push forward the integration of internal control management, risk management and compliance management systems. Starting from comprehensive risk assessment, the Group scientifically assessed and identified various major risks faced by the Company, and formulated annual risk response measures and work plans. The Group focused on deepening the construction of the internal control system, and continuously improved the risk response capability and management efficiency; and taking compliance management as the bottom line requirement for all work, subsidiaries and departments at all levels consolidated compliance responsibilities, continued to carry out compliance supervision and education, and continuously improved compliance management level.

(IV) Continuously innovate management methods to enhance financial management efficiency

During the Reporting Period, the Group insisted on strengthening the leading role of the budget. Based on the actual situation of strategic planning and industrial layout, the Group further refined the division of business types, formulated budgets for core indicators by "business segment", strengthened the management and control of budget indicators by "business segment", and realized the innovation and upgrading of the budget management model. The special project of improving quality and efficiency has achieved remarkable results. Compared with last year, the proportion of sustainable efficiency improvement projects has increased significantly, the foundation of special project has been continuously consolidated, the intensity of project has been continuously strengthened, and the quality and efficiency has been steadily improved, thus further enhancing the mechanism of improving quality and efficiency.

The Group further optimized the debt structure by centralized management of funds, and flexibly used the portfolio of financing instrument to effectively reduce financing costs. The Group significantly improved the revenue retained by the centralized funds through strengthening the centralized management of funds and rationally conducting centralized adjustment of funds. In May 2021, the Group successfully issued the first rural revitalization panda bond in China, which was specially used for the rural revitalization project of Chinese medicinal herbs in Gansu, Sichuan, Yunnan and other places, and was awarded the "Outstanding Panda Bonds Issuer".

(V) Actively promote informatization construction and steadily carry out digital transformation

In March 2021, the "14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range objectives Through the Year 2035 (draft)" put forward to embrace the digital age, accelerate the construction of digital economy, digital society and digital government, and promote digitalization-based upgrading of production methods, lifestyles and governance methods in general. Accordingly, the digital transformation of the TCM industry is imperative. The Group actively built the "Digital TCM" system, and carried out digital construction work in areas such as "smart pharmaceuticals", "quality control and traceability for TCM", and "Internet healthcare".

The Group proactively created an integrated construction of quality control and traceability for TCM. During the Reporting Period, 24 core varieties of Chinese medicinal herbs were registered on the integrated quality control and traceability platform, and a management platform and quality control system of "traceable sources, traceable directions, processes controllable and responsibility accountable" can be established, and a monitored process from production to sales will be achieved.

With the rapid development of science and technology, network security has also attracted much attention. The Company has actively strengthened network security management and enhanced the emergency response capability of the network security professional team. In the network security exercise, the Company won the commendation from CNPGC and the honor of "Excellent Team". At the same time, the Company also accelerated the informatization construction, and completed the unified platform informatization construction of all subsidiaries.

(VI) Enhance the awareness of safety and environmental protection and improve the effectiveness of quality control

During the Reporting Period, the Group proactively fulfilled its production safety responsibilities, carried out special rectification work and safety production supervision and inspection, and accelerated the pace of environmental management modernization. Nine subsidiaries have completed the certification of ISO14001 environmental management system, and four subsidiaries have completed the certification of Green Factory (2 of national level and 2 of provincial level). The Group focused on strengthening the quality internal audit work, improving the system construction and operational norms, and continuing to carry out a series of activities, such as the "Quality Month".

During the Reporting Period, the "First National Intelligent Manufacturing New Model Project of the Industry" (行業首個國家智能製造新模式項目) of Jiangyin Tianjiang successfully passed the inspection and acceptance by MIIT, and the "Modern concentrated TCM granules Characteristic Industrial Base" (現代中藥配方顆粒特色產業基地) passed the recognition review by The Torch Plan Center under the Ministry of Science and Technology, and Jiangyin Tianjiang was granted "2021 Enterprises with Social Responsibility in Jiangsu Province" (2021江蘇社會責任企業) by Xinhua Press Group; Anhui Economic and Information Technology Department recognized Anhui Tianxiang Pharmaceutical Co., Ltd. as an "Intelligent Factory in Anhui Province", and Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. was recognized as a "Green Factory in Anhui Province"; Longxi Yifang Pharmaceutical Co., Ltd. was awarded "Gansu Quality Award – Nomination Award" (甘肅省政府質量提名獎) by the People's Government of Gansu Province. For more details of awards, please refer to the Group's 2021 "Environmental, Social and Governance Report".

POLICY UPDATES

The pharmaceutical industry has always been strictly regulated by the state, and the development of TCM has always been made a matter of great importance by the state. In recent years, successive medical reform policies and implementation measures have been launched, and the degree of industry standardization has steadily improved, which have profound influence on the business development and strategic planning of the Group. The industry policies related to the Group during the Reporting Period are as follows:

On 28 January 2021, the general office of the State Council announced "the Opinions on Promoting Normalized and Institutionalized Development of Centralized and Volumetric Pharmaceutical Procurement" (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》), which clearly pointed out that the People's Government of respective provinces, autonomous regions or municipalities need to promote the normalization and institutionalization of centralized and volumetric pharmaceutical procurement, and to promote the construction of regional and national alliance procurement mechanisms in accordance with the requirements of government organizations, alliance procurement, and platform operations.

On 9 February 2021, the general office of the State Council issued the "Announcement on Several Policies and Measures to Accelerate the Development of Traditional Chinese Medicine"《關於加快中醫藥特色發展若干政策措施的通知》, which clearly pointed out that through measures such as strengthening the construction of TCM scientific research platforms, implementing the authentic Chinese medicinal herbs upgrading project, and improving the management measures of TCM medical insurance to improve the development vitality of the TCM industry and create a good environment for the development of TCM.

On 10 February 2021, NMPA, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the "Announcement on Ending the Pilot Scheme of Concentrated TCM Granules", which clearly stipulated regulatory principles of concentrated TCM granules, qualification of production enterprises, requirements for the use of Chinese medicinal herbs, product processing technology and quality standards, sales scope, medical insurance policy and other aspects. It will strengthen the management of concentrated TCM granules, standardise the production, and guide the industry to have a healthy and orderly development.

On 28 October 2021, the State Ministry of Commerce issued the "Guiding Opinions on Promoting the High-quality Development of the Pharmaceutical Distribution Industry during the '14th Five-Year Plan' Period" (《關於「十四五」時期促進藥品流通行業高質量發展的指導意見》), which pointed out that it is necessary to vigorously develop the foreign trade of TCM, support the overseas registration of TCM products, actively participate in the research and formulation of international planning and standards, and expand the scale of the international market of TCM products in China; and to strengthen the construction of national TCM service export base, build authentic Chinese medicinal herbs' export brands, support the development of export-oriented Chinese medicinal herbs enterprises, and improve the internationalization level of TCM.

On 16 November 2021, the General Office of the National Health Commission and National Administration of Traditional Chinese Medicine jointly issued the "Notice on Regulating the Clinical Use of concentrated TCM granules in Medical Institutions" (《關於規範醫療機構中藥配方顆粒臨床使用的通知》), which pointed out that the health department at all levels and the competent departments of TCM should regulate the use of concentrated TCM granules in medical institutions, and only medical institutions that are able to provide TCM services upon approval or filing can use concentrated TCM granules; in such medical institutions where only doctors and village doctors who can prescribe TCM decoction pieces can prescribe concentrated TCM granules.

On 31 December 2021, National Healthcare Security Administration and National Administration of Traditional Chinese Medicine jointly issued the "Guiding Opinions on Medical Insurance Supporting the Inheritance, Innovation and Development of TCM" (《關於醫保支持中醫藥傳承創新發展的指導意見》), which encouraged the inclusion of concentrated TCM granules purchased by public medical institutions into the online transaction of provincial centralized pharmaceutical procurement platforms to promote open and transparent transactions. Meanwhile, it pointed out that it is necessary to promote the reform of TCM medical insurance payment methods. For example, the TCM medical institutions may temporarily not implement payment by diagnosis-related group (DRG), and for areas that have implemented DRG and DIP, they shall appropriately increase the coefficient and score of TCM medical institutions and TCM diseases to fully reflect the characteristics and advantages of TCM services.

The Group believes that the above-mentioned policies will comprehensively promote the standardization of the TCM industry and promote the healthy development of the TCM industry in terms of plantation and trading of Chinese medicinal herbs, research and development, production, centralized procurement and medical insurance of TCM, and provide a sound macro environment for the Group.

INVESTMENT PROJECTS

The Group had no significant investments in 2021. As of the date of this report, the Group had no plans for material investments or acquisitions of capital assets.

BUSINESS ANALYSIS

Sales Analysis by Product

In 2021, the Group actively expanded its business by closely focusing on the development objective of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry". Revenue of each operating product in 2021 is as follows:

Type of products	**Revenue in 2021 RMB'000**	Revenue in 2020 RMB'000	Change	**Proportion of revenue in 2021**
Chinese medicinal herbs integration business	**753,006**	434,181	73.4%	**4.0%**
Concentrated TCM granules	**13,400,064**	10,053,933	33.3%	**70.3%**
TCM decoction pieces	**1,467,420**	1,146,080	28.0%	**7.7%**
Finished drugs	**3,194,217**	3,015,016	5.9%	**16.7%**
TCM great health products	**93,515**	50,903	83.7%	**0.5%**
TCM clinic comprehensive services	**144,580**	106,055	36.3%	**0.8%**
Total	**19,052,802**	14,806,168	28.7%	**100.0%**

During the Reporting Period, revenue of each operating product all increased, of which:

1. Revenue of Chinese medicinal herbs integration business was approximately RMB753,006,000, representing an increase of 73.4% as compared to approximately RMB434,181,000 for the last year and accounting for 4.0% of the total revenue. Local TCM integrated operation companies in different provinces of the Group have actively explored and expanded the operation of authentic Chinese medicinal herbs, significantly increasing its external turnover year on year during the Period. Shandong Zhongping in particular, by relying on the local advantage of "the hometown of honeysuckle" of Pingyi City, Shandong Province, it has developed honeysuckle-based processing and sales business of authentic Chinese medicinal herbs, increasing its external turnover by 1 time year on year during the Period.

2. The sales of concentrated TCM granules product increased significantly, with a revenue of approximately RMB13,400,064,000, representing an increase of 33.3% as compared to approximately RMB10,053,933,000 for the last year and accounting for 70.3% of the total revenue. It was mainly because: (1) effective academic promotion of concentrated TCM granules and its advantages of quality controllability and convenience compared with conventional TCM products led to continuous increased market recognition and acceptance of the concentrated TCM granules products as well as increased demand from existing customers; (2) complying with the gradual opening-up market policies and the expansion of the sales scope of concentrated TCM granules products in medical institutions, the Company relied on the depth and breadth of the original marketing channels to achieve rapid acquisition of new customers; (3) the business linkage of various segments of the Group has achieved initial results, and the business synergy of concentrated TCM granules products in the local TCM integrated operation segment and finished drugs segment has also brought new business growth for the sales of concentrated TCM granules products; and (4) demand for concentrated TCM granules products needed to be satisfied at the initial stage of implementation of the national standards.

3. Revenue of TCM decoction pieces products was approximately RMB1,467,420,000, representing an increase of 28.0% as compared to approximately RMB1,146,080,000 for the last year and accounting for 7.7% of the total revenue. The increase in the revenue of TCM decoction pieces products was because: (1) with the maturity of the operation model of intelligent distribution centre of TCM decoction pieces, the decoction business in medical institutions achieved solid growth during the Period; (2) by fulfilling the growth of market demand for health-promoting products, actively developing ranked medical institutions and primary medical institutions through market penetration during the Period, and expanding the customer base, it led to a year-on-year increase in revenue from paste prescription, TCM decoction pieces and processing fees; and (3) the sales channel expansion of customers in the pharmaceutical industry has achieved initial results, and the sales volume and revenue of pharmaceutical decoction pieces for industrial customers has increased compared with the same period last year.

4. Revenue of Finished drugs was approximately RMB3,194,217,000, representing an increase of 5.9% as compared to approximately RMB3,015,016,000 for the last year and accounting for 16.7% of the total revenue. Among which: (1) by promoting the cultivation plan of large varieties of prescription products specification and deepening the development and promotion of hospital customers, we have created various No. 1 brands with product advantages for the treatment of specific diseases, resulting in the increase of revenue of the main prescription products specification; and (2) sales of OTC products specification continued to decline during the Period due to market regulation, which was mainly attributed to the fact that the sales of the Group's core OTC products, such as Bi Yan Kang Tablets (鼻炎康片), Chongcao Qingfei Capsules (蟲草清肺膠囊) and other respiratory products, were affected by the policy of suspension of the sales of "four categories" drugs by drugstores across the country.

Note: Four categories drugs refer to antipyretic, antitussive, antiviral and antibiotic drugs

5. Revenue of TCM great health products was approximately RMB93,515,000, representing an increase of 83.7% as compared to approximately RMB50,903,000 for the last year and accounting for 0.5% of the total revenue. China's "14th Five-Year" Plan not only ushered in greater development to great health industry, but also brought new opportunities for the Group's whole-industrial chain construction. Although the overall business of this segment is still at the start-up stage, the Group has built an online Internet platform to empower the growth of customer flow and simultaneously trained marketing teams and appropriately put marketing resources offline. We also introduced new products and expanded the product matrix to create a full range of healthcare products recognized by consumers and to achieve high-quality growth of its revenue in the future.

6. During the Reporting Period, the Group had a total of eight TCM clinics in operation, with revenue of approximately RMB144,580,000, representing an increase of 36.3% as compared to RMB106,055,000 for the last year and accounting for 0.8% of the total revenue. The increase in revenue from TCM clinic comprehensive services was primarily because: (1) revenue of TCM diagnosis and treatment as well as physiotherapy businesses has increased synchronously with the increased customer flow of various clinics as a result of greater recognition of TCM during the post-pandemic era; (2) we have introduced TCM characteristic products such as TCM soup packs through the diversified development of TCM health independent products, which led to the increase in revenue of TCM healthcare products; and (3) new channels business has increased.

Profit Analysis of Business Segments

In 2021, various policies to support the innovation and development of the TCM industry have been introduced in succession, bringing new opportunities for the Group's development in the post-pandemic era. During the Reporting Period, while insisting on the prevention and control of the pandemic, the Group focused on its operation and development. By increasing external marketing efforts to drive steady sales growth, and continuing to carry out special efforts to improve quality and efficiency in the entire production process internally, the Group was able to explore potential and increase efficiency on all fronts, resulting in a substantial increase in the Group's operating results compared to last year. The overall profit for the year was approximately RMB2,123,424,000, representing an increase of 14.1% over the last year. Continuing the allocation method of the business segments in previous years, profit for each business segment is as follows:

1. Concentrated TCM Granules

Key financial indicators for the concentrated TCM granules segment

	Twelve months ended 31 December		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	**13,233,868**	10,012,956	32.2%
Cost of sales	**3,965,551**	2,953,773	34.3%
Gross profit	**9,268,317**	7,059,183	31.3%
Gross profit margin	**70.0%**	70.5%	-0.5pp
Profit for segments	**2,142,510**	1,743,271	22.9%
Net profit margin	**16.2%**	17.4%	-1.2pp

During the Reporting Period, concentrated TCM granules segment had a total of 16 enterprises, of which key enterprises were Guangdong Yifang, Longxi Yifang Pharmaceutical Co., Ltd., Jiangyin Tianjiang and Anhui Tianxiang Pharmaceutical Co., Ltd.

The profit of the concentrated TCM granules segment for the year amounted to approximately RMB2,142,510,000, representing an increase of 22.9% year-on-year. Net profit margin decreased by 1.2 percentage points compared to the previous year. This was primarily because with the end of the pilot policy on concentrated TCM granules, its sales scope has been extended from Class II and higher tier TCM hospitals to all medical institutions qualified for the practice of TCM, and the Group has deployed the market in primary medical institutions in advance and increased investment in the market. In addition, as the pandemic tended to get stabilized, marketing activities and business trips gradually resumed, and the selling expense ratio was higher than last year.

2. TCM Finished Drugs

Key financial indicators for the TCM finished drugs segment

	Twelve months ended 31 December		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	**3,489,336**	3,066,883	13.8%
Cost of sales	**1,360,215**	1,313,997	3.5%
Gross profit	**2,129,121**	1,752,886	21.5%
Gross profit margin	**61.0%**	57.2%	3.8pp
Profit for segments	**233,698**	220,566	6.0%
Net profit margin	**6.7%**	7.2%	-0.5pp

During the Reporting Period, TCM finished drugs segment had a total of 19 enterprises, of which key enterprises were Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd., Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd., Tongjitang Pharmaceutical, Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Sinopharm Group Zhonglian Pharmaceutical Co., Ltd.

During the Period, gross profit margin of the TCM finished drugs segment was 61.0%, which was 3.8 percentage points higher than 57.2% for the last year. The increase in gross profit margin was attributed to the significant increase in revenue of high gross profit products during the Period, including: Xianling Gubao Capsules (仙靈骨葆膠囊), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Jingshu Granules (頸舒顆粒), and Fengshi Gutong Capsules (風濕骨痛膠囊).

Driven by the revenue growth, the profit of the TCM finished drugs segment for the year was approximately RMB233,698,000, representing an increase of 6.0% as compared with the same period of last year, and the net profit margin for the year decreased by 0.5 percentage points to 6.7% as compared with 7.2% for the same period of last year. The decrease in net profit margin was because: (1) government grants decreased compared with last year; (2) provision was made for impairment of assets of goodwill for Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. and Qinghai Pulante Pharmaceutical Co., Ltd. during the Period; and (3) in order to promote the cultivation plan of large varieties of prescription products specification and deepen the development and promotion of hospital customers, various academic conferences and market expansion activities have increased, and the sales expense ratio has increased compared with last year.

3. TCM Decoction Pieces

Key financial indicators for the TCM decoction pieces segment

	Twelve months ended 31 December		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	**1,417,961**	1,237,402	14.6%
Cost of sales	**1,173,136**	1,049,405	11.8%
Gross profit	**244,825**	187,997	30.2%
Gross profit margin	**17.3%**	15.2%	2.1pp
Loss for segments	**-70,335**	-36,490	-92.8%
Net profit margin	**-5.0%**	-2.9%	-2.1pp

During the Reporting Period, the TCM decoction pieces segment had a total of 16 enterprises, of which key enterprises were Feng Liao Xing Material & Slice, Shanghai Tongjitang, Beijing Huamiao, and Longxixian Feng Liao Xing Herbal Co., Ltd.

The gross profit margin in the TCM decoction pieces segment during the Period was 17.3%, representing an increase of 2.1 percentage points as compared to 15.2% for the last year. The increase in gross profit margin was mainly benefited from that: (1) the product structure was optimized during the year, resulting in an increase in proportion of the sales of high-margin decoction pieces; (2) the cost was effectively decreased through further cost management during the Period; and (3) the volume of production was increased during the Period as compared to the same period last year, which caused the decrease in depreciation and amortization and labor cost allocated by each unit product.

The net profit margin of the TCM decoction pieces segment was -5.0%, representing a decrease of 2.1 percentage points as compared to last year, which was mainly because: (1) in order to be in line with the growth opportunity brought by "14th Five-Year" Plan, investment in marketing expenses was increased to strengthen the construction of marketing teams; (2) investment in production process research, product technology development and other research and development items was increased, gradually forming an advantage in quality and cost of the TCM decoction pieces products; and (3) government grants obtained during the Period was decreased as compared to last year.

4. TCM Healthcare Complex

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	**144,580**	106,055	36.3%
Cost of sales	**89,820**	58,863	52.6%
Gross profit	**54,760**	47,192	16.0%
Gross profit margin	**37.9%**	44.5%	-6.6pp
Loss for segments	**-20,815**	-8,151	-155.4%
Net profit margin	**-14.4%**	-7.7%	-6.7pp

During the Reporting Period, the TCM healthcare complex segment had a total of 11 enterprises, of which key enterprises were Sinopharm Group Foshan Feng Liao Xing Healthcare Complex Co., Ltd. and Guizhou Tongjitang Pharmacy Chain Co., Ltd.

The gross profit margin of the TCM healthcare complex segment during the Period was 37.9%, representing a decrease of 6.6 percentage points as compared to 44.5% for the last year, while the net profit margin also decreased by 6.7 percentage points. This was because: (1) the gross profit margin of the newly added business was lower than that of the store retail business; (2) business layout of the TCM healthcare complex segment has been optimized, and we planned to dispose of two TCM clinics and recognized impairment losses for relevant assets during the Period; and (3) preferential policies during the pandemic period were terminated during the year.

5. Local TCM Integrated Operation

Key financial indicators for the local TCM integrated operation

	Twelve months ended 31 December		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue	**767,057**	382,872	100.3%
Gross profit margin	**17.2%**	20.6%	-3.4pp
Other income	**23,973**	57,769	-58.5%
Administrative expenses	**152,513**	100,615	51.6%
Loss for segments	**-161,634**	-58,552	-176.1%
Net profit margin	**-21.1%**	-15.3%	-5.8pp

During the Reporting Period, the local TCM integrated operation had a total of 18 enterprises, of which key enterprises were Shandong Zhongping, Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd., Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. and Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.

Gross profit margin and profit for the year of the local TCM integrated operation both decreased as compared to the same period last year, which was mainly because (1) there was no significant increase in proportion of products with high gross profit; (2) construction in progress of local TCM integrated operation enterprises in various regions was mostly consolidated and put into production, with an increase in fixed costs as compared to the same period last year; (3) the overall business of the local TCM integrated operation segment was in its initial stage, bringing an increase in selling expenses and administrative expenses related to market expansion and the construction of management teams; and (4) revenue from government grants and preferential policies related to the pandemic decreased during the Period.

FINANCIAL REVIEW

Other income

For the twelve months ended 31 December 2021, the Group's other income was approximately RMB205,412,000, representing a decrease of 19.3% from approximately RMB254,556,000 for the previous year. Such decrease was mainly because the Group received government grants of approximately RMB127,971,000 during the Period, representing a decrease of 35.1% from approximately RMB197,067,000 over the previous year. Details of the other income of the Group are set out in note 6 to the financial statements.

Other gains and losses

For the twelve months ended 31 December 2021, the Group's other losses were approximately RMB16,785,000 (twelve months ended 31 December 2020: other gains of approximately RMB8,212,000). During the Reporting Period, reasons for the change in other gains and other losses were: the Group cleared obsolete production capacities of all business segments during the Period in order to reduce costs, improve efficiency and achieve high-quality growth, and accordingly the provision for assets impairment losses in respect of such assets was approximately RMB45,288,000 (twelve months ended 31 December 2020: approximately RMB16,837,000).

Impairment losses under expected credit loss model, net of reversal

As at 31 December 2021, the balance of accounts receivable of the Group had increased significantly as compared to the beginning of the year, which was mainly driven by the growth in revenue during the Period. The overall risk of credit impairment was roughly equal to that as at the end of last year. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss was RMB13,879,000 during the Period, compared to RMB53,725,000 for the last year.

Selling and distribution costs

For the twelve months ended 31 December 2021, the Group's selling and distribution costs were approximately RMB7,581,963,000 (twelve months ended 31 December 2020: RMB5,586,737,000).

During the Reporting Period, the Group's selling and distribution costs increased by 35.7% over the previous year and accounted for 39.8% of the revenue, 2.1 percentage points higher than 37.7% for the previous year, which was because: (1) in order to cope with the new policy of releasing concentrated TCM granules market, the Group had made a targeted layout in advance during the Period, and accordingly increased investment in marketing expenses in relation to research on market demand, multi-form interviews and explanations towards primary customers, exchange meetings as well as customer development; (2) for the purpose of strengthening customer stickiness through improving customers' usage experience to the Group's products, the Group increased investment in dispensing machines for existing customers and incremental customers during the Period, and accordingly the depreciation charge and the technical service charge of dispensing machines increased; and (3) for the sake of expanding its market, TCM decoction pieces segment and TCM integrated operation segment expanded their marketing teams and increased investment in marketing resources of market expansion, resulting in the increase of the relevant staff salaries, office and travel expenses as compared to last year.

Administrative expenses

For the twelve months ended 31 December 2021, the Group's administrative expenses were approximately RMB974,449,000 (twelve months ended 31 December 2020: RMB707,278,000). Administrative expenses increased by 37.8% over the previous year, whereas the ratio of administrative expenses to revenue was 5.1%, representing an increase of 0.3 percentage points as compared to 4.8% for the last year. Among which: (1) various infrastructure facilities of companies in the local TCM integrated operation segment had been put into use successively, resulting in the increase in depreciation and amortization of various long-term assets; (2) due to the increasing number of management executives required as a result of the increasing scale of operation, the relevant staff salaries and office expenses increased simultaneously; and (3) phased preferential policies during the pandemic period in the last year were no longer available during the Period.

Research and development expenses

For the twelve months ended 31 December 2021, the Group's research and development expenses amounted to approximately RMB694,441,000, representing an increase of 26.2% over approximately RMB550,472,000 for the previous year. During the Reporting Period, the Company increased investment in the scientific and technological research, while research and development expenses were mainly used for: (1) research related to the improvement of product quality standards, focusing on the research of concentrated TCM granules standards; (2) research related to the improvement of future economic benefit, focusing on the development of classical formula and healthcare products; and (3) research related to cost reduction and efficiency improvement, focusing on the improvement of production process.

Finance costs

For the twelve months ended 31 December 2021, the Group's finance costs were approximately RMB222,029,000 (twelve months ended 31 December 2020: RMB244,666,000), representing a decrease as compared to the same period last year. Such decrease was mainly due to the cut of the Group's borrowing scale during the Period as compared to last year and a decrease of the effective loan interest rate as compared to the same period last year resulting from optimizing the structure of financial products. During the Reporting Period, capitalised finance costs of the Group were RMB1,219,000 (twelve months ended 31 December 2020: RMB8,625,000). During the Reporting Period, the Group's effective loan interest rate was 3.11% (twelve months ended 31 December 2020: 3.34%). The Group will continue to pay attention to changes in market interest rates, adjust the form of loan financing in a timely manner, and refinance existing loans or enter into more favourable credit terms when good bargaining opportunities arise.

Share of results of associates

For the twelve months ended 31 December 2021, the Group shared loss attributable to associates of approximately RMB10,749,000, which was generated from the investment to Guangdong Baobaobao Healthy Soup Co., Ltd.

Profit for the year

For the twelve months ended 31 December 2021, the Group's profit for the year was approximately RMB2,123,424,000, representing an increase of 14.1% compared to approximately RMB1,860,644,000 for the previous year, which was due to an increase in revenue. The net profit margin (defined as profit for the year divided by revenue) was 11.1%, representing a decrease of 1.5 percentage points from 12.6% for the previous year, which was mainly because: (1) the business of the local TCM integrated operation segment was in its initial stage so there was no distinct improvement of profitability, while TCM decoction pieces segment further developed external business to promote business transformation and upgrading; (2) the Group increased its investment in marketing and customer development for a new market layout; and (3) the provision for assets impairment losses during the Period increased as compared to last year.

Earnings per share

For the twelve months ended 31 December 2021, earnings per share were RMB38.38 cents, representing an increase of 16.2% over RMB33.03 cents for the previous year. The increase in earnings per share was due to profit attributable to equity holders of the Company during the Reporting Period, which increased by 16.2% to approximately RMB1,932,858,000 (twelve months ended 31 December 2020: RMB1,663,255,000).

Liquidity and financial resources

As at 31 December 2021, the Group's current assets amounted to approximately RMB18,203,046,000 (31 December 2020: RMB15,131,539,000), which included cash, cash equivalents and bank deposits of approximately RMB3,014,461,000 (31 December 2020: RMB3,806,318,000), of which the pledged bank deposits amounted to approximately RMB114,704,000 mainly for bills payable security (31 December 2020: RMB163,078,000). Trade and other receivables amounted to approximately RMB8,904,939,000 (31 December 2020: RMB5,033,004,000). Current liabilities amounted to approximately RMB8,764,528,000 (31 December 2020: RMB7,534,600,000). Net current assets aggregated to approximately RMB9,438,518,000 (31 December 2020: RMB7,596,939,000). The Group's current ratio was 2.1 (31 December 2020: 2.0). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to shareholders of the Company) decreased from 28.3% as at 31 December 2020 to 25.2% as at 31 December 2021. The decrease in gearing ratio was mainly due to an increase in equity attributable to equity holders and a decrease in the balances of bank and other loans and bonds payable.

Bank and other borrowings and pledge of assets

As at 31 December 2021, the Group's balance of bank and other borrowings was approximately RMB1,716,053,000 (31 December 2020: RMB1,879,436,000), of which approximately RMB320,829,000 (31 December 2020: RMB831,478,000) was secured loans. Out of the balance of bank and other borrowings, approximately RMB1,140,495,000 and RMB575,558,000, were repayable within one year and over one year respectively (31 December 2020: approximately RMB1,658,026,000 and RMB221,410,000, respectively).

As at 31 December 2021, the Group's bank deposits of RMB114,704,000, land use rights with carrying values of RMB123,654,000, investment property and property, plant and equipment with carrying values of RMB557,035,000 and bank acceptance bills with carrying values of RMB306,182,000 were pledged to secure certain borrowings and the issuance of bills payable (31 December 2020: bank deposits of RMB163,078,000, land use rights of RMB130,788,000, investment property and property, plant and equipment of RMB450,881,000 and bank acceptance bills of RMB254,618,000 were pledged).

Capital sources

During the Reporting Period, the Group further strengthened capital concentration and enhanced capital operation efficiency. The Group replenished the operating liquidity for the Company by means of the issuance of the Super & Short-term Commercial Paper, the bank acceptance bills discounting financing and bank borrowings when funds were needed. The Group repaid bank borrowings by using its own operating capital in a timely manner when funds were sufficient so as to strengthen the soundness of its credit structure. Meanwhile, the Group strengthened the management of interest-bearing liabilities through deepening business relationship and cooperation with bank, continuously achieving increasingly optimized structure of financing products and the lower effective financing interest rate than LPR in the market for several years. As at 31 December 2021, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan and bills payables facility of approximately RMB6,760,640,000.

Capital expenditure

For the twelve months ended 31 December 2021, the Group's fixed asset and intangible asset investment amount was approximately RMB1,145,587,000, compared to approximately RMB1,380,094,000 for the previous year. During the Reporting Period, the capital expenditures were mainly used in the construction of production bases for concentrated TCM granules and TCM decoction pieces in various provinces and cities.

Financing capacity

As at 31 December 2021, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB1,008,011,000 (31 December 2020: approximately RMB1,127,450,000). Such capital commitments were mainly used for the construction of plants, acquisition of facilities and investment payment. The Group is of the view that with available cash balance, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and recognition and support from major financial institutions, it will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2021 (31 December 2020: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As of 31 December 2021, the Group had no Hong Kong Dollar bank borrowings and did not enter into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 31 December 2021, the Group had a total of 17,098 (31 December 2020: 16,286) employees, including Directors, of which 6,157 were sales staff, 7,050 were manufacturing staff, and 3,891 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration for the Period was approximately RMB2,067,452,000 (twelve months ended 31 December 2020: RMB1,768,909,000).

FINAL DIVIDEND

The Board recommended a final dividend of RMB5.98 cents (i.e. HK7.36 cents) per share for the year ended 31 December 2021 (2020: Nil). The final dividend for the year 2021 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 29 July 2022 to shareholders whose names appear on the register of members of the Company on 6 July 2022.

Report of the Directors

The Board are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of TCM products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2021, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 are set out in the section headed "Management Discussion and Analysis" of this annual report and the financial statements on pages 90 to 202.

An interim dividend of RMB5.54 cents (i.e. HK6.66 cents) per share for six months ended 30 June 2021 was paid in October 2021 (six months ended 30 June 2020: Nil).

The Board recommended a final dividend of RMB5.98 cents (i.e. HK7.36 cents) per share for the year ended 31 December 2021 (2020: Nil).

DIVIDEND POLICY

The Board has adopted a dividend policy, with effect from 1 January 2019. The dividend policy of the Company aims to provide reasonable and sustainable returns to the shareholders and at the same time, maintain a stable financial position so that the Company can fully grasp any available investment and expansion opportunities from time to time.

The Board may declare dividends on an annual basis and/or declare interim dividends (as the case may be). Dividends may be distributed in the form of cash or shares. The Company determines the profit attributable to its shareholders based on the Hong Kong Accounting Standards. The Board must take into account:

– the Group's actual and anticipated operating results, liquidity and financial condition;

– capital commitment requirement;

– market environment and challenges;

– future development and investment opportunities; and

– any other factors that the Board deems appropriate.

The management will continue to review the dividend policy and propose any amendments for the Board's approval.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders by the Company as at 31 December 2021 are approximately RMB0.708 billion (31 December 2020: approximately RMB0.407 billion).

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 17 and 18 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 44 to the financial statements and the Consolidated Statement of Changes in Equity, respectively.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS AND UNSECURED NOTES

Particulars of bank loans and other borrowings and unsecured notes of the Group as at 31 December 2021 are set out in notes 32 and 33 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2021 are set out in note 43 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Board comprises the following Directors during the Reporting Period and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman*
Mr. CHENG Xueren	*Managing Director (appointed on 25 March 2022)*
Mr. YANG Wenming	

Non-executive Directors

Mr. WANG Xiaochun	*Deputy Chairman (elected as Deputy Chairman and re-designated as Non-executive Director on 13 July 2021 and 25 November 2021 respectively, and resigned on 25 March 2022)*
Mr. YANG Shanhua	
Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. KUI Kaipin	

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

During the Reporting Period and up to the date of this report, Mr. WANG Xiaochun resigned as a Non-executive Director on 25 March 2022 due to personal health reason.

The Company has received an annual confirmation from each independent non-executive Director pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles of Association").

In accordance with Article 92 of the Articles of Association, Mr. CHENG Xueren shall hold office only until the next general meeting of the Company and, shall then be eligible of re-election.

In accordance with Article 101 of the Articles of Association, Mr. WU Xian, Mr. YANG Shanhua and Mr. XIE Rong shall retire by rotation at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 76 to 80 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice.

Mr. CHENG Xueren entered into an employment agreement with the Company with effect from 25 March 2022 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice.

Mr. YANG Wenming renewed an appointment letter with the Company commencing from 24 December 2021 and which shall automatically be effective thereafter until terminated by either party to the appointment letter by giving a one month's prior notice.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. YANG Shanhua renewed an appointment letter with the Company for a term of three years commencing from 28 March 2020.

Ms. LI Ru renewed into an appointment letter with the Company for a term of three years commencing from 18 February 2022.

Mr. YANG Binghua renewed an appointment letter with the Company for a term of three years commencing from 24 December 2021.

Mr. WANG Kan renewed an appointment letter with the Company for a term of three years commencing from 24 December 2021.

Mr. KUI Kaipin renewed an appointment letter with the Company for a term of three years commencing from 30 May 2020.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. XIE Rong renewed an appointment letter with the Company for a term of three years commencing from 5 February 2022.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of three years commencing from 25 November 2019.

Mr. QIN Ling renewed an appointment letter with the Company for a term of three years commencing from 18 February 2022.

Mr. LI Weidong renewed an appointment letter with the Company for a term of three years commencing from 18 February 2022.

MANAGEMENT CONTRACTS

No contract other than employment contracts concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year.

DONATIONS

During the Reporting Period, the charitable and other donations (including material object in kind) made by the Group amounted to approximately RMB11,887,000.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2021, the fee for Mr. WANG Xiachun, a non-executive Director and the eligible independent non-executive Directors were fixed at HK$50,000 and HK$250,000 per annum respectively.

PERMITTED INDEMNITY PROVISION

Article 178 of the Articles of Association provides that every Director or other officer or auditors shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the course of the year and remained in force as at the date of this report.

Article 179 of the Articles of Association provides that every Director and officer shall be entitled to be insured against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company. Every Director and officer shall be entitled to be insured against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company. The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against them. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information after the date of 2021 interim report of the Company is as follows:

– An emolument of Mr. WU Xian, an executive Director was RMB2,754,000 in 2021.

– An emolument of Mr. YANG Wenming, an executive Director was RMB2,630,000 in 2021.

– Mr. CHENG Xheren has been appointed as an executive Director and managing director of the Company with effect from 25 March 2022.

– Mr. WANG Xiaochun resigned as a non-executive Director with effect from 25 March 2022. He also resigned as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) with effect from March 2022.

– Mr. YANG Shanhua, a non-executive Director was appointed as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) with effect from May 2021.

– Mr. YANG Binghua, a non-executive Director was appointed as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) with effect from May 2021.

– Mr. WANG Kan, a non-executive Director was appointed as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) with effect from May 2021.

– Mr. XIE Rong, an independent non-executive Director was appointed as an independent executive director of Shanghai Foreign Service Holding Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600662) with effect from September 2021. He resigned as an independent non-executive director of Shenwan Hongyuan Group Co., Ltd. (a company listed on the Stock Exchange, stock code: 6806 and the Shenzhen Stock Exchange, stock code: 000166), with effect from May 2021.

– Mr. YU Tze Shan Hailson, an independent non-executive Director was appointed as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 2196), with effect from June 2021.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2021, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Share Capital**
WANG Xiaochun	Interest of controlled corporation	270,001,042 (long position) *(Note 1)*	5.36%

Note:

1. The 270,001,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun. Mr. WANG Xiaochun resigned as a non-executive Director with effect from 25 March 2022.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2021, any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2021, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Share Capital**
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) *(Note 1)*	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) *(Note 1)*	32.46%
Ping An Life	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An Group	Interest of controlled corporations	604,296,222 (long position) *(Note 2)*	12.00%
Hanmax	Beneficial owner	270,001,042 (long position)	5.36%

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. The 604,296,222 shares are held by Ping An Life Insurance Company of China Ltd. ("Ping An Life") which is a subsidiary of Ping An (Group) Company of China, Ltd. ("Ping An Group"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under SFO.

Save as disclosed above, the register which was required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions of the shareholders (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as at 31 December 2021.

CONTINUING CONNECTED TRANSACTIONS

Deposit Service Agreement with Ping An Bank Co., Ltd. ("Ping An Bank")

On 15 January 2020, the Company and Ping An Bank entered into the Deposit Service Agreement, pursuant to which Ping An Bank agreed to provide deposit service to the Group commencing from 15 January 2020 for a term of three years (the "Deposit Service Agreement").

In accordance with the Deposit Service Agreement, the annual caps for the deposit service during the validity term of the agreement (i.e. from 15 January 2020 to 14 January 2023) shall be the maximum daily deposit balance of not higher than RMB600,000,000 (including any interest accrued thereon).

Ping An Bank is a subsidiary of Ping An Group, which is the holding company of Ping An Life. Ping An Life holds 604,296,222 shares, representing 12% of the issued shares of the Company. Ping An Bank is therefore a connected person of the Company as defined in the Listing Rules, and the transactions contemplated under the Deposit Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board is of the view that entering into of the Deposit Service Agreement is in the interest of the Group as it provides the Group with more options in respect of its funding management and the Group shall at its sole discretion select the most suitable service provider. In addition, in view of the close relationship between the Group and Ping An Group, it is expected that the application procedures for deposit service of Ping An Bank will be more efficient, convenient and flexible as compared to those of independent commercial banks, and the terms offered by Ping An Bank under the Deposit Service Agreement will be no less favorable than those offered by independent commercial banks to the Group.

For further details of the Deposit Service Agreement, please refer to the announcement of the Company dated 15 January 2020.

During the period from 1 January 2021 to 31 December 2021, the maximum daily deposit balance by the Group from Ping An Bank amounted to RMB590,170,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million (including any interest accrued thereon) for the year ended 31 December 2021.

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 20 November 2019, the Company and CNPGC entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ended/ending 31 December 2020, 2021 and 2022.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase TCM, chemical materials and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022. The value of the purchases shall not exceed the annual caps of RMB55 million, RMB63 million and RMB70 million for each of the three financial years ended/ending 31 December 2020, 2021 and 2022 respectively.

Pursuant to the New Master Supply Agreement, during the period from 1 January 2020 to 31 December 2022, the Group conditionally agreed to supply the products to the CNPGC Group and the CNPGC Group conditionally agreed to purchase the products.

Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB1,200 million, RMB1,450 million and RMB1,700 million for each of the three financial years ended/ending 31 December 2020, 2021 and 2022 respectively.

On 20 November 2019, Sinopharm Hongkong was the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC was the parent company of Sinopharm Hongkong and therefore CNPGC was a connected person of the Company. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The principal business activities of the Group are the manufacture and sale of TCM products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

The agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is the largest state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of pharmaceutical products. Members of the CNPGC Group have been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality supply of the Materials and the equipment for its business use, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor.

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2019 and 28 December 2019 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 17 January 2020.

During the period from 1 January 2021 to 31 December 2021, the actual purchases of materials by the Group from the CNPGC Group amounted to RMB60,674,000 (excluding value added tax) which was below the cap amount of RMB63,000,000 for the year ended 31 December 2021.

During the period from 1 January 2021 to 31 December 2021, the actual sales of products by the Group to CNPGC Group amounted to RMB1,035,125,000 (excluding value added tax) which was below the cap amount of RMB1,450,000,000 for the year ended 31 December 2021.

Financial Services Framework Agreement with Sinopharm Group Finance

On 20 November 2019, the Company entered into the Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance"), and set the annual caps for the deposit services and the loan services (i.e. the maximum daily deposit balance and general credit limit) during the effective period of the Financial Services Framework Agreement (i.e. from 20 November 2019 to 19 November 2022).

Pursuant to the Financial Services Framework Agreement, the maximum daily deposit balance and general credit limit of the Group shall not exceed the annual caps of RMB600 million and RMB1,200 million during the period from 20 November 2019 to 19 November 2022 respectively. The Group expects the service fees payable to Sinopharm Group Finance for the other financial services will not exceed HK$3 million for each of the three years ended/ending 19 November 2020, 2021 and 2022.

On 20 November 2019, Sinopharm Hongkong was the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares. Sinopharm Group Finance was owned as to 80% by CNPGC and as to 20% by Sinopharm Group Co., Ltd. (a subsidiary of CNPGC). CNPGC was the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, both CNPGC and Sinopharm Group Finance were connected persons of the Company and the procurement of the Financial Services constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Sinopharm Group Finance is a non-bank financial institution regulated by the People's Bank of China and China Banking Regulatory Commission ("CBRC"). Sinopharm Group Finance is principally engaged in the provision of financial services to the members of the CNPGC Group, including deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services as well as other financial services such as provision of credit certification, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBRC.

The Board considers that the entering into of the Financial Services Framework Agreement is in the interest of the Group as it will provide more options to the Group in procuring financial services for its treasury management. In addition, it is expected that the application procedures for financial services from Sinopharm Group Finance are more efficient, convenient and flexible than the independent commercial banks given the Group's close relationship with the CNPGC Group, and the terms offered by Sinopharm Group Finance will be no less favourable than those offered by the independent commercial banks to the Group according to the Financial Services Framework Agreement.

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 20 November 2019.

During the period from 1 January 2021 to 31 December 2021, the maximum daily deposit balance by the Group from Sinopharm Group Finance amounted to RMB595,194,000 which was below the cap for the maximum daily deposit balance amount of RMB600 million for the year ended 31 December 2021. The Group did not utilise the loan services of Sinopharm Group Finance and did not accrue the service fees payable to Sinopharm Group Finance for the other financial services.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with Shanghai Institute of Pharmaceutical Industry ("SIPI") and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounted to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC wholly owns Sinopharm Hongkong, a controlling shareholder of the Company. Therefore, each of SIPI and SPERC is a connected person of the Company under the Listing Rules and the transactions contemplated under the R&D Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the period from 1 January 2021 to 31 December 2021, there is no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2021 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

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

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. During 2021, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 41 to the financial statements. Such related party transactions include the transactions as disclosed in the "CONTINUING CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditor

For the propose to Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the annual cap.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DEBENTURES ISSUED

During the year ended 31 December 2021, no debenture was issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save as disclosed in "CONTINUING CONNECTED TRANSACTIONS" of this section, none of the Company or any of its subsidiaries entered into contract of significance with the controlling shareholders or any of its subsidiaries other than the Group, nor was there any contract of significance between the Group and the controlling shareholders or any of its subsidiaries other than the Group in relation to provision of services.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 5.4% and 10.6% of the Group's total revenue during the year. The revenue attributable to the CNPGC Group accounted for around 5.4% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and the five largest suppliers accounted for around 3.4% and 11.2% of the Group's total purchases during the year. The purchases from the CNPGC Group accounted for around 1.3% of the Group's total purchases during the year.

Save as disclosed above, at any time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 2.4, 11 and 35 to the financial statements.

CHANGE OF AUDITOR

Deloitte Touche Tohmatsu retired as auditor of the Company with effect from the conclusion of the annual general meeting held on 30 June 2021 (the "2021 AGM") and did not seek re-appointment. At the 2021 AGM, the Company put forward an ordinary resolution for shareholders' approval to propose the appointment of Ernst & Young as the auditor of the Company in place of the retiring auditor, Deloitte Touche Tohmatsu, to hold office until the conclusion of the next annual general meeting of the Company, and the remuneration of which will be determined by the Board.

After the consideration and approval in the 2021 AGM, the Company appointed Ernst & Young as the auditor of the Company. For details, please refer to the announcement and circular of the Company dated 24 May 2021 and 31 May 2021 respectively published on the website of the Stock Exchange and the website of the Company.

Ernst & Young shall retire and, being eligible, offer themselves for re-appointment as the auditor of the Company at the forthcoming AGM. A resolution for the re-appointment of Ernst & Young as auditor of the Company is to be proposed at the forthcoming AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2021 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 55 to 75 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 55 to 75 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 25 March 2022

Corporate Governance Report

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save as disclosed in this report, the Company has applied the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules as its corporate governance practices and complied with all of the applicable code provisions during the year ended 31 December 2021.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There are no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. CHENG Xueren	*Managing Director (appointed on 25 March 2022)*
Mr. YANG Wenming	

Non-executive Directors:

Mr. WANG Xiaochun	*Deputy Chairman (elected as Deputy Chairman and re-designated as Non-executive Director on 13 July 2021 and 25 November 2021 respectively, and resigned on 25 March 2022)*
Mr. YANG Shanhua	
Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. KUI Kaipin	

Independent Non-executive Directors:

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

As at the date of this report, the Board comprises twelve Directors, including three executive Directors, five non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, law, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. The Company has complied with the requirements of appointing at least three independent non-executive directors in accordance with the requirements of Rules 3.10 (1) and (2) of the Listing Rules and one of the independent non-executive Directors, Mr. XIE Rong, also has the appropriate professional accounting qualification and financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules, that is, the independent non-executive directors appointed must account for at least one third of the number of members of the Board. The independent non-executive Directors have provided an annual confirmation letter on their independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are in compliance with the independent guidelines set out in Rule 3.13 of the Listing Rules and are independent under the terms of such guidelines.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officer's liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Other Board meetings are convened when necessary. The company secretary of the Company assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying meeting papers are sent to the Directors within a reasonable time before the meetings. Drafts and final versions of the Board minutes are provided to the Directors for their comments and record within a reasonable time. Minutes of the Board meetings are open for inspection by Directors.

The Board is responsible for providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

– issue and buy back of shares of the Company;

– setting the Group's overall objectives and strategies;

– approval of annual budgets and business plans;

– evaluating and monitoring operating and financial performance;

– reviewing and monitoring internal control and risk management;

– approval of announcements of financial results;

– declaration and recommendation of the payment of dividend;

– appointment of new Directors; and

– appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the special committees under the Board.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 12 and 13 to the financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2021 is set out below:

Remuneration Band (RMB'000)	Number of persons
1,601-1,900	3
1,901-2,500	2

During the year ended 31 December 2020, the Company had convened four regular Board meetings, one other Board meeting and the 2021 AGM. The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings		
Directors	**Regular Board Meetings**	**Other Board Meetings**	**2021 AGM**
Executive Directors:			
Mr. WU Xian *(Chairman)*	4/4	1/1	1/1
Mr. YANG Wenming	3/4	1/1	0/1
Non-executive Directors:			
Mr. WANG Xiaochun *(Deputy Chairman) (resigned on 25 March 2022)*	4/4	1/1	1/1
Mr. YANG Shanhua	4/4	1/1	0/1
Ms. LI Ru	4/4	1/1	0/1
Mr. YANG Binghua	3/4	1/1	0/1
Mr. WANG Kan	4/4	1/1	0/1
Mr. KUI Kaipin	4/4	1/1	0/1
Independent Non-executive Directors:			
Mr. XIE Rong	4/4	1/1	1/1
Mr. YU Tze Shan Hailson	4/4	1/1	1/1
Mr. QIN Ling	4/4	1/1	0/1
Mr. LI Weidong	4/4	1/1	0/1

RESPONSIBILITY OF THE BOARD

As the core of the Company's corporate governance framework, the Board's fundamental responsibility is to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board is committed to complying with corporate governance standards and adopting effective corporate governance practices to meet legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, risk management and internal control systems, and monitoring of the performance of management team.

The Board has delegated certain functions and powers, such as its responsibilities of day-to-day business and operating, to the Chairman of the Board, president and the special committees under the Board (hereinafter collectively referred to as the "authorized person"). The Board keeps abreast of the decision-making and implementation of authorized matters on a regular basis, carries out the implementation effect assessment of authorized matters in a timely manner, and implements dynamic management towards such matters. The authorized person shall report to the Board on a regular basis, conduct collective research and discussion on the authorized matters in accordance with relevant internal systems, obtain the approval of the Board before making a decision or entering into a commitment on behalf of the Group, and maintain communication with the Board when necessary.

The Company has separated the roles of Chairman of the Board and Managing Director. The Chairman of the Board is responsible for leading the Board, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for all the issues raised in the Board meetings so as to guarantee the effective operation of the Board. The Managing Director is responsible for managing the business of the Company, implementing policies, business objectives and plans formulated by the Board, undertaking the powers delegated to him by the Board from time to time, and being accountable to the Board for the Company's overall operation.

During the Reporting Period, the duties of the Chairman of the Board and Managing Director have been performed by different individuals.

The Board has established the Audit ommittee, Remuneration and Evaluation committee, nomination committee and strategic committee. Please see below for the composition and responsibilities of each special committee. Each committee shall provide its recommendations to the Board based on its respective terms of reference. The decisions of the Board on such recommendations shall be final, unless otherwise clearly stated in the terms of reference of these committees.

During the Reporting Period, the Board made a lot of efforts in improving the corporate governance system of the Company and enhancing the corporate governance standards, including amending relevant internal management rules in accordance with the requirements of relevant laws, regulations and regulatory rules (as amended from time to time), as well as the actual situation of the Company; monitoring and organizing the Directors and company secretary of the Company to participate in relevant training courses; regularly reviewing the Company's compliance with the domestic and overseas regulatory requirements and its implementation of various internal corporate governance rules and policies, and reviewing the Company's compliance with the Code and the disclosures in the Corporate Governance Report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The nomination committee of the Company (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors. All Directors (including the non-executive Directors) are appointed for a specific term and subject to retirement by rotation and re-election once every three years in accordance with the Articles of Association.

According to the Articles of Association, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will also be arranged as necessary.

The training attended by the Directors during the Reporting Period is summarized as follows:

Directors	**Training Types**
Executive Directors:	
Mr. WU Xian *(Chairman)*	A
Mr. YANG Wenming	A
Non-executive Directors:	
Mr. WANG Xiaochun *(Deputy Chairman) (resigned on 25 March 2022)*	A
Mr. YANG Shanhua	A
Ms. LI Ru	A
Mr. YANG Binghua	A
Mr. WANG Kan	A
Mr. KUI Kaipin	A
Independent Non-executive Directors:	
Mr. XIE Rong	A
Mr. YU Tze Shan Hailson	A
Mr. QIN Lin	A
Mr. LI Weidong	A

A: Attending training related to update on Functions of Directors – Board Routines

NOMINATION COMMITTEE

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

As at the date of this report, the Nomination Committee comprises of three executive Directors and four independent non-executive Directors. During the year, two Nomination Committee meetings were held and the following topics were reviewed and discussed: 1) the structure of the Board and its committees and other executives, and the diversity of the composition; 2) the independence of the independent non-executive Directors; 3) the time devoted by the non-executive Directors to perform their duties to the Company; 4) list of Directors to be retiring by rotation in 2021 AGM; and 5) the remuneration package of the Deputy Chairman of the Board. The individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. YANG Wenming	2/2
Non-executive Director:	
Mr. WANG Xiaochun *(resigned on 25 March 2022)*	2/2
Independent Non-executive Directors:	
Mr. XIE Rong	1/2
Mr. YU Tze Shan Hailson	2/2
Mr. QIN Ling	2/2
Mr. LI Weidong	2/2

NOMINATION POLICY

The Nomination Committee has formulated a nomination policy (the "Nomination Policy"). The Nomination Policy aims to ensure that the Nomination Committee will identify and nominate suitable candidates based on merit and a range of diversity criteria, including their professional experience, business perspective, skills, cultural and educational background, age and length of service. The Company has formulated:

– the procedure for selection, appointment and re-appointment of Directors which has been formally and carefully considered;

– the procedure for making recommendations to the shareholders on electing or re-electing any Directors at a general meeting; and

– the nomination criteria and nomination procedure for the shareholders to nominate new Directors.

The Nomination Committee reviews and monitors the structure, size and composition of the Board in terms of skills, knowledge, experience and diversity annually and makes recommendations on any proposed changes to the Board to complement the Company's strategies.

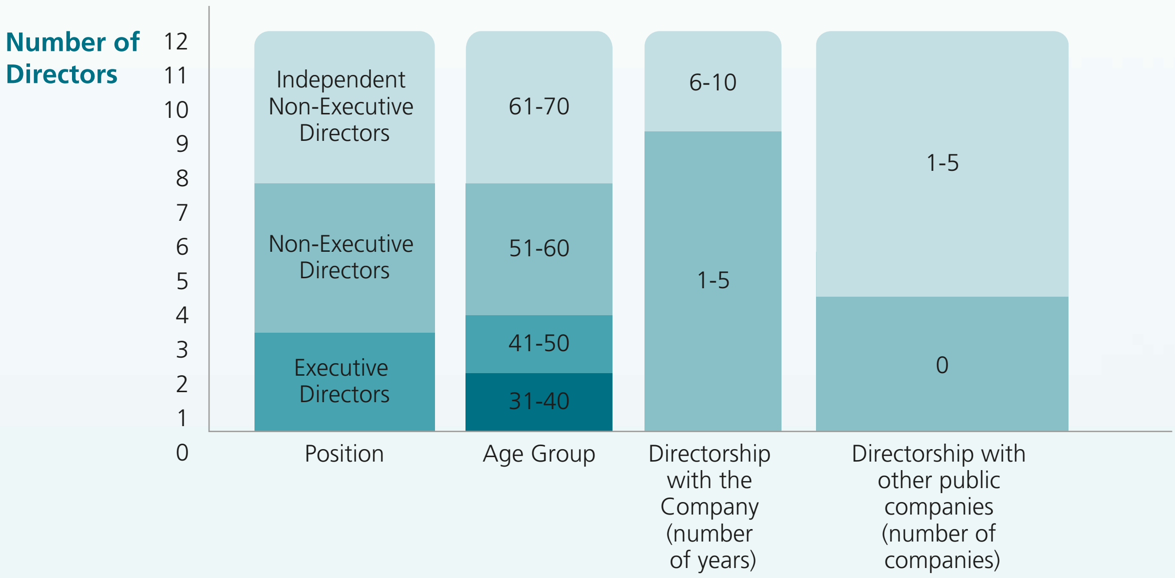
BOARD DIVERSITY POLICY

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit, and contribution that the selected candidate will bring to the Board.

An analysis of the composition of the current Board based on a range of diversity perspectives is set out below:



AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprises of one non-executive Director and four independent non-executive Directors, which complies with the requirements under Rule 3.21 of the Listing Rules. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, four Audit Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Audit Committee	Attendance/ Number of Meetings
Non-executive Director:	
Mr. YANG Shanhua	4/4
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	4/4
Mr. YU Tze Shan Hailson	4/4
Mr. QIN Ling	4/4
Mr. LI Weidong	4/4

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2020 and the interim results and the interim report of the Group for the six months ended 30 June 2021, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

REMUNERATION AND EVALUATION COMMITTEE

As at the date of this report, the Remuneration and Evaluation Committee comprises of one non-executive Director and four independent non-executive Directors. The main roles and functions of the Remuneration and Evaluation Committee are as follows:

(a) making recommendations to the Board on the remuneration policy and structure for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities of the Directors and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors. The Company has adopted the model whereby the Remuneration and Evaluation Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The terms of reference of the Remuneration and Evaluation Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration and Evaluation Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, four Remuneration and Evaluation Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Remuneration and Evaluation Committee	**Attendance/ Number of Meetings**
Non-executive Director:	
Mr. YANG Shanhua	4/4
Independent Non-executive Directors:	
Mr. QIN Ling *(Chairman)*	4/4
Mr. XIE Rong	3/4
Mr. YU Tze Shan Hailson	4/4
Mr. LI Weidong	4/4

During the year, the Remuneration and Evaluation Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

STRATEGIC COMMITTEE

The Board set up a strategic committee (the "Strategic Committee") in January 2014. As at the date of this report, the Strategic Committee comprises of three executive Directors and two independent non-executive Directors including Mr. WU Xian, Mr. CHENG Xueren, Mr. YANG Wenming, Mr. YU Tze Shan Hailson and Mr. QIN Ling. Mr. WU Xian was appointed as the chairman.

The Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submitted by the Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

During the year, two Remuneration and Evaluation Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Strategic Committee	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. YANG Wenming	2/2
Non-executive Director:	
Mr. WANG Xiaochun *(resigned on 25 March 2022)*	2/2
Independent Non-executive Directors:	
Mr. YU Tze Shan Hailson	2/2
Mr. QIN Ling	2/2

During the year, the Strategy Committee reviewed the "14th Five-year" Plan of the Group and proposed the recommendations, and discussed to add the function of environmental, social and governance within the scope of the Strategy Committee's terms of reference.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2021, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its rules for implementation, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. The Group's production subsidiaries have obtained relevant drug production and operation permission.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group attaches high importance to environmental management and has developed a comprehensive environmental management and monitoring system to strictly perform in accordance with relevant laws and regulations governing the amount and standard of emissions. Apart from monitoring its own emission data, the Group has also entrusted third parties to monitor its sewage emission on a quarterly basis and the emission of exhaust gases from boilers every six months. Having established the hazardous waste management system, the transfer of hazardous waste generated from production is recorded and the waste is recycled or disposed of regularly by local qualified professional hazardous waste recycling companies. The storage area of the hazardous waste is monitored, and relevant information filed by the local environmental protection department.

The Group promotes the concept of green production to achieve the goals of saving energy, reducing consumption and alleviating pollution. Striving to improve the environment surrounding the plant, the Group has put much efforts into the improvement of facilities over the years by replacing oil-burning boilers with gas-burning boilers and upgrading the sewage treatment facilities. In addition, through corporate culture education, the Group carries out the resources conservation campaigns and promotes the importance of green living to all staff, encouraging them to join the green living community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has commenced preparation of the Company's Environmental, Social and Governance Report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange, which is planned to release in or before May 2022.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development and construction for talents and keeps building the platform for the mutual growth of all staff together with the Group through various means. The Group strictly complies with the requirements of Labor Contract Law of the People's Republic of China and the Labour Legislation of Hong Kong Special Administrative Region, and abides by the open, fair and just principles while providing employment opportunities, remuneration, leave, benefits, etc. without discriminatory acts towards differences on gender, religion, culture and educational background, etc.. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC to avoid child labour or forced labour.

Moreover, the Group understands the importance of training and development for the employees. Starting from the appointment of a new staff member, induction course on corporate culture, business operation, regulations and so on is provided. Staff members of different grading are further provided with different training on marketing, production, human resources, financial management, etc. to ensure that staff members can solve their problems encountered in work and their comprehensive capabilities can be enhanced.

The Group strives to take care of the interests of customers and maintain product safety. All production lines are GMP certified as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently more than 30 new drugs are at different research and development stages and the Group possesses production approvals for more than 800 drugs.

In addition, the Group maintained good and stable working relationship with the major suppliers of raw materials during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at Board meetings for approval.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2021, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditor's reporting responsibilities is set out in the Independent Auditor's Report on pages 83 to 89 of this report.

AUDITOR'S REMUNERATION

The fee charged by the Group's external auditor, Ernst & Yong, for statutory audit and non-aduit service are set out below:

Services rendered	Fee paid/ payable in 2021 RMB'000
Audit service	4,993
Non-audit service *(Note)*	300
Total	5,293

Note: Non-audit service mainly comprised review of the interim report of the Group during the year.

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji and Ms. LEUNG Suet Lun (a representative of an external service provider) served as the joint company secretaries of the Company during the Reporting Period. On 25 March 2022, Ms. LEUNG has resigned as the joint company secretary of the Company due to work re-allocation. On the same day, the Company has appointed a representative of an external service provider, Ms. NG Sau Mei, as the joint company secretary of the Company. Mr. ZHAO is her main contact person in the Company. Both Ms. LEUNG and Mr. ZHAO confirmed that they had taken not less than 15 hours relevant professional training complied with Rule 3.29 of the Listing Rules during the Reporting Period.

INSIDE INFORMATION DISCLOSURE POLICY

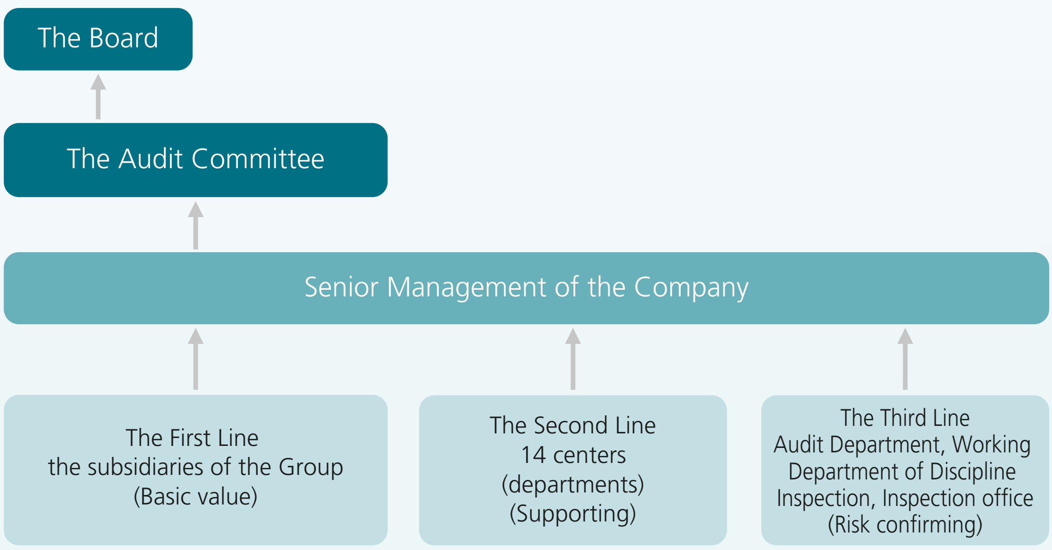
In 2013, the Board adopted an inside information disclosure policy in relation to the procedures and internal controls for handling and disseminating inside information. The Group's inside information disclosure policy sets out guidelines and procedures for Directors, senior management and related personnel to ensure that the Group's inside information is distributed to the public in an equal, accurate, timely and clear manner. The Directors, senior management and related personnel with potential inside information and/or inside information shall take reasonable steps to ensure that appropriate measures are in place to keep the information in strict confidence and that the recipients are aware of their responsibilities for keeping the information in confidence. The inside information must be disclosed in accordance with the Administrative Measures for the Information Disclosure and let all market users obtain the same information at the same time. The inside information must be disclosed disclosure policy according to the changing circumstances and the changes of the Listing Rules, Part XIVA of the SFO and related statutory and regulatory requirements from time to time.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has established a risk management and internal control system in accordance with the requirements of code provision D.2 (previous code provision C.2) of the Code and continues to monitor and review, at least on an annual basis, the effectiveness of its operation in order to ensure that the Group has adequate resources, staff qualifications and experience in accounting, internal audit and financial reporting functions, and that the training programmes received by staff and the related budget are adequate. Such system is designed to mitigate the inherent risks faced by the Group in its business to an acceptable level, rather than eliminate all risks. Therefore, this system only provides reasonable, not absolute, assurance against major false statements or financial losses in financial data.

The Strategic and Risk Management Department, as a coordinating unit between the Company's subsidiaries and functional departments and the Audit Committee, reports regularly to the Audit Committee on the Group's risk management and internal control for the previous reporting period and provides annual work reports for review.

For risk management, the Company's risk management framework takes the following "three lines" model as a guide.



During the Reporting Period, the Company further demonstrated the role of "three lines", carried out risk management works of each business procedure, and based on the Reporting System for Significant Operational Risk Events of China Traditional Chinese Medicine Holdings Co. Limited, using the "Risk Assessment Analysis Table" and the "Risk Assessment Coordinate Chart" to conduct qualitative and quantitative analyses in two dimensions, namely the possibility of occurrence and the degree of impact, to prudently, seriously and scientifically identify the significant risks faced by the Group. Effective management and control measures were formulated for each of the significant risks: 1) enhance the ability of government affairs management, strengthen communication with government and proactively respond to changes in policy; 2) promote the simultaneous development of the six major business segments, optimize the enterprise management and control model and improve the modern enterprise system; 3) strengthen the construction of quality system, carry out regular self-inspection and self-examination to enable timely rectification and elimination; 4) strengthen production safety management and control, improve production safety related management system; 5) establish a maintenance system for environmental protection equipment, strictly control discharge standards, and strengthen supervision over the disposal of industrial waste; 6) strengthen capital management and control, enrich financing channels and varieties, and strictly examine and approve the application for credit facilities scale of the Company; and 7) strengthen the concept of compliance, standardize brand management, and establish a professional promotion model under the new situation.

During the year, the Company focused on special tasks to prevent and resolve risks and improve the Company's efficiency: 1) internal control self-evaluation was performed to the greatest extent regarding 71 subsidiaries, which revealed the weak links of operation and management and promoted the continuous improvement of the internal control system; 2) organized and carried out full accountability of illegal operation and investment, supervised and urged the signing of the responsibility agreement, with 9,108 agreements having been signed in 2021, which raised the sense of responsibility, improved responsible management and the basis for accountability, and effectively prevented the loss of state-owned assets; 3) completed audit on final accounts of 32 construction projects, with an investment amount of RMB3.717 billion, and promoted high-quality acceptance and operation of construction projects.

For internal controls, during the Reporting Period, the Company continued to strengthen the implementation of internal controls, gradually improved the Group's system-wide internal control mechanism and promoted the construction of internal control system. The Company encouraged its subsidiaries to sort out a comprehensive review of the internal and external environment of their operations based on the Internal Control Manual of Chinese Medicine Holdings Co. Limited, and a total of 9 subsidiaries completed the compilation and upgrading of their internal control manuals during the Reporting Period. The Company also strived to improve the system and strengthen the regular management of the system by issuing 39 systems (including new and revised ones) during the Reporting Period. During the year, the Company continued to strengthen audit supervision, promote internal management, and further enhance audit value. 95 audit and research projects were carried out, involving 46 units, with the total audited assets amounting to RMB32.918 billion. 294 issues were identified, with the due rectification rate of 100%, resulting in a good status audit and rectification.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with its shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email: ir@china-tcm.com.cn
Telephone: (852) 2854 3393
Fax: (852) 2544 1269
Address: Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision A.2.1 (previous code provision D.3.1) of the Code, including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

ARTICLES OF ASSOCIATION

During the year, there is no change in the Articles of Association.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.china-tcm.com.cn" after the relevant general meetings.

CONVENING OF GENERAL MEETING ON REQUEST

In accordance with Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

PUTTING FORWARD PROPOSALS AT ANNUAL GENERAL MEETING

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Companies Ordinance.

Section 615 of the Companies Ordinance provides that the Company must give notice of a resolution if it has received requests to do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than: (i) six weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Companies Ordinance provides that the Company that is required under Section 615 of the Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 61, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 30 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He was the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Co., Ltd. (formerly named as China National Corp. of Traditional & Herbal Medicine) from August 2010 to December 2017. He was re-designated from deputy secretary of the Party Committee to secretary of the Party Committee since January 2018. He has been the executive director and general manager of China National Traditional Chinese Medicine Co., Ltd. since January 2019. He is currently the deputy secretary of the Party Committee of China Traditional Chinese Medicine Holdings Co. Limited.

Mr. YANG Wenming, aged 58, was appointed to the Board on 24 December 2018. Mr. YANG graduated from Zhejiang University majoring in Biological and Medical Instruments and obtained a bachelor degree of Engineering in 1985. Mr. YANG also has the senior engineer professional qualification. He was previously a staff member of the quality standard department, a senior staff member, a principal staff member, the deputy department head of the external cooperation department, the assistant of general manager and the department head of the external cooperation department and the assistant of general manager of China National Medical Equipment Industry Corporation from August 1985 to March 1999 and the assistant of the department head of the Medical Equipment Administration Department and the deputy director of the Medical Equipment Products Examination and Registration Centre of the State Medicine Administrative Bureau of China from January 1997 to January 1998. He was previously an office manager, manager of the information department, manager of the discipline inspection and supervision office, manager of the audit department, deputy secretary of discipline inspection committee, vice president of labour union and the staff supervisor of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as China National Pharmaceutical Group Co., Ltd., "CNPGC"), and deputy general manager, deputy secretary of the Party Committee and secretary of discipline inspection committee, president of labour union of China National Pharmaceutical Industry Company Limited from March 1999 to April 2017; the deputy secretary of the Party Committee, secretary of discipline inspection committee and president of labour union of Shanghai Shyndec Pharmaceutical Co., Ltd. from November 2016 to December 2018. He is currently the secretary of the Party Committee and vice president of China Traditional Chinese Medicine Holdings Co. Limited.

NON-EXECUTIVE DIRECTORS

Mr. WANG Xiaochun, aged 54, was appointed to the Board on 23 October 2013. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989. Mr. WANG has been the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. He has been a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. Mr. Wang was a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) from 19 May 2021 to 25 March 2022. He resigned as the Vice Chairman of the Board of the Company on 25 March 2022.

Mr. YANG Shanhua, aged 55, was appointed to the Board on 28 March 2018. Mr. YANG graduated from Southwestern University of Finance and Economics in 1993, with a master degree in accounting and he obtained a doctoral degree in accounting from Chinese Academy of Fiscal Science in 2005. He is a senior accountant and a qualified Certified Public Accountant of Chinese Institute of Certified Public Accountants. Mr. YANG was chief financial officer of Beijing Oriental Yuhong Waterproof Technology Co., Ltd., chief accountant in China National Biotec Group Company Limited, and deputy general manager in CNPGC successively, from June 2000 to May 2017. Mr. YANG has served as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 19 May 2021. He is currently the chief accountant of CNPGC.

Ms. LI Ru, aged 42, was appointed to the Board on 18 February 2019. Ms. LI graduated from pharmaceutical preparations at Shenyang Pharmaceutical University in 2001. She was product manager, regional sales manager and divisional sales manager of the narcotics department at China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600511) successively from September 2001 to January 2010, and market manager of Nycomed Pharma AS (奈科明製藥有限公司) from January 2010 to January 2012. From January 2012 until the present, she has acted as deputy director and director of the risk and operation management department and director of the legal and risk management department of CNPGC successively. Ms. LI is currently the director of the legal and risk management department of CNPGC.

Mr. YANG Binghua, aged 41, was appointed to the Board on 24 December 2018. Mr. YANG obtained a bachelor degree in Politics and Administration of Public Administration from China Youth University for Political Sciences in 2004 and obtained a master degree in Public Administration from School of Government of Peking University in 2011. He was previously a staff member, a senior staff member and a principal staff member of the information research office of the State Council State-owned Assets Supervision and Administration Commission ("SASAC") Office from July 2004 to December 2013; person-incharge of the basic training programme of Daqing Oilfield production plant No.2 from April 2010 to March 2011; person-in-charge of the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; the deputy department head of the second secretarial department, a deputy director of the department party committee office, the deputy department head of the promotional department of the department party committee and the department head of the promotional department of the department party committee of the State Council SASAC Office from December 2013 to March 2017. In which, he served as a staff member of the management enhancement group office of asset committee authorities from July 2012 to August 2014. He was previously a deputy director of department of party-masses relationship and a deputy director of department of party-people relationship (incharge of the department) of CNPGC from March 2017 to May 2018. He is currently a principal staff of department of party-masses relationship of CNPGC. Mr. YANG has served as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 19 May 2021.

Mr. WANG Kan, aged 37, was appointed to the Board on 24 December 2018. Mr. WANG obtained a bachelor degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center in 2007, a master degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center and double bachelor degree of Economics from China Center for Economic Research of Peking University in 2009. Mr. WANG was a staff member of planning development and industrial management department of China National Pharmaceutical Industry Company Limited from August 2009 to May 2010; a staff member of the investment management department and securities department of China National Biotech Group Company Limited from May 2010 to November 2014; and a senior business executive and assistant of manager of the investment management department of CNPGC from November 2014 to January 2018. He has also been a director of Suzhou Capsugel Co., Ltd. in March 2018. Mr. WANG has served as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 19 May 2021. He is currently the deputy manager of the investment management department of CNPGC.

Mr. KUI Kaipin, aged 37, was appointed to the Board on 30 May 2018. Mr. KUI graduated from the School of International Liberal Studies of Waseda University with a bachelor's degree in International Liberal Studies in 2008. He obtained a master's degree in International Relation from the Graduate School of Asia-Pacific Studies of Waseda University in 2010. Mr. KUI joined Ping An Group in 2012 and has served various positions in the Ping An Group. He is currently a managing director of the private equity department of China Ping An Insurance Overseas (Holdings) Limited responsible for overseas private equity investments and strategic investments. He is also a director of Ping An Japan Investment Co., Ltd., managing Ping An Group's investments in Japan.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIE Rong, aged 69, was appointed to the Board on 5 February 2013. Mr. XIE obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. Mr. XIE has over 50 years of working experience. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002 respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) from April 2003 to May 2018 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (now known as COSCO SHIPPING Energy Transportation Co., Ltd., a company listed on the Stock Exchange and the Shanghai Stock Exchange), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) and Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014 and from April 2010 to April 2016 respectively. Mr. XIE was a professor of the Shanghai National Accounting Institute from October 2002 to November 2017, he was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and was also an independent non-executive director of Shenwan Hongyuan Group Co., Ltd. (a company listed on the Stock Exchange and the Shenzhen Stock Exchange). Mr. XIE has been an independent non-executive director of each of China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange) and Shanghai Foreign Service Holding Group Co., Ltd. since January 2013, June 2015, June 2018 and September 2021, respectively.

Mr. YU Tze Shan Hailson, aged 65, was appointed to the Board on 25 November 2013. Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a chartered engineer and a fellow of the Institution of Engineering and Technology, Hong Kong Institution of Engineers, the Institute of Arbitrators of the United Kingdom and Hong Kong Institute of Arbitrators. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信托投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. Since 1998, Mr. YU has been a deputy managing director of Versitech Limited (港大科橋有限公司) and deputy director of Technology Transfer Office of the University of Hong Kong. Since 2020, Mr. YU has been the chief operation officer of HKU Innovation Holdings Limited and is in charge of its scientific research centre. Additionally, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange, stock code: 01099) from September 2014 to September 2020. Mr. YU also serves as an independent non-executive director of China NT Pharma Group Company Limited (a company listed on the Stock Exchange, stock code: 01011) since June 2017. From June 2021, Mr. YU also serves as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 02196).

Mr. QIN Ling, aged 63, was appointed to the Board on 18 February 2019. He graduated from the Basic Medical and Life Sciences in Physical Education Faculty of the Beijing Sport University in 1982 and received his PhD in Exercise Science from the German Sports University, Cologne, Germany in 1992. He completed a post-doctoral research relating to osteoporosis in the AO Research Institute in 1992. He was the laboratory director of the Department of Trauma & Reconstructive Surgery, School of Medicine, Free University of Berlin, Germany from July 1993 to August 1994, and director of the research laboratory in the Department of Orthopaedics & Traumatology, director of the Bone Quality and Health Centre and director of Innovative Orthopaedic Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong from September 1994 until the present. Mr. QIN is currently a professor of Orthopaedics and director of laboratory in the Faculty of Medicine, and doctorate and post-doctorate supervisor at the Chinese University of Hong Kong.

Mr. LI Weidong, aged 54, was appointed to the Board on 18 February 2019. Mr. LI graduated from Nanjing University with bachelor's degrees in science and law in 1992 and obtained a doctor of philosophy in law from the City University of Hong Kong in 2004. Mr. LI acted as a professional lawyer of Nanjing Zhongshan Law firm from September 1992 to January 1994 and as a professional lawyer of Jiangsu Jingwei Law Firm from February 1994 to April 1997. He is currently a director of Haipei Law Firm (Shenzhen and Hong Kong), an independent non-executive director of Ocean Line Port Development Limited (a company listed on the Stock Exchange, stock code: 8502), an independent director of LUFAX Holding, Ltd. (a company listed on the NEW YORK Stock Exchange, stock code: LU).

SENIOR MANAGEMENT

Mr. CHENG Xueren, aged 58, was appointed as a president on 3 September 2021. Mr. CHENG was graduated from Anhui Institute of Traditional Chinese Medicine (currently known as Anhui University of Traditional Chinese Medicine) with a bachelor degree in Traditional Chinese Medicine in 1985, and obtained a master degree from Guangzhou University of Chinese Medicine in Basic Theory of Integrated Chinese and Western Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and physician. He was a physician of Anhui Chuzhou People's Hospital from July 1985 to August 1989; a doctor of Guangdong Second Hospital of Traditional Chinese Medicine from July 1992 to March 1993; a deputy manager of production, the deputy manager of sale and general manager of Guangdong Yifang Pharmaceutical Co., Ltd. from March 1993 to November 2017. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015. Mr. CHENG had been appointed to the Board and served as the Managing Director on 25 March 2022

Mr. SHEN Lixin, aged 55, was appointed as the vice president and financial director on 3 September 2021. Mr. Shen graduated from Dongbei University of Finance and Economics with a bachelor's degree in trade and economics in 1989. Mr. Shen holds professional qualifications as a senior accountant. Mr. Shen served as a cadre of the Finance Department of China National Pharmaceutical Corporation from July 1989 to January 1999, the deputy director of the Finance Department of China National Pharmaceutical Group Corporation (currently known as China National Pharmaceutical Group Co., Ltd.) from January 1999 to January 2003, the director of the Finance Department of Sinopharm Group Pharmaceutical Holdings Co. Ltd. (currently known as Sinopharm Group Co. Ltd., a company listed on the Hong Kong Stock Exchange, stock code: 01099) from January 2003 to July 2003, and the financial director of China National Corp. of Tradition & Herbal Medicines (currently known as China National Traditional Chinese Medicine Co., Ltd.) from July 2003 to May 2010. From May 2010 to September 2021, he served as the financial director of China National Medicines Corporation Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600511).

Mr. LAN Qingshan, aged 57, was appointed as a vice president on 24 December 2018. Mr. LAN was graduated from Jiangxi University of Traditional Chinese Medicine (currently known as Jiangxi University of Traditional Chinese Medicine) with a bachelor degree of Traditional Chinese Medicine in 1985 and a master degree of Traditional Chinese Medicine in 1990, and completed the EMBA programme from Peking University in 2000. Mr. LAN has the professional qualifications of university teacher certification, practicing physician, practicing pharmacist and chief pharmacist. He was a teaching assistant, house physician and lecturer of Jiangxi University of Traditional Chinese Medicine from July 1985 to September 1992. He was previously a sales staff, provincial manager, regional manager, sales manager of Jiangzhong (Pharmaceutical) Group Co., Ltd., the deputy general manager of Jiangxi Dongfeng Pharmaceutical Co., Ltd., the general manager of Jiangzhong Pharmaceutical Trading Co., Ltd., the deputy general manager of Jiangzhong Pharmaceutical Co., Ltd., the general manager of Jiangxi Shangao Pharmaceutical Co., Ltd., the general manager of Jiangxi Hengseng Food Company, person-incharge of the new products research and development department of Jiangzhong Group and the general manager of Jiang Zhong Xiao Zhou Medicine Trading Limited Company from October 1992 to December 2009. In which, he was the Deputy County Chief of Duchang County People's Government of Jiangxi in a temporary basis from April to December 2009. He was the deputy general manager and a senior staff of Medicinal Resources Industry Centre and the president of the Chinese Medicine Research Institute of China National Traditional Chinese Medicine Co., Ltd. from January 2010 to December 2018.

Mr. ZHAO Dongji, aged 54, has been appointed as a vice president, joint company secretary and chief legal advisor since 5 June 2017, 21 July 2017 and 14 October 2019 respectively. Mr. ZHAO was a non-executive director and an executive director of the Company from February 2013 to June 2017 and from June 2017 to December 2018 respectively. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 30 years of related working experience, including over 20 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager, the chief investment officer and the deputy general manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) from 2011 to July 2017. Mr. Zhao has served as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 19 May 2021.

Mr. HUANG Zhangxin, aged 54, was appointed as a vice president in 15 October 2019. Mr. HUANG was graduated from Shanghai Medical University majoring in Medicinal Chemistry in Department of Pharmacy in July 1991 and obtained a master degree in Economics and Management from Party School of the Guangdong Provincial Committee of CPC in July 2001. Mr. HUANG has professional qualifications of pharmaceutical engineer and senior pharmaceutical R&D engineer. Mr. HUANG served as officer in Rongqi Government in Shunde, Foshan, Guangdong from August1991 to January 1996; deputy general manager in Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司) from January 1996 to January 2001; deputy general manager of the Company's subsidiary,Guangdong Medi-World Pharmaceutical Co., Ltd., and director of R&D, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited from January 2001 to October 2013; and deputy secretary of the Party Committee, vice president, general engineer and director of production, safety and environmental protection department of the Company from October 2013 to September 2019.

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To the members of
China Traditional Chinese Medicine Holdings Co. Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 202, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

EY 安永

KEY AUDIT MATTERS

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

Key audit matters	**How our audit addressed the key audit matters**
Impairment of goodwill and other intangible assets	
As at 31 December 2021, the carrying value of goodwill and other intangible assets with infinite useful lives in the consolidated financial statements amounted to RMB3,492,184,000 and RMB1,956,814,000. In accordance with HKFRSs, the Company is required to perform the impairment tests for goodwill and other intangible assets with infinite useful lives annually and the management of the Group have involved an independent third party valuer to assist in performing the impairment test. The recoverable amount of each cash-generating unit (the "CGU") is the higher of its fair value less costs of disposal and its value in use using discounted cash flow models based on a financial budget covering a period of 5 years. The impairment test involves significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates used. This matter was significant to our audit because the balance was material and the test process involved significant judgements. The significant judgements and estimates and the disclosures about the impairment of goodwill and other intangible assets with infinite useful lives are included in notes 3, 16, 19 and 20 to the financial statements.	Our audit procedures included, among others, the following: Evaluated the competence, capabilities and independence of the management's independent third party valuer and involved our internal valuation specialists to assist us in evaluating the methodologies and the discount rates used by the Group and external valuer for determining the recoverable amounts of CGU; Evaluated the underlying data used in the management's cash flow projection on the future revenues and operating results by comparing to the financial performance of each CGU during the year 2021; Evaluated the management's assumptions of growth rate of each CGU by examining the business development plans and historical annual growth of each CGU. We also checked the mathematical accuracy of computation supporting the value in use model; and Assessed the adequacy of the related disclosures in the consolidated financial statements.

EY 安永

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment of other long-term non-financial assets	
The carrying values of the Group's property, plant and equipment, other intangible assets with finite useful lives and right-of-use assets as at 31 December 2021 amounted to RMB6,659,985,000, RMB4,300,995,000 and RMB1,205,766,000, respectively. These assets are reviewed annually by management for potential indicators of impairment and the management of the Group have involved an independent third party valuer to assist in performing the impairment test. For assets where such indicators exist, management engages an independent external valuer to assist them to perform detailed impairment review of the recoverable amounts of these long-term non-financial assets. This matter was significant to our audit because the assessment involves a significant degree of management judgements and estimates in determining the key assumptions. The significant judgements and estimates and related disclosures of these non-financial assets are included in notes 3, 17, 18 and 19 to the financial statements.	Our audit procedures included, among others: Evaluated the competence, capabilities and independence of the management's independent third party valuer and involved our internal valuation specialists to assist us in evaluating the methodologies used by the independent external valuer for determining the recoverable amounts, and assessing the discount rates and market data used in the assessment of the recoverable amounts of the non- financial assets. Examined the underlying data used such as management projection on the future revenues and operating results by comparing with the financial performance of the CGU to which the long-term non-financial assets belong during the year 2021 and examined the business development plan and historical annual growth of each CGU to evaluate the growth rate of each CGU used in the projection.

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
As at 31 December 2021, the Group had trade receivables of RMB8,342,758,000, after making a provision of RMB100,076,000. The Group uses a provision matrix to calculate expected credit losses ("ECL") for trade receivables. The provision rates are based on the number of 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 calibrates the matrix to adjust the historical credit loss experience with forward-looking information. This matter was significant to our audit because of the high level of management estimation required and the materiality of the amounts. The disclosures about the provision for impairment of trade receivables are included in notes 3 and 23 to the financial statements.	Assessed the Group's internal controls over the credit control of trade receivables and evaluated the mathematic calculation by recalculating the provision matrix of ECLs. Evaluated the assumptions used in the ECL model by 1) assessing management's assumptions regarding the groupings of customer segments with similar loss patterns by reviewing the credit terms and historical payment patterns of different categories of the customers; and 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing and payment records on a sample basis; and 3) evaluating forward-looking adjustments by reviewing the model calibration performed by management based on latest credit loss experience. Assessed the adequacy of the related disclosures in the consolidated financial statements.

EY 安永

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the 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.

EY 安永

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 solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional 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.

EY安永

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

- 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.

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 Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong

25 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	*4*	**19,052,802**	14,806,168
Cost of sales		**(7,223,639)**	(5,680,093)
Gross profit		**11,829,163**	9,126,075
Other income	*6*	**205,412**	254,556
Other gains and losses	*7*	**(16,785)**	8,212
Selling and distribution expenses		**(7,581,963)**	(5,586,737)
Administrative expenses		**(974,449)**	(707,278)
Research and development expenses		**(694,441)**	(550,472)
Impairment losses under the expected credit loss model, net of reversal	*8*	**(13,879)**	(53,725)
Profit from operations		**2,753,058**	2,490,631
Finance costs	*9*	**(222,029)**	(244,666)
Share of losses of associates		**(10,749)**	(15,874)
Profit before tax		**2,520,280**	2,230,091
Income tax expense	*10*	**(396,856)**	(369,447)
Profit for the year	*11*	**2,123,424**	1,860,644
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gain/(loss) on debt instruments measured at fair value through other comprehensive income		**3,008**	(3,266)
Impairment loss reversed/(recognised) for debt instruments at fair value through other comprehensive income included in profit or loss		**(200)**	405
Income tax relating to items that may be reclassified subsequently		**514**	(380)
Other comprehensive income for the year, net of tax		**3,322**	(3,241)
Total comprehensive income for the year		**2,126,746**	1,857,403
Profit attributable to:			
Owners of the parent		**1,932,858**	1,663,255
Non-controlling interests		**190,566**	197,389
		2,123,424	1,860,644
Total comprehensive income attributable to:			
Owners of the parent		**1,935,921**	1,660,000
Non-controlling interests		**190,825**	197,403
		2,126,746	1,857,403
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and Diluted (RMB cents)	*15*	**38.38**	33.03

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*17*	**6,659,985**	6,226,767
Investment properties	*17*	**268,768**	299,191
Right-of-use assets	*18*	**1,205,766**	1,242,788
Goodwill	*16*	**3,492,184**	3,521,963
Other intangible assets	*19*	**6,257,809**	6,365,640
Investments in associates	*21*	**18,006**	22,161
Deposits and prepayments	*22*	**96,235**	108,027
Deferred tax assets	*31*	**187,469**	170,307
Total non-current assets		**18,186,222**	17,956,844
CURRENT ASSETS			
Trade and other receivables	*23*	**8,904,939**	5,033,004
Inventories	*25*	**5,042,890**	4,908,485
Debt instruments at fair value through other comprehensive income ("FVTOCI")	*26*	**1,240,756**	1,383,732
Time deposits	*27(a)*	**5,000**	203,000
Pledged bank deposits	*27(b)*	**114,704**	163,078
Cash and cash equivalents	*27(c)*	**2,894,757**	3,440,240
Total current assets		**18,203,046**	15,131,539
CURRENT LIABILITIES			
Trade and other payables	*28*	**6,236,167**	4,412,628
Lease liabilities	*18*	**14,996**	13,994
Contract liabilities	*29*	**204,079**	292,331
Interest-bearing bank and other borrowings	*32*	**1,140,495**	1,658,026
Unsecured notes	*33*	**1,015,226**	1,006,793
Tax payable		**153,565**	150,828
Total current liabilities		**8,764,528**	7,534,600
NET CURRENT ASSETS		**9,438,518**	7,596,939
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,624,740**	25,553,783

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	*30*	**390,695**	405,092
Deferred tax liabilities	*31*	**1,680,204**	1,710,376
Unsecured notes	*33*	**2,234,858**	2,230,523
Bank and other borrowings	*32*	**575,558**	221,410
Lease liabilities	*18*	**82,496**	89,961
Total non-current liabilities		**4,963,811**	4,657,362
NET ASSETS		**22,660,929**	20,896,421
EQUITY			
Equity attributable to owners of the parent			
Share capital	*34*	**11,982,474**	11,982,474
Reserves		**7,736,195**	6,081,612
		19,718,669	18,064,086
Non-controlling interests		**2,942,260**	2,832,335
Total equity		**22,660,929**	20,896,421

The consolidated financial statements on pages 90 to 202 were approved and authorised for issue by the Board of Directors on 25 Mar 2022 and are signed on its behalf by:

WU Xian
Executive Director

YANG Wenming
Executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent								
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note a)	FVTOCI reserve RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	Subtotal RMB'000	Non–controlling interests RMB'000	Total RMB'000
At 1 January 2020	11,982,474	(165,183)	529,415	(12,308)	(49,807)	4,338,824	16,623,415	2,427,310	19,050,725
Profit for the year	–	–	–	–	–	1,663,255	1,663,255	197,389	1,860,644
Other comprehensive expense for the year	–	–	–	(3,255)	–	–	(3,255)	14	(3,241)
Total comprehensive income for the year	–	–	–	(3,255)	–	1,663,255	1,660,000	197,403	1,857,403
Acquisition of subsidiaries	–	–	–	–	–	–	–	133,290	133,290
Dividends distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(60,661)	(60,661)
Dividends recognised as distribution	–	–	–	–	–	(219,329)	(219,329)	–	(219,329)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	134,993	134,993
Transfer to statutory surplus reserve	–	–	58,948	–	–	(58,948)	–	–	–
At 31 December 2020	11,982,474	(165,183)	588,363	(15,563)	(49,807)	5,723,802	18,064,086	2,832,335	20,896,421
Profit for the year	–	–	–	–	–	1,932,858	1,932,858	190,566	2,123,424
Other comprehensive income for the year	–	–	–	3,063	–	–	3,063	259	3,322
Total comprehensive income for the year	–	–	–	3,063	–	1,932,858	1,935,921	190,825	2,126,746
Dividends distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(91,268)	(91,268)
Dividends recognised as distribution	–	–	–	–	–	(279,811)	(279,811)	–	(279,811)
Acquisition of non-controlling equity holders of subsidiaries	–	–	–	–	(1,527)	–	(1,527)	1,030	(497)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	9,338	9,338
Transfer to statutory surplus reserve	–	–	131,028	–	–	(131,028)	–	–	–
Transfer from statutory surplus reserve to recover losses	–	–	(62)	–	–	62	–	–	–
At 31 December 2021	11,982,474	(165,183)	719,329	(12,500)	(51,334)	7,245,883	19,718,669	2,942,260	22,660,929

Note:

(a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China ("PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their boards of directors annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in converted into capital by means of capitalisation.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flow from operating activities			
Profit before tax		**2,520,280**	2,230,091
Adjustments for:			
Depreciation and amortisation	*11*	**849,597**	684,079
Amortisation of deferred government grants	*6*	**(36,276)**	(45,343)
Impairment losses recognised (reversed) in respect of			
– goodwill	*11*	**29,779**	16,837
– right-of-use assets	*11*	**1,144**	–
– other intangible assets	*11*	**2,265**	–
– property, plant and equipment	*11*	**12,100**	–
– trade receivables	*11*	**15,208**	40,458
– other receivables	*11*	**(1,129)**	12,862
– debt instruments at FVTOCI	*11*	**(200)**	405
Write-down of inventories	*11*	**37,783**	15,333
Finance costs	*9*	**222,029**	244,666
Covid-19-related rent concessions from lessors	*11*	**–**	(781)
Interest income	*6*	**(62,576)**	(47,600)
Gain on disposal of property, plant and equipment	*7*	**(24,569)**	(318)
Loss on disposal of other intangible assets	*7*	**40**	233
Fair value changes of financial assets at FVTPL	*7*	**–**	(553)
Net foreign exchange (gain) loss	*7*	**(765)**	(1,337)
Share of losses of associates	*21*	**10,749**	15,874
		3,575,459	3,164,906
Increase in inventories		**(172,188)**	(218,136)
Increase in trade and other receivables		**(4,092,341)**	(1,636,797)
Increase (decrease) in trade and other payables		**1,856,055**	(482,198)
Increase (decrease) in contract liabilities		**(88,252)**	69,225
Decrease (increase) in debt instruments at FVTOCI		**145,985**	(272,413)
Cash generated from operations		**1,224,718**	624,587
PRC Enterprise Income Tax paid		**(428,689)**	(396,113)
Net cash flows from operating activities		**796,029**	228,474

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	36	**–**	(100,165)
Cash consideration paid for the acquisition of subsidiaries in the prior year		**(15,998)**	–
Proceeds from disposal of financial assets at FVTPL		**–**	73,353
Purchase of property, plant and equipment		**(787,094)**	(1,129,616)
Payments for acquisition of for right-of-use assets		**–**	(48,765)
Proceeds from disposal of property, plant and equipment		**32,025**	6,629
Purchase of other intangible assets		**(90,104)**	(74,009)
Withdrawal of time deposits		**203,000**	–
Placement of time deposits		**(5,000)**	(203,000)
Assets-related government grants received		**21,879**	154,103
Capital injection to an associate		**(6,594)**	(13,676)
Decrease in pledged bank deposits		**48,374**	213,090
Interest received		**62,576**	47,600
Net cash flows used in investing activities		**(536,936)**	(1,074,456)
Cash flows from financing activities			
Proceeds from issue of unsecured notes	42	**1,000,000**	3,200,000
Issue cost of unsecured notes	42	**(7,500)**	(8,700)
New bank and other borrowings	42	**2,895,521**	5,658,795
Repayments of unsecured notes	42	**(1,000,000)**	(4,800,000)
Repayments of bank and other borrowings	42	**(3,058,501)**	(4,582,761)
Repayments of lease liabilities	42	**(19,159)**	(16,625)
Dividends paid	42	**(275,779)**	(216,346)
Interest paid	42	**(204,589)**	(269,900)
Dividends paid to non-controlling interests of a subsidiary	42	**(63,150)**	(113,899)
Acquisition of additional interests in a subsidiary		**(497)**	–
Capital injection from non-controlling interests		**9,500**	134,993
Capital returned to non-controlling interests		**(162)**	–
Net cash flows used in financing activities		**(724,316)**	(1,014,443)

	Notes	2021 RMB'000	2020 RMB'000
Net decrease in cash and cash equivalents		**(465,223)**	(1,860,425)
Cash and cash equivalents at beginning of year	*27(c)*	**3,185,627**	5,046,024
Effect of foreign exchange rate changes, net		**(2,720)**	28
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,717,684**	3,185,627
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		**2,894,757**	3,440,240
Restricted cash	*27(c)*	**(177,073)**	(254,613)
Cash and cash equivalents as stated in the statement of cash flows		**2,717,684**	3,185,627

1. CORPORATE AND GROUP INFORMATION

China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is a listed company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company's ultimate controlling party is China National Pharmaceutical Group Corporation ("CNPGC"), a company established in the People's Republic of China (the "PRC") which is a Chinese state-owned enterprise. The address of the registered office and principal place of business of the Company is Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

The principal activities of the Company and its subsidiaries (the "Group") are research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company and all its subsidiaries.

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in 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 Group for the year ended 31 December 2021. 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).

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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

The revised HKFRSs had no material impact on the Group's financial performance or position for the current or prior periods or on the disclosures set out in the consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Amendments to HKFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*[2]
Annual Improvements to HKFRSs 2018-2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the amendments to HKAS 1, 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 in October 2020 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

The Group expects that the adoption of the above new and revised standards will have no significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates 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 is included in profit or loss and 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. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its financial instruments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Owned properties	2% to 5%
Plant, machinery and equipment	6.67% to 33.4%
Motor vehicles	10% to 25%
Office equipment and others	10% to 33.4%

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 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 a building 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property to its residual value over its estimated useful life. The annual rates used for this purpose are 2% to 5%.

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

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.

Licenses and franchises, customer relationship, software and distribution network

Licenses and franchises, customer relationship, software and distribution network, purchased or acquired through business combinations are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives as below:

Licenses and franchises	12 to 20 years
Customer relationship	5 to 21 years
Software	5 to 10 years
Distribution network	10 years

Product protection rights

The product protection rights mainly comprises the licenses for manufacturing and trading of concentrated Traditional Chinese Medicines ("TCM") granules and patterns and knowhows regarding production technology and processes of various concentrated TCM granules. Production protection rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 25 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Trademark

Trademarks (including brand names) are assessed to have indefinite useful lives or definite useful lives ranging from 10 years to 44 years according to the managements' assessment regarding the foreseeable limit to the period over which these trademarks are expected to generate net cash flows for the Group. Trademarks with definite useful lives are amortised on the straight-line basis over their estimated useful lives.

Research and development costs

All research costs are charged to 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

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

Leasehold land	30 to 50 years
Buildings	2 to 10 years

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

(b) Lease liabilities

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

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

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 leases of low-value assets to leases of office equipment that is considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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 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 asset to the lessee are accounted for as finance leases.

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 and fair value through profit or loss.

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

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

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:

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at amortised cost

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

Financial assets at fair value through other comprehensive income

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 profit or loss.

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.

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.

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

The Group considers a financial asset in default when contractual payments are more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, loans from a director and lease liabilities.

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 rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, 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 as to use.

Provisions

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

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

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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

- 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 the reporting period.

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

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 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 profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(a) *Sale of goods*

Revenue from the sale of goods includes the sale of TCM products. Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Some contracts for the sale of goods provide customers with rebates. The volume rebates give rise to variable consideration.

Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customers. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) TCM healthcare service

TCM healthcare service comprises of consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) physiotherapy. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For all of the three performance obligations, control of the respective service is transferred at a point in time, i.e. upon completion of the respective service or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from physiotherapy is recognised evenly upon each of the completed services. Transactions are settled by payment from commercial insurance, the government's insurance schemes, or directly paid by bank cards, third-party payment platforms or cash from customers.

Other income

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

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Employee retirement benefits

Mainland China

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain of its 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.

Hong Kong

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

The costs of employee retirement benefits are recognised as expenses in profit or loss in the period in which they are incurred.

Defined benefit plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Defined benefit plan (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales", "selling and distribution expenses" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. 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 the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment of goodwill and other intangible assets with indefinite useful lives

The Group determines whether goodwill and other intangible assets with indefinite useful lives is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and other intangible assets with indefinite useful lives is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The information about the Group's goodwill and other intangible assets with indefinite useful lives is disclosed in notes 16, 19 and 20 to the financial statements.

Impairment of other long-term non-financial assets

The Group assesses whether there are any indicators of impairment for other long -term non-financial assets, excluding goodwill and other intangible assets with indefinite useful lives, at the end of each reporting period. These non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17, 18 and 19 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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 manufacturing 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 23 to the financial statements.

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down of inventories in the period in which the estimate has been changed. The information about the Group's inventories is disclosed in note 25 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as the expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed as at the end of each of the reporting periods. Further details of property, plant and equipment are set out in note 17 to the financial statements.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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. The information about the Group's deferred tax assets is disclosed in note 31 to the financial statements.

Assessment of the useful lives of the production protection rights from the acquisition of Jiangyin Tianjiang Group

The product protection rights mainly comprised the licences for manufacture and trading of concentrated TCM granules under National Pilot Program and knowhows regarding production technology and processes of various concentrated TCM granules (the "Knowhows"). The management estimates the useful lives of the production protection rights arising from the acquisition of Jiangyin Tianjiang Group based on the expected lifespan of those production protection rights. The useful lives of the production protection rights could change as a result of change in regulatory, commercial and technological environment.

Before year 2021, the production protection rights were considered by the management of the Group as having an indefinite useful life, taking into account the stable track record of industry of Concentrated TCM granules and the high barrier to enter to the national TCM granules market in the PRC.

On 1 November 2021, the licence restriction for manufacture and trading of TCM granules has been lifted following the repeal of the regulations related to National Pilot Program of concentrated TCM granules, the management assessed that the Group continues to possess the Knowhows as product protection rights to hinder new market participants to enter into the national TCM granules market in the PRC. However, the change in nature of the product protection rights from a combination of legal and technical protection to technical protection only led to a change in the estimation regarding the useful life of production protection rights. The barrier to entry to national TCM granules market in the PRC is therefore being capable to open only upon when new market participants are capable to produce sufficient range of concentrated TCM granule products after completion of the required research of knowhows by taking into account the procurement norms and practices of the Group's customers (mainly hospitals and medical institutions) regarding the completeness in clinical medication categories and quality responsibility.

Considering the above, the board of directors of the Company approved the changes in accounting estimates with respect to the useful lives of the Group's product protection rights from "indefinite" to "10-year".

At 31 December 2021, the carrying amount of product protection rights was RMB2,475,772,000 (2020: RMB2,539,667,000). The change in calculation of accounting estimates adopts the prospective applicable method, and its impacts on the Group's consolidated financial statements are for the year ended 31 December 2021: a decrease in profit before tax of RMB36,103,000; for the years ended 31 December 2022 to 2030: an annual decrease in profit before tax of RMB216,616,000; and for the year ended 31 December 2031: a decrease in profit before tax of RMB180,514,000.

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2021 **RMB'000**	2020 RMB'000
Types of goods or services		
Concentrated TCM granules	**13,400,064**	10,053,933
TCM finished drugs	**3,194,217**	3,015,016
TCM decoction pieces	**1,467,420**	1,146,080
TCM healthcare products in great health industry	**93,515**	50,903
Institutional TCM medical comprehensive services	**144,580**	106,055
TCM integration business	**753,006**	434,181
Total	**19,052,802**	14,806,168

	2021 **RMB'000**	2020 RMB'000
Geographical markets		
Mainland China	**18,952,171**	14,718,867
Hong Kong	**14,707**	20,018
Overseas and others	**85,924**	67,283
Total	**19,052,802**	14,806,168
Timing of revenue recognition		
At point in time	**19,052,802**	14,806,168

4. REVENUE (CONTINUED)

(ii) Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers		
External customers	**19,052,802**	14,806,168
Intersegment sales	**2,274,493**	1,512,701
Total	**21,327,295**	16,318,869
Intersegment adjustments and eliminations	**(2,274,493)**	(1,512,701)
Total	**19,052,802**	14,806,168

(ii) Performance obligations for contracts with customers

Sale of TCM products (revenue recognised at a point in time)

Revenue from sale of TCM products, such as concentrated TCM granules, finished drugs, TCM decoction pieces and TCM healthcare products, is recognized at the point in time when control of the asset is transferred to the customer, the customers has full discretion to use the healthcare products, and there is no unfulfilled obligation that could affect the customers' acceptance of the healthcare products. Transactions are settled by payment from commercial insurance, government's insurance scheme, third-party payment platforms, or directly paid by bank cards or cash from customers.

Product sales represent the sales value of goods, less estimated discounts.

The provision for deduction of estimated revenue is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Discount to customers is in accordance with the practice of the TCM industry and prime healthcare industry. The Group records discount provision for sales at the time of sales based on the agreed rate.

The Group regularly reviews the estimates and accordingly adjusts provisions.

4. REVENUE (CONTINUED)

(ii) Performance obligations for contracts with customers (continued)

Provision of TCM healthcare services (revenue recognised at a point in time)

The Group provides medical diagnosis and health examination services.

Revenue from TCM healthcare services contains more than one performance obligation, including (i) the provision of consultation services or diagnostic services, (ii) the sale of TCM products, and (iii) TCM therapies. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. The control of services or TCM products is transferred at a point in time, and revenue is recognised when the customer obtains the control of the completed services or TCM products as the Group has satisfied its performance obligations with a present right to payment and the collection of the consideration is probable. Transactions are settled by payment from commercial insurance, government's insurance scheme, third-party payment platforms, or directly paid by bank cards or cash from customers.

5. OPERATING SEGMENTS INFORMATION

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the executive directors, being the chief operating decision makers ("CODM") of the Group, in order to allocate resources to segments and to assess their performances. The Group has five reportable operating segments as follows:

i. concentrated TCM granules segment engages in the manufacture and sales of concentrated TCM granules products, TCM healthcare products, and TCM decoction pieces. Majority of the revenue of concentrated TCM granules segment is derived from the sales of concentrated TCM granules;

ii. TCM finished drugs segment engages in the manufacture and sale of TCM finished drugs, concentrated TCM granules, TCM healthcare products and TCM decoction pieces. TCM Majority of the revenue of TCM finished drugs segment is derived from the sales of finished drugs;

iii. TCM decoction pieces segment mainly engages in the manufacture and sales of TCM decoction pieces and trading of TCM;

iv. TCM great health segment mainly engages in provision of a variety of Chinese medical related healthcare solutions, including Chinese medical consultation and diagnosis, TCM physiotherapy, and prescription with concentrated TCM granules, TCM decoction pieces and TCM healthcare products; and

5. OPERATING SEGMENTS (CONTINUED)

v. Local TCM integrated operation mainly engages in the manufacture and trading of TCM decoction pieces, TCM healthcare products and concentrated TCM granules sourcing from the oriented plantation zones of Chinese raw herbs.

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of net profit or loss from the continuing operations. With the aim to streamline the financial performance of each reporting segment following an undergoing business restructure, the measure used for reporting segment profit/loss changed from "adjusted EBITDA" (i.e. "adjusted earnings before interest, taxes, depreciation and amortisation") to "net profit or loss from continuing operations". The net profit/loss before tax from continuing operations is measured consistently with the Group's net profit from continuing operations. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosure.

For the purposes of assessing segment performance and allocating resources between segments, the CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue, cost of sales, other gains and losses and all types of expenses are allocated to the reportable segments with reference to the transactions incurred by those segments or allocated on a reasonable basis.

Segment assets exclude financial assets at FVTPL, deferred tax assets and unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities and unallocated head office and corporate liabilities as these liabilities are managed on a group basis

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. Intersegment sales are eliminated on consolidation.

The following tables present revenue and other segment information for the Group's operating:

5. OPERATING SEGMENTS (CONTINUED)

(i) Segment results, assets and liabilities

	TCM Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM great health RMB'000	Local TCM integrated operation RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2021							
Segment revenue (note 4)							
External customers	3,489,336	13,233,868	1,417,961	144,580	767,057	–	19,052,802
Intersegment sales	102,288	291,735	1,237,612	1,015	641,843	(2,274,493)	–
	3,591,624	13,525,603	2,655,573	145,595	1,408,900	(2,274,493)	19,052,802
Segment results	233,698	2,142,510	(70,335)	(20,815)	(161,634)	–	2,123,424
As at 31 December 2021							
Segment assets	9,657,201	22,575,059	3,720,810	240,779	3,236,836	–	39,430,685
Elimination of intersegment receivables							(3,251,449)
Deferred tax assets							187,469
Unallocated head office and corporate assets							22,563
Total assets							36,389,268
Segment liabilities	1,552,921	10,039,021	1,803,184	79,272	1,651,834	–	15,126,232
Elimination of inter-segment payables							(3,251,449)
Tax payable							153,565
Deferred tax liabilities							1,680,204
Unallocated head office and corporate liabilities							19,787
Total liabilities							13,728,339
Other segment information:							
Interest income	41,382	18,454	1,487	547	706	–	62,576
Finance cost	(75,163)	(103,685)	(15,730)	(2,036)	(25,415)	–	(222,029)
Share of profits and losses of associates	(5,647)	24	(2,999)	(2,127)	–	–	(10,749)
Depreciation and amortisation	(190,770)	(416,891)	(108,118)	(23,154)	(110,664)	–	(849,597)
Write down of inventories	857	(13,763)	(22,103)	(12)	(2,762)	–	(37,783)
Impairment losses under the expected credit loss model, net of reversal	(4,039)	(4,177)	(1,999)	(198)	(3,466)	–	(13,879)
Impairment loss recognised in respect of							
– goodwill	(29,779)	–	–	–	–	–	(29,779)
– right of use assets	–	–	(1,144)	–	–	–	(1,144)
– other intangible assets	(1,674)	–	(591)	–	–	–	(2,265)
– property, plant and equipment	(3,024)	–	(8,967)	(109)	–	–	(12,100)

5. OPERATING SEGMENTS (CONTINUED)

(i) Segment results, assets and liabilities (continued)

	TCM Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM great health RMB'000	Local TCM integrated operation RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2020							
Segment revenue (note 4)							
External customers	3,066,883	10,012,956	1,237,402	106,055	382,872	–	14,806,168
Intersegment sales	82,030	234,452	899,255	1,853	295,111	(1,512,701)	–
	3,148,913	10,247,408	2,136,657	107,908	677,983	(1,512,701)	14,806,168
Segment results	220,566	1,743,271	(36,490)	(8,151)	(58,552)	–	1,860,644
As at 31 December 2020							
Segment assets	6,355,934	22,331,527	4,229,574	289,822	3,206,802	–	36,413,659
Elimination of intersegment receivables							(3,515,057)
Deferred tax assets							170,307
Unallocated head office and corporate assets							19,474
Total assets							33,088,383
Segment liabilities	2,154,857	7,051,430	2,720,889	91,128	1,509,813	–	13,528,117
Elimination of intersegment payables							(3,515,057)
Tax payable							150,828
Deferred tax liabilities							1,710,376
Unallocated head office and corporate liabilities							317,698
Total liabilities							12,191,962
Other segment information:							
Interest income	18,013	24,355	2,319	104	2,809	–	47,600
Finance cost	(61,369)	(164,170)	(10,189)	(1,738)	(7,200)	–	(244,666)
Share of profits and losses of associates	(12,711)	6	(2,086)	(1,083)	–	–	(15,874)
Depreciation and amortisation	(186,751)	(331,855)	(87,761)	(17,389)	(60,323)	–	(684,079)
Write down of inventories	(12,186)	10,040	(8,224)	(20)	(4,943)	–	(15,333)
Impairment losses under the expected credit loss model, net of reversal	(385)	(45,027)	(3,196)	(92)	(5,025)	–	(53,725)
Impairment loss recognised in respect of goodwill	(5,390)	–	(11,447)	–	–	–	(16,837)

5. OPERATING SEGMENTS (CONTINUED)

(ii) Geographical information and information about major customers

As all of the Group's revenue is derived from the PRC, and all of the Group's identifiable non-current assets are located in the PRC, no geographical information as required by HKFRS 8 Operating Segments is presented.

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2021 and 2020.

6. OTHER INCOME

	2021	2020
	RMB'000	RMB'000
Government grants		
– Unconditional subsidies (note i)	**91,695**	151,724
– Conditional subsidies (note ii)	**36,276**	45,343
Interest income on bank deposits	**62,576**	47,600
Rental income from investment properties	**14,865**	9,889
	205,412	254,556

Notes:

(i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy.

(ii) Including government grants and subsidies have been received to compensate for the Group's research and development expenditures, which relate to future costs to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants are recognised in profit or loss when related costs are subsequently incurred and the Group receives government's acknowledgement of compliance. Other government grants have been received to compensate for the construction of the production line. The subsidies are recognised in profit or loss over the useful lives of the relevant assets.

7. OTHER GAINS AND LOSSES

	Notes	2021 RMB'000	2020 RMB'000
Impairment loss recognised in respect of			
– goodwill	*16*	**(29,779)**	(16,837)
– right-of-use assets	*18*	**(1,144)**	–
– other intangible assets	*19*	**(2,265)**	–
– property, plant and equipment	*17*	**(12,100)**	–
Net gain on disposal of property, plant and equipment		**24,569**	318
Net loss on disposal of other intangible assets		**(40)**	(233)
Fair value changes on financial assets at FVTPL		**–**	553
Net foreign exchange gains/(losses)		**765**	(1,337)
Others		**3,209**	25,748
Gains/(losses)		**(16,785)**	8,212

8. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2021 RMB'000	2020 RMB'000
Impairment losses (recognised) reversed in respect of		
– trade receivables	**(15,208)**	(40,458)
– other receivables	**1,129**	(12,862)
– debt instruments at FVTOCI	**200**	(405)
	(13,879)	(53,725)

Details of impairment assessment for the year ended 31 December 2021 are set out in note 40.

9. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest expense:		
– Interest on bank borrowings	**94,693**	60,298
– Effective interest expense on unsecured notes	**105,660**	148,784
– Factoring of trade receivables	**18,101**	39,170
– Interest on lease liabilities	**4,794**	5,039
Total interest expense on financial liabilities	**223,248**	253,291
Less: Amounts capitalised	**(1,219)**	(8,625)
	222,029	244,666

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.50% (2020: 5.16%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current tax:		
PRC enterprise income tax ("EIT")	**431,369**	400,933
Underprovision in prior year	**12,308**	21,783
	443,677	422,716
Deferred tax credit (note 31)	**(46,821)**	(53,269)
	396,856	369,447

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group has no assessable profit derived from Hong Kong for both years.

10. INCOME TAX EXPENSE (CONTINUED)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except for the following group entities:

(1) Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"), Dezhong, Foshan Dezhong Pharmaceutical Machinery Co., Ltd. ("Dezhong Yaoji"), Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), Jiangyin Tianjiang, Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang"), Huayi Pharmaceutical Co., Ltd. ("Huayi"), Jingfang, Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang"), Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical"), Hunan Yifang Tianjiang Pharmaceutical Co., Ltd. ("Hunan Yifang"), Sinopharm Group Beijing Huamiao Pharmaceutical Co., Ltd. ("Beijing Huamiao") and Anhui Fengliaoxing TCM Decoction Pieces Technology Co., Ltd. ("Anhui Fengliaoxing") were recognised as advanced and new technology enterprises and enjoyed a preferential enterprise income tax rate of 15% for the year ended 31 December 2021 (2020: The PRC Enterprise Income Tax rate applicable to Feng Liao Xing, Dezhong, Dezhong Yaoji, Guangdong Medi-World, Jiangyin Tianjiang, GD Yifang, Huayi, Jingfang, Anhui Fengliaoxing, Tianxiang, Zhonglian Pharmaceutical, Hunan Yifang, Beijing Huamiao and Sinopharm Wuhan Zhonglian Siyao Pharmaceutical Co., Ltd. was 15%) pursuant to relevant documents issued by local government authorities.

(2) Tongjitang Pharmaceutical, Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao"), Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante"), Shaanxi Yifang Pingkang Pharmaceutical Company Limited ("Yifang Pingkang"), and Longxi Yifang Pharmaceutical Co., Ltd. ("Longxi Yifang"), being qualified enterprises located in the western region of the PRC, enjoyed a preferential income tax rate of 15% effective retrospectively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011. They continue to enjoy a preferential income tax rate of 15% effective from 1 January 2021 to 31 December 2030 pursuant to Announcement of the Ministry of Finance [2020] No. 23, dated 23 April 2020.

(3) Jiangsu Jiangkang Pharmaceutical Co., Ltd. ("Jiangkang Pharmaceutical"), Fujian Chengtian Jinling Pharmaceutical Co., Ltd. ("Fujian Chengtian Pharmaceutical"), Shandong Fengliaoxing Herbal Co., Ltd. ("Shandong Fengliaoxing"), Taixing Tianjiang Pharmaceutical Co., Ltd. (Taixing Tianjiang), Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal"), Longxixian Feng Liao Xing Herbal Co., Ltd. ("Longxixian Fengliaoxing"), Sichuan Tianxiong Pharmaceutical Company Limited ("Sichuan Tianxiong"), Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou Zhongbafuzi Technology Development Co., Ltd. ("Sichuan Jiangyou"), being qualified enterprises with operation of medicinal plants primary processing business in the PRC, enjoyed a full enterprise income tax exemption during 2021 pursuant to the EIT Law, Order of the President [2007] No. 63 (2020: Jiangkang Pharmaceutical, Fujian Chengtian Pharmaceutical, Shandong Fengliaoxing, Taixing Tianjiang, Tongjitang Herbal, Longxixian Fengliaoxing, Sichuan Tianxiong, Anhui Fengliaoxing, Beijing Huamiao and Sichuan Jiangyou).

(4) Shanghai Tongjitang, being a qualified enterprise with operation of medicinal plants primary processing business in the PRC, enjoys a full enterprise income tax exemption from 2010 to 2024 in regard of its medical plants procession business pursuant to CaiShui [2008] No.149 dated 20 November 2008.

10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year is reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 **RMB'000**	2020 RMB'000
Profit before tax	**2,520,280**	2,230,091
Tax at the domestic income tax rate of 25%	**630,071**	557,523
Tax effect of expenses not deductible for tax purposes	**16,782**	16,440
Tax effect of income not taxable for tax purposes	**(76,595)**	(9,064)
Income tax at concessionary rate	**(205,934)**	(250,726)
Additional tax deduction for qualified research and development expenses	**(78,748)**	(50,198)
Effect of tax exemptions granted to PRC subsidiaries	**(17,209)**	(14,121)
Underprovision in respect of prior years	**12,308**	21,783
Tax losses not recognised	**77,739**	54,590
Utilisation of tax losses previously not recognised	**(469)**	(3,072)
Withholding tax on interest income from PRC entities	**10,746**	16,509
Withholding tax on distributable profits of PRC entities	**28,165**	29,783
Income tax expense for the year	**396,856**	369,447

The domestic tax rate (which is PRC corporate tax rate) in the jurisdictions where the operation of the Group is substantially based is used.

11. PROFIT FOR THE YEAR

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

	Notes	2021 RMB'000	2020 RMB'000
Directors' remuneration	*12*	**8,003**	8,515
Other staff costs			
Salaries, wages and other benefits		**1,941,075**	1,730,998
Contributions to defined contribution retirement benefits		**118,374**	29,396
		2,059,449	1,760,394
Cost of sales		**7,223,639**	5,680,093
Included: Write-down of inventories to net realisable value*	*25*	**37,783**	15,333
Auditor's remuneration		**4,993**	5,780
Impairment loss recognised in respect of			
– goodwill	*7*	**29,779**	16,837
– right of use assets	*7*	**1,144**	–
– other intangible assets	*7*	**2,265**	–
– property, plant and equipment	*7*	**12,100**	–
Impairment losses recognised (reversed) in respect of			
– trade receivables	*8*	**15,208**	40,458
– other receivables	*8*	**(1,129)**	12,862
– debt instruments at FVTOCI	*8*	**(200)**	405
Depreciation of			
– investment properties	*17*	**15,588**	7,709
– property, plant and equipment	*17*	**570,989**	472,848
– right-of-use assets	*18*	**47,054**	39,296
Amortisation of other intangible assets	*19*	**215,966**	164,226
Total depreciation and amortisation		**849,597**	684,079
Covid-19-related rent concessions		**–**	(781)
Gross rental income from investment properties	*6*	**(14,865)**	(9,889)
Less: Direct operating expenses incurred for investment properties		**3,229**	1,126
		(11,636)	(8,763)

* The write-down of inventories to net realisable value is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executives' remuneration for both years, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	2021				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	1,364	1,289	101	2,754
Yang Wenming	–	1,302	1,227	101	2,630
Non-executive director					
Wang Xiaochun (note a)	35	868	716	40	1,659
Independent non-executive directors					
Xie Rong	207	33	–	–	240
Yu Tze Shan Hailson	207	33	–	–	240
Qin Ling	207	33	–	–	240
Li Weidong	207	33	–	–	240
	863	3,666	3,232	242	8,003

	2020				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	1,309	1,239	47	2,595
Wang Xiaochun (note a)	–	1,180	1,180	55	2,415
Yang Wenming	–	1,250	1,180	47	2,477
Independent non-executive directors					
Xie Rong	222	35	–	–	257
Yu Tze Shan Hailson	222	35	–	–	257
Qin Ling	222	35	–	–	257
Li Weidong	222	35	–	–	257
	888	3,879	3,599	149	8,515

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

The executive directors' emoluments shown above for both years were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above for both years were for their services as directors of the Company or its subsidiaries. There were no other emoluments payable to the independent non-executive directors during the year (2020: nil).

The independent non-executive directors' emoluments shown above for both years were for their services as directors of the Company.

Note:

(a) Mr. Wang Xiaochun has been re-designated from an executive director and appointed as a non-executive Director on 25 November 2021. Mr. Wang Xiaochun has resigned as the Managing Director Officer of the Company on 13 July 2021 and his emoluments disclosed above included those for services rendered by him as the Managing Director.

Some directors were also the employees of the CNPGC and their remuneration were paid and borne by CNPGC and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2021 and 2020.

Neither the chief executive officer nor any of the directors waived any emoluments, compensation loss and inducement to join or upon joining the Group during the years ended 31 December 2021 and 2020.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2020: three directors), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining three (2020: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 **RMB'000**	2020 RMB'000
Salaries and allowances	**3,240**	2,164
Discretionary bonuses	**3,071**	2,074
Retirement benefits	**212**	46
	6,523	4,284

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

	2021 **Number of** **individuals**	2020 Number of individuals
HK$		
2,000,001 – 2,500,000	**1**	1
2,500,001 – 3,000,000	**2**	1

14. DIVIDENDS

	2021	2020
	RMB'000	RMB'000
Proposed final – HK7.36 cents (2020: Nil) per ordinary share	**301,141**	–

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

	2021	2020
	RMB'000	RMB'000
Interim declare and paid – HK6.66 cents (2020: Nil) per ordinary share	**279,811**	–
Final declare and paid – nil (2020: HK4.76 cents) per ordinary share	**–**	219,329
	279,811	219,329

On 20 August 2021, the board of directors have approved the interim dividend of HK6.66 per ordinary share, amounting to a total of HK$335,384,000 (approximately RMB279,811,000). The interim dividend was subsequently distributed in October 2021 to the shareholders on the register member of the Company on 8 September 2021.

The 2019 proposed final dividend of HK$239,704,000 (approximately RMB219,329,000 was approved by the Company's shareholder meeting on 19 June 2020 and was subsequent distributed in July 2020.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to ordinary equity holders of the parent is based on the following data:

	2021	2020
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent	**1,932,858**	1,663,255

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	5,035,801

No diluted earnings per share for both 2021 and 2020 were presented as there were no potential ordinary shares in issue for both 2021 and 2020.

16. GOODWILL

	2021	2020
	RMB'000	RMB'000
COST		
At 31 December	**3,568,984**	3,568,984
IMPAIRMENT		
At 1 January	**(47,021)**	(30,184)
Impairment loss recognised for the year	**(29,779)**	(16,837)
At 31 December	**(76,800)**	(47,021)
CARRYING VALUES		
At 31 December	**3,492,184**	3,521,963

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 20.

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2020	3,436,883	1,450,327	39,372	1,136,625	621,276	6,684,483	85,172	6,769,655
Additions	40,552	47,719	5,341	1,093,798	123,081	1,310,491	–	1,310,491
Acquisitions of subsidiaries	206,195	28,978	154	–	798	236,125	–	236,125
Transfer from construction in progress	706,385	209,229	1,508	(975,344)	58,222	–	–	–
Transfer from right-of-use assets	–	–	–	–	–	–	23,271	23,271
Transfer to investment properties	(212,750)	–	–	(7,926)	–	(220,676)	220,676	–
Disposals	(2,309)	(15,867)	(1,561)	–	(12,302)	(32,039)	–	(32,039)
At 31 December 2020	4,174,956	1,720,386	44,814	1,247,153	791,075	7,978,384	329,119	8,307,503
Additions	**36,709**	**83,367**	**1,792**	**800,336**	**110,231**	**1,032,435**	**–**	**1,032,435**
Transfer from construction in progress	**1,113,226**	**184,700**	**1,306**	**(1,406,907)**	**88,376**	**(19,299)**	**19,299**	**–**
Transfer to other assets	**–**	**–**	**–**	**(21,436)**	**–**	**(21,436)**	**–**	**(21,436)**
Transfer from right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**2,085**	**2,085**
Transfer from investment properties	**43,691**	**–**	**–**	**–**	**–**	**43,691**	**(43,691)**	**–**
Transfer to investment properties	**(20,608)**	**–**	**–**	**–**	**–**	**(20,608)**	**20,608**	**–**
Transfer to right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**(2,889)**	**(2,889)**
Disposals	**(5,779)**	**(45,065)**	**(4,646)**	**(1,485)**	**(23,713)**	**(80,688)**	**–**	**(80,688)**
At 31 December 2021	**5,342,195**	**1,943,388**	**43,266**	**617,661**	**965,969**	**8,912,479**	**324,531**	**9,237,010**

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2020	498,196	585,507	15,875	–	214,587	1,314,165	12,313	1,326,478
Additions	227,733	101,129	7,619	–	136,367	472,848	7,709	480,557
Transfer to investment properties	(9,668)	–	–	–	–	(9,668)	9,668	–
Transfer from right-of-use assets	–	–	–	–	–	–	238	238
Disposals	(827)	(12,296)	(1,403)	–	(11,202)	(25,728)	–	(25,728)
At 31 December 2020	715,434	674,340	22,091	–	339,752	1,751,617	29,928	1,781,545
Additions	265,290	141,767	6,804	–	157,128	570,989	15,588	586,577
Transfer from right-of-use assets	–	–	–	–	–	–	1,427	1,427
Transfer from investment properties	4,400	–	–	–	–	4,400	(4,400)	–
Transfer to investment properties	(13,380)	–	–	–	–	(13,380)	13,380	–
Transfer to right-of-use assets	–	–	–	–	–	–	(160)	(160)
Disposals	(2,552)	(42,426)	(4,388)	(1,485)	(22,381)	(73,232)	–	(73,232)
Impairment	–	9,886	319	1,717	178	12,100	–	12,100
At 31 December 2021	969,192	783,567	24,826	232	474,677	2,252,494	55,763	2,308,257
CARRYING VALUES								
At 31 December 2021	4,373,003	1,159,821	18,440	617,429	491,292	6,659,985	268,768	6,928,753
At 31 December 2020	3,459,522	1,046,046	22,723	1,247,153	451,323	6,226,767	299,191	6,525,958

(a) For investment properties, the Group leases out various offices and warehouses under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 10 years, with no unilateral rights to extend the lease beyond initial period.

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) The Group is not exposed to foreign currency risk for investment properties as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

(c) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair values of the investment properties as at 31 December 2021 was RMB591,390,000 (2020: RMB359,415,000).

The fair value of the investment properties as at 31 December 2021 was determined based on the market approach (direct comparison approach) assuming sale of the property interests in their existing states with the benefit of vacant possession and with reference to comparable sales transactions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about their fair value under level 2 fair value hierarchy are as follows:

	2021		2020	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Commercial property units	**5,547**	**7,784**	402	2,990
Office units	**50,453**	**282,902**	58,684	85,125
Plant units	**212,768**	**300,704**	240,105	271,300
	268,768	**591,390**	299,191	359,415

(d) Certain of the Group's buildings with carrying values of RMB353,501,000 (2020: RMB383,975,000) and RMB203,534,000 (2020: RMB66,906,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

(e) The Group has not yet obtained the building ownership certificates for buildings situated in the PRC with an aggregate carrying value of RMB878,007,000 (2020: RMB1,055,001,000). The buildings are currently in use and in the opinion of directors, there is no material legal impediment for the Group to obtain the building ownership certificates.

18. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 to 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

(a) Right-of-use assets

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

	Note	Leasehold land RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Total
As at 1 January 2020		1,135,333	95,834	61	1,231,228
Additions		73,125	2,225	–	75,350
Depreciation charge		(48,740)	(15,024)	(26)	(63,790)
As at 1 January 2021		1,159,718	83,035	35	1,242,788
Addition		–	8,005	–	8,005
Transfer from construction in progress	*17*	1,100	–	–	1,100
Transfer from investment property	*17*	2,729	–	–	2,729
Transfer to investment property	*17*	(658)	–	–	(658)
Depreciation charge		(31,183)	(15,836)	(35)	(47,054)
Impairment	*7*	(1,144)	–	–	(1,144)
As at 31 December 2021		1,130,562	75,204	–	1,205,766

Certain of the Group's right-of-use assets with carrying values of RMB115,180,000 (2020: RMB73,503,000) and RMB8,474,000 (2020: RMB57,285,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

18. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**103,955**	114,118
New leases	**7,902**	3,663
Accretion of interest recognised during the year	**4,794**	5,039
Covid-19-related rent concessions from lessors	**–**	(781)
Payments	**(19,159)**	(16,625)
Carrying amount at 31 December	**97,492**	103,955
Analysed into:		
Current portion	**14,996**	13,994
Non-current portion	**82,496**	89,961

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
Within one year	**14,996**	13,994
Within a period of more than one year but not more than two years	**24,688**	12,090
Within a period of more than two years but not more than five years	**44,043**	37,823
Within a period of more than five years	**13,765**	40,048
	97,492	103,955
Less: Amount due for settlement with 12 months shown under current liabilities	**14,996**	13,994
Amount due for settlement after 12 months shown under non-current liabilities	**82,496**	89,961

18. LEASE (CONTINUED)

The Group as a lessee (continued)

(b) Lease Liabilities (continued)

The weighted average incremental borrowing rate applied to lease liabilities is 4.89% (2020: 4.89%).

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 10 years, with no extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group has obtained the land use right certificates for all leasehold lands except for the leasehold land with a carrying amount of RMB7,056,000 (2020: RMB7,267,000) in which the Group is in the process of obtaining the certificates.

The Group regularly entered into short-term leases for plant and warehouse. As at 31 December 2021 and 2020, the portfolio of short-term leases was similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on leases

In addition, lease liabilities of RMB97,492,000 are recognized with related right-of-use assets of RMB75,204,000 as at 31 December 2021 (2020: lease liabilities of RMB103,955,000 and related right-of-use assets of RMB83,070,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

19. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licences and franchises RMB'000	Total RMB'000
COST							
At 1 January 2020	2,833,709	2,006,335	59,000	20,089	2,245,552	183,897	7,348,582
Additions	209	–	–	9,482	–	64,318	74,009
Disposals	(4,079)	–	–	(37)	–	–	(4,116)
At 31 December 2020	2,829,839	2,006,335	59,000	29,534	2,245,552	248,215	7,418,475
Additions	213	–	–	6,727	–	83,164	90,104
Transfer from construction in progress	–	–	–	15,268	–	5,068	20,336
Disposals	–	–	–	(340)	–	–	(340)
At 31 December 2021	2,830,052	2,006,335	59,000	51,189	2,245,552	336,447	7,528,575
AMORTISATION AND IMPAIRMENT							
At 1 January 2020	266,412	20,975	59,000	10,013	504,077	32,015	892,492
Amortisation for the year	27,606	980	–	3,657	116,657	15,326	164,226
Write-back on disposals	(3,846)	–	–	(37)	–	–	(3,883)
At 31 December 2020	290,172	21,955	59,000	13,633	620,734	47,341	1,052,835
Amortisation for the year	64,108	979	–	6,860	116,238	27,821	215,966
Write-back on disposals	–	–	–	(300)	–	–	(300)
Impairment loss recognised in profit or loss	–	–	–	591	–	1,674	2,265
At 31 December 2021	354,280	22,934	59,000	20,744	736,972	76,836	1,270,766
CARRYING VALUES							
At 31 December 2021	2,475,772	1,983,401	–	30,445	1,508,580	259,611	6,257,809
At 31 December 2020	2,539,667	1,984,380	–	15,901	1,624,818	200,874	6,365,640

19. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2021, the carrying amount of other intangible assets with finite useful lives was RMB4,300,995,000 (2020: RMB2,242,663,000). Other intangible assets with finite useful lives are amortised on a straight-line:

	2021	2020
	RMB'000	RMB'000
Product protection rights	**2,475,772**	373,504
Trademarks	**26,587**	27,566
Software	**30,445**	15,901
Customer relationship	**1,508,580**	1,624,818
Licences and franchises	**259,611**	200,874
	4,300,995	2,242,663

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2021, the following other intangible assets, trademarks (including brand names) acquired through business combinations, are assessed to have indefinite useful lives. The trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the trademarks (including brand names) have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 20.

19. OTHER INTANGIBLE ASSETS (CONTINUED)

	Trademarks		Product protection rights*	
	2021 RMB'000	2020 RMB'000	**2021 RMB'000**	2020 RMB'000
Tongjitang Group**				
– Tongjitang Pharmaceutical	209,047	209,047	**–**	–
– Jingfang	37,779	37,779	**–**	–
– Pulante	5,037	5,037	**–**	–
Shanghai Tongjitang	110,403	110,403	**–**	–
Jiangyin Tianjiang Group*^	645,674	1,594,548	**–**	2,166,163
Jiangyin Yifang Group^	948,874	–	**–**	–
	1,956,814	1,956,814	**–**	2,166,163

* During the year ended 31 December 2021, product protection rights of RMB2,166,163,000 arising from the acquisition of Jiangyin Tianjiang Group were reclassified from intangible assets with indefinite useful lives to intangible assets with finite useful lives. For further details, please refer to the note 3 to the financial statements.

** Tongitang Pharmaceutical, Jingfang and Pulante are collectively referred to as Tongjitang Group.

^ During the year ended 31 December 2021, the Group spined off JiangYin Yifang Group from Jiangyin Tianjiang Group to optimise the business operation of the concentrated TCM granules segment via repositioning of the Group's concentrated TCM granules products, "Tianjiang" and "Yifang".

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill, trademarks (including brand names) and product protection rights with indefinite useful lives set out in notes 16 and 19 have been allocated to individual CGUs as below:

	Goodwill		Trademarks		Product protection rights*	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Manufacture and sale of pharmaceutical products						
Dezhong	**100,391**	100,391	**–**	–	**–**	–
Feng Liao Xing	**–**	–	**–**	–	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–	**–**	–
Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya")	**–**	11,221	**–**	–	**–**	–
Tongjitang Group						
– Tongjitang Pharmaceutical	**770,153**	770,153	**209,047**	209,047	**–**	–
– Jingfang	**139,184**	139,184	**37,779**	37,779	**–**	–
– Pulante	**–**	18,558	**5,037**	5,037	**–**	–
Jiangyin Tianjiang Group**	**925,154**	2,208,980	**645,674**	1,594,548	**–**	2,166,163
Jiangyin Yifang Group**	**1,283,826**	N/A	**948,874**	N/A	**–**	N/A
Huayi	**5,852**	5,852	**–**	–	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403	**–**	–
Tongjitang Herbal	**29,433**	29,433	**–**	–	**–**	–
Beijing Huamiao	**–**	–	**–**	–	**–**	–
Anhui Fengliaoxing	**–**	–	**–**	–	**–**	–
Zhonglian Pharmaceutical	**68,567**	68,567	**–**	–	**–**	–
Sale of pharmaceutical products						
Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")	**2,449**	2,449	**–**	–	**–**	–
Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain")	**30,019**	30,019	**–**	–	**–**	–
Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")	**–**	–	**–**	–	**–**	–
	3,492,184	3,521,963	**1,956,814**	1,956,814	**–**	2,166,163

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

* During the year ended 31 December 2021, product protection rights of RMB2,166,163,000 arising from the acquisition of Jiangyin Tianjiang Group were reclassified from intangible assets with indefinite useful lives to intangible assets with finite useful lives. For further details, please refer to the note 3 to the financial statements.

** During the year ended 31 December 2021, the Group spined off JiangYin Yifang Group CGU from Jiangyin Tianjiang Group CGU to optimise the business operation of the concentrated TCM granules segment via repositioning of the Group's concentrated TCM granules products, "Tianjiang" and "Yifang".

In addition to goodwill, trademarks, and product protection rights above, property, plant and equipment, other intangible assets with finite useful lives and right-of-use assets that generate cash flows together with the related goodwill, trademarks and product protection rights* are also included in the respective CGUs for the purpose of impairment assessment.

During the year ended 31 December 2021, the management of the Group has recognised an impairment loss of RMB29,779,000 in relation to goodwill in the CGUs of Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. ("Luya") and Pulante (2020: RMB16,837,000 in relation to Beijing Huamiao and Winteam Sales). The impairment loss has been included in profit or loss in the other gains and losses line item.

In the opinion of the directors, no additional impairment loss of other CGUs was identified during the years ended 31 December 2021 and 2020.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2021 have been arrived at based on the valuations carried out on the respective dates by independent qualified professional valuers. The key assumptions used in the valuations are those regarding the discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

For the purpose of impairment testing, goodwill and other intangible assets with indefinite useful lives have been allocated to the relevant CGUs. The Group determined the value-in-use by preparing cash flow projections of these CGUs derived from the most recent financial forecast approved by the management covering a 5-year period with an average sales growth rate as mentioned below. Cash flows beyond the fifth year are extrapolated using an estimated growth rate as mentioned below. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

	Average growth rate for five-year period		Growth rate beyond the fifth year		Pre-tax discount rates	
	2021	2020	**2021**	2020	**2021**	2020
Jiangyin Tianjiang Group	**10.00%**	11.63%	**3.50%**	3.50%	**12.56%**	16.43%
Jiangyin Yifang Group	**10.80%**	N/A	**3.50%**	N/A	**12.58%**	N/A
Dezhong	**15.60%**	6.15%	**3.50%**	3.50%	**12.06%**	15.42%
Tongjitang Pharmaceutical	**13.19%**	11.47%	**3.50%**	3.50%	**12.08%**	14.66%
Jingfang	**16.88%**	12.36%	**3.50%**	3.50%	**11.98%**	14.82%
Shanghai Tongjitang	**13.48%**	5.60%	**3.50%**	3.50%	**12.18%**	13.24%
Others	**3.29% – 54.19%**	3.51% – 20.26%	**3.50%**	3.50%	**11.62%-14.30%**	13.00% – 17.22%

As at 31 December 2021, the recoverable amounts of Jiangyin Tianjiang Group CGU and Jiangyin Yifang Group CGU exceeded their carrying amounts by 34% and 37%, respectively; and the recoverable amount for above CGUs, other than Jiangyin Tianjiang Group CGU and Jiangyin Yifang Group CGU, exceeds their carrying amount by 6% to 88%.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the above CGUs that contain goodwill and other intangible assets with indefinite useful lives to exceed their recoverable amounts.

21. INTERESTS IN ASSOCIATES

	2021 **RMB'000**	2020 RMB'000
Cost of investments in associates, unlisted	**50,711**	44,117
Share of post-acquisition losses and other comprehensive expense	**(32,705)**	(21,956)
	18,006	22,161

21. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Country of establishment and principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activities
		2021	2020	**2021**	2020	
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives	The PRC	**37.6%**	37.6%	**37.6%**	37.6%	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives	The PRC	**37.5%**	37.5%	**37.5%**	37.5%	Fuzi planting
Guangdong Baobaobao Healthy Soup Co., Ltd.	The PRC	**49%**	49%	**49%**	49%	Healthy soup production
Guangdong Haisikanger Rehabilitation Medical Co., Ltd. ("Guangdong Haisikanger")	The PRC	**40%**	40%	**40%**	40%	Rehabilitation service
Huizhou Gehong TCM Clinics Co., Ltd.	The PRC	**35%**	35%	**35%**	35%	Chinese medical institution
Liaoxingtang (Foshan Nanhai) TCM Clinic Co., Ltd.	The PRC	**35%**	35%	**35%**	35%	Chinese medical institution
Sinopharm Intelligent Technology (Shanghai) Co., Ltd.*	The PRC	**10%**	10%	**10%**	10%	Internet information Service for drug

* The Group has power over the associate via voting rights from one board seat of Sinopharm Intelligent Technology (Shanghai) Co., Ltd.

21. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material

	2021 **RMB'000**	2020 RMB'000
The Group's share of losses and total comprehensive expense	**(10,749)**	(15,874)
Aggregate carrying amount of the Group's interests in associates	**18,006**	22,161

22. DEPOSITS AND PREPAYMENTS

	2021 **RMB'000**	2020 RMB'000
Prepayments for property, plant and equipment	**96,235**	108,027
	96,235	108,027

23. TRADE AND OTHER RECEIVABLES

	2021 **RMB'000**	2020 RMB'000
Trade receivables	**8,442,834**	4,640,875
Less: Allowance for credit losses	**(100,076)**	(88,138)
	8,342,758	4,552,737
Prepayments for raw materials	**110,874**	102,503
Advance tax payments	**313,231**	275,051
Other receivables	**170,946**	137,286
Less: Allowance for credit losses	**(32,870)**	(34,573)
	562,181	480,267
	8,904,939	5,033,004

The Group allows a credit period ranging from 30 to 365 days to trade customers including distributors, hospitals and medical institutions.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of the Group's trade receivables at the end of each reporting period, based on invoice date are as follows:

	2021	2020
	RMB'000	RMB'000
0 to 90 days	**5,805,014**	2,803,581
91 to 180 days	**1,501,015**	1,097,214
181 to 365 days	**1,062,472**	653,072
Over 365 days	**74,333**	87,008
	8,442,834	4,640,875

As at 31 December 2021, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of RMB351,504,000 (2020: RMB188,864,000) which were past due as at the reporting date.

Included in trade and other receivables are RMB4,829,000 (2020: RMB7,774,000) and RMB13,815,000 (2020: RMB12,926,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currencies of the relevant group entities.

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

	31 December 2021	31 December 2020
	RMB'000	RMB'000
At the beginning of the year	**122,711**	83,469
Impairment losses, net *(note 8)*	**14,079**	53,320
Amount written off as uncollectible	**(3,844)**	(14,078)
At the end of the year	**132,946**	122,711

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

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

As at 31 December 2021

Group A

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.15	53.48	100.00	0.71
Gross carrying amount (RMB'000)	6,013,904	21,971	22,081	6,057,956
Expected credit losses (RMB'000)	9,021	11,749	22,081	42,851

Group B

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	2.00	60.65	100.00	2.98
Gross carrying amount (RMB'000)	874,436	11,005	2,336	887,777
Expected credit losses (RMB'000)	17,489	6,675	2,336	26,500

Group C

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.22	67.52	100.00	2.05
Gross carrying amount (RMB'000)	1,480,161	12,942	3,998	1,497,101
Expected credit losses (RMB'000)	17,989	8,738	3,998	30,725

TOTAL

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.53	59.15	100.00	1.19
Gross carrying amount (RMB'000)	8,368,501	45,918	28,415	8,442,834
Expected credit losses (RMB'000)	44,499	27,162	28,415	100,076

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2020

Group A

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.15	64.06	100.00	1.46
Gross carrying amount (RMB'000)	2,756,559	57,697	92	2,814,348
Expected credit losses (RMB'000)	4,135	36,960	92	41,187

Group B

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	2.00	53.19	100.00	2.44
Gross carrying amount (RMB'000)	608,001	3,463	927	612,391
Expected credit losses (RMB'000)	12,160	1,842	927	14,929

Group C

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.09	69.51	100.00	2.64
Gross carrying amount (RMB'000)	1,189,306	18,754	6,075	1,214,135
Expected credit losses (RMB'000)	12,911	13,036	6,075	32,022

TOTAL

	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.64	64.87	100.00	1.90
Gross carrying amount (RMB'000)	4,553,866	79,914	7,094	4,640,874
Expected credit losses (RMB'000)	29,206	51,838	7,094	88,138

24. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2021 and 2020 that were transferred to banks by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as secured other borrowing (see note 32). These financial assets are carried at amortised cost in the consolidated statement of financial position.

	Bills discounted to banks with full recourse	
	2021	2020
	RMB'000	RMB'000
Carrying amount of transferred assets	**12,625**	11,741
Carrying amount of associated liabilities	**(12,625)**	(11,741)
Net position	**–**	–

25. INVENTORIES

	2021	2020
	RMB'000	RMB'000
Raw materials	**1,814,633**	1,380,460
Work in progress	**1,217,228**	1,614,392
Finished goods	**2,011,029**	1,913,633
	5,042,890	4,908,485

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021	2020
	RMB'000	RMB'000
Carrying amount of inventories sold	**7,185,856**	5,664,760
Write down of inventories	**37,783**	15,333
	7,223,639	5,680,093

26. DEBT INSTRUMENTS AT FVTOCI

The amounts represent the bills receivables that were held under the "hold to collect and sell" business model and the ageing analysis based on invoice date at the end of each reporting period are as follows:

	2021	2020
	RMB'000	RMB'000
0 to 90 days	**313,166**	538,787
91 to 180 days	**900,457**	814,283
181 to 365 days	**27,133**	30,662
	1,240,756	1,383,732

Details of impairment assessment are set out in note 40.

27. TIME DEPOSITS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Time deposits

As at 31 December 2021, the time deposits amounted to RMB5,000,000 (2020: RMB203,000,000) carried fixed interest at a rate of 1.80% per annum with an original maturity of 6 months (2020: 1.30% to 1.80%).

(b) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.3% to 1.55% per annum (2020: 0.3% to 0.35%).

(c) Bank balances and cash

Included in bank balances and cash is RMB2,717,684,000 (2020: RMB3,185,627,000) which represents cash held by the Group and short-term deposits carrying interest at prevailing market rates ranging from 0.30% to 1.73% per annum (2020: 0.30% to 1.55% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB177,073,000 (2020: RMB254,613,000), in which RMB136,660,000 (2020: RMB254,613,000) represents the cash collected on behalf of financial institutions that entered into the non-recourse factoring arrangements of trade receivables with the Group.

Included in time deposits/pledged bank deposits/bank balances and cash are RMB17,427,000 (2020: RMB15,263,000) and RMB580,000 (2020: RMB628,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currencies of the relevant group entities.

Details of impairment assessment of time deposits/pledged bank deposits/bank balances and cash are set out in note 40.

28. TRADE AND OTHER PAYABLES

	2021	2020
	RMB'000	RMB'000
Trade payables	**1,463,628**	1,393,043
Deposits received	**1,000,397**	796,679
Salaries and welfare payables	**446,318**	348,414
Other tax payables	**127,281**	182,859
Accruals of operating expenses	**2,098,609**	562,254
Bills payable	**629,400**	571,108
Dividends payable	**93,706**	65,615
Consideration payable for acquisition of subsidiaries	**3,550**	19,548
Collection of accounts receivable on behalf of financial institutions that entered into the non-recourse factoring arrangement with the Group	**136,660**	254,613
Other payables	**236,618**	218,495
	6,236,167	4,412,628

The ageing analysis of the Group's trade and bills payables based on invoice date at the end of each reporting period are as follows:

	2021	2020
	RMB'000	RMB'000
0 to 90 days	**1,168,564**	1,437,683
91 to 180 days	**428,416**	257,608
181 to 365 days	**359,509**	184,849
Over 365 days	**136,539**	84,011
	2,093,028	1,964,151

Included in trade and other payables is RMB1,407,100(2020: RMB1,306,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities.

29. CONTRACT LIABILITIES

	2021 **RMB'000**	2020 RMB'000
Amounts received in advance of delivery products	**204,079**	292,331

Contract liabilities as at 1 January 2021 and 2020 were fully recognised as revenue for the years ended 31 December 2021 and 2020, respectively.

The Group has elected the practical expedient of not to disclose information about the remaining performance obligations as the majority of the services have original expected duration of one year or less or the services are rendered in a short period of time.

30. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under non-current liabilities are as follows:

	2021 **RMB'000**	2020 RMB'000
At the beginning of the year	**405,092**	265,181
Additions	**21,879**	185,254
Credited to profit or loss (note 6)	**(36,276)**	(45,343)
At the end of the year	**390,695**	405,092

As at 31 December 2021, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

31. DEFERRED TAXATION

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

	2021 **RMB'000**	2020 RMB'000
Deferred tax assets	**(187,469)**	(170,307)
Deferred tax liabilities	**1,680,204**	1,710,376
	1,492,735	1,540,069

31. DEFERRED TAXATION (CONTINUED)

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Excess of fair value over the carrying amounts for intangible assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	ECL provision RMB'000	Fair value changes of debt instruments at FVTOCI RMB'000	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Unrealised inter–segment profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	1,616,931	92,049	(33,167)	(2,534)	39,600	(49,196)	(12,427)	(54,313)	1,596,943
Acquisition of subsidiaries	–	(3,553)	(432)	–	–	–	–	–	(3,985)
(Credited) charged to profit or loss	(33,457)	2,830	(1,477)	82	29,783	(6,636)	(823)	(9,764)	(19,462)
Credit to other comprehensive income	–	–	–	380	–	–	–	–	380
Release upon dividends declared	–	–	–	–	(33,807)	–	–	–	(33,807)
At 31 December 2020	1,583,474	91,326	(35,076)	(2,072)	35,576	(55,832)	(13,250)	(64,077)	1,540,069
(Credited) charged to profit or loss	(42,962)	(454)	653	46	28,165	18,127	8,434	(44,278)	(32,269)
Credit to other comprehensive income	–	–	–	(514)	–	–	–	–	(514)
Release upon dividends declared	–	–	–	–	(14,551)	–	–	–	(14,551)
At 31 December 2021	1,540,512	90,872	(34,423)	(2,540)	49,190	(37,705)	(4,816)	(108,355)	1,492,735

31. DEFERRED TAXATION (CONTINUED)

At the end of the reporting period, the Group had unused tax losses of RMB1,040,945,000 (2020: RMB510,377,000) available for offset against future profits. A deferred tax asset of RMB4,816,000 (2020: RMB13,250,000) has been recognised in respect of RMB30,391,000 (2020: RMB59,400,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB1,010,554,000 (2020: RMB450,977,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses with expiry dates as disclosed in the following table:

	2021 **RMB'000**	2020 RMB'000
2023	**45,775**	46,244
2024	**114,759**	114,759
2025	**105,555**	105,555
2026	**339,425**	–
2028	**36,236**	36,236
2029	**35,381**	35,381
2030	**112,802**	112,802
2031	**220,621**	–
	1,010,554	450,977

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB7,550,069,000 (2020: RMB6,445,750,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not be reversed in the foreseeable future.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021 RMB'000	2020 RMB'000
Bank loans	**1,700,735**	1,810,951
Other loans	**15,318**	68,485
	1,716,053	1,879,436
Secured	**320,829**	831,478
Unsecured	**1,395,224**	1,047,958
	1,716,053	1,879,436

	2021 RMB'000	2020 RMB'000
Carrying amounts of the above borrowings are repayable:		
Within one year	**1,140,495**	1,658,026
More than one year, but not exceeding two years	**339,611**	28,851
More than two year, but not exceeding five years	**186,947**	114,559
More than five years	**49,000**	78,000
	1,716,053	1,879,436
Less: Amounts due within one year shown under current liabilities	**(1,140,495)**	(1,658,026)
Amounts shown under non-current liabilities	**575,558**	221,410

As at 31 December 2021, secured other borrowings amounting to RMB12,625,000 were guaranteed by bills receivable (2020: RMB11,741,000).

	2021 RMB'000	2020 RMB'000
Fixed rate borrowings	**1,588,016**	1,759,418
Floating rate borrowings	**128,037**	120,018
	1,716,053	1,879,436

32. BANK AND OTHER BORROWINGS (CONTINUED)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2021	2020
Effective interest rate		
– Fixed rate borrowings	**1.20% – 5.00%**	1.15% – 5.17%
– Floating rate borrowings	**3.65% – 4.85%**	2.64% – 4.85%

The Group's floating rate borrowings carried interest ranging from Loan Prime Rate ("LPR") less 0.2% to LPR plus 0.05% (2020: LPR less 0.9% to LPR plus 0.05%).

At the end of the reporting period, the Group had the following undrawn borrowing facilities:

	2021 **RMB'000**	2020 RMB'000
Fixed rate		
– expiring within one year	**5,578,207**	10,082,757
– expiring beyond one year	**1,182,433**	910,846
	6,760,640	10,993,603

(a) The following assets were pledged as securities for bills payable and interest-bearing bank and other borrowings:

	Carrying value	
	31 December **2021** **RMB'000**	31 December 2020 RMB'000
Property, plant and equipment	**557,035**	450,881
Right-of-use assets	**123,654**	130,788
Debt instruments at FVTOCI	**306,182**	254,618
Pledged bank deposits	**114,704**	163,078
	1,101,575	999,365

33. UNSECURED NOTES

	2021 **RMB'000**	2020 RMB'000
Carrying amount repayable	**3,250,084**	3,237,316
Less: Amounts due within one year shown under current liabilities	**(1,015,226)**	(1,006,793)
Amounts shown under non-current liabilities	**2,234,858**	2,230,523

On 5 June 2020, the Company registered medium-term notes in an aggregate amount of RMB2,200,000,000, with a maturity of three years and a coupon rate of 3.28% per annum.

On 31 May 2021, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 270 days and a coupon rate of 2.65% per annum.

On 11 June 2021, the Company fully repaid the short-term commercial papers amounting to RMB1,000,000,000 which were issued on 14 September 2020.

34. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2021 **'000**	2020 '000	**2021** **RMB'000**	2020 RMB'000
Authorised	Unlimited number of ordinary shares with no par value			
Issued and fully paid	**5,035,801**	5,035,801	**11,982,474**	11,982,474

35. DEFINIED BENEFIT OBLIGATIONS

The Group undertook the expense related to both the retirement and the early retirement schemes for the medical and social welfare of those early retired and retired employees. The Group recognised the relevant estimated liabilities as well as charges to profit or loss once the Group undertook the obligations. These benefits are unfunded.

Where these schemes fall due more than 12 months after the end of reporting period, they were discounted using the appropriate discount rate, and carried at discounted amounts as liabilities. The discount rate was determined using the yield rate of government bonds with similar terms at the date of the financial statements.

Actuarial gains or losses included the experience adjustment (the impact of difference between the previous actuarial assumption and actual results) and the impact of changes on actuarial assumption. The actuarial gains or losses were recognised in other comprehensive income when incurred and will not be reclassified to profit or loss in a subsequent period.

Interest expense is charged to profit or loss and is derived from the discount rate determined at the commencement of the retirement scheme within an accounting period and the early retirement scheme multiplying with the average present value over the entire terms.

The principal actuarial assumptions used as at the end of the reporting are as follows:

Discount rates:	2.8%
Expected rate of future pension cost increases:	6%

36. ACQUISITIONS OF SUBSIDIARIES AND ASSETS

(a) Acquisition of Gansu Longzhong Pharmaceutical Co., Ltd. ("Longzhong Pharmaceutical")

On 9 July 2020, the Group acquired 51% of the equity interest in Longzhong Pharmaceutical at a cash consideration of RMB138,710,000 from an independent third party Gansu Provincial Hospital of Traditional Chinese Medicine. The Group entered into equity transfer agreement with the then shareholders of Longzhong Pharmaceutical on 30 December 2019, and obtained control of Longzhong Pharmaceutical on 9 July 2020. Longzhong Pharmaceutical is principally engaged in manufacture and sale of TCM granules, TCM finished drugs, and TCM decoction pieces business. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	138,710

Fair values of assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	235,886
Right-of-use assets	22,899
Deferred tax assets	3,553
Inventories	9,701
Trade and other receivables	5
Bank balances and cash	66
Trade and other payables	(110)
	272,000
Consideration transferred	138,710
Plus: Non-controlling interests	133,290
Less: Fair value of identifiable net assets acquired	(272,000)
Goodwill arising on acquisition	–

36. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

(a) Acquisition of Gansu Longzhong Pharmaceutical Co., Ltd. ("Longzhong Pharmaceutical") (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	138,710
Less: Deposits paid in the prior year for acquisition of a subsidiary	(40,000)
Less: Bank balances and cash acquired	(66)
	98,644

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2020, Longzhong Pharmaceutical contributed RMB7,234,000 and RMB6,950,000 to the Group's revenue and losses, respectively.

The acquisition of Longzhong Pharmaceutical was completed on 9 July 2020. The impact to the Group's revenue and profit would have been insignificant had the acquisition of Longzhong Pharmaceutical been completed on 1 January 2020.

36. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

(b) Acquisition of Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. ("Hubei Zhonglian")

On 28 August 2020, the Group acquired 100% of the equity interest in Hubei Zhonglian at a cash consideration of RMB5,536,000 from independent third parties. The Group entered into equity transfer agreement with the then shareholders on 26 July 2020, and obtained control of Hubei Zhonglian on 28 August 2020. Hubei Zhonglian is principally engaged in wholesale of traditional Chinese medicine materials, Chinese herbal pieces with Good Supply Practice certificate. This acquisition has been accounted for using the purchase method.

Consideration transferred

	RMB'000
Cash	5,536

Fair values of assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	239
Deferred tax assets	432
Inventories	4,228
Trade and other receivables	6,608
Bank balances and cash	1,247
Trade and other payables	(7,218)
	5,536
Consideration transferred	5,536
Less: Fair value of identifiable net assets acquired	(5,536)
Goodwill arising on acquisition	–

36. ACQUISITIONS OF SUBSIDIARIES AND ASSETS (CONTINUED)

(b) Acquisition of Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. ("Hubei Zhonglian") (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	5,536
Consideration payable	(2,168)
Less: Deposits paid in the prior year for acquisition of a subsidiary	(600)
Less: Bank balances and cash acquired	(1,247)
	1,521

Acquisition-related costs are not material and have been excluded from the consideration transferred and recognised as an expense during the year, and presented under the "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the year ended 31 December 2020 Hubei Zhonglian contributed RMB11,214,000 and RMB1,498,000 to the Group's revenue and profit, respectively.

The acquisition of Hubei Zhonglian was completed on 28 August 2020. The impact to the Group's revenue and profit would have been insignificant had the acquisition of Hubei Zhonglian been completed on 1 January 2020.

37. OPERATING LEASES

The Group as lessor

All of the properties held for rental purposes have committed lessees for the next 9 years.

Minimum lease payments receivable on leases are as follows:

	2021 **RMB'000**	2020 RMB'000
Within one year	**10,194**	8,681
In the second year	**5,989**	3,314
In the third year	**2,299**	3,255
In the fourth year	**1,970**	1,968
In the fifth year	**1,906**	1,981
After the fifth year	**3,684**	5,805
	26,042	25,004

38. CAPITAL COMMITMENTS

	2021 **RMB'000**	2020 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities	**640,000**	640,000
– Acquisition of other intangible assets	**–**	100,000
– Acquisition of property, plant and equipment (note a)	**368,011**	387,450
	1,008,011	1,127,450

Note:

(a) Pursuant to the cooperation agreement entered into by the Group, and the cooperation agreement between the Group and relevant engineering constructors and equipment suppliers carries out a series of engineering project construction and equipment procurement applications, and improves the production technology level and production scale to support the business development requirements of the Company.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year. The capital structure of the Group consists of net debt, which includes interest-bearing bank and other borrowings and unsecured notes as disclosed in notes 32 and 33 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2021 and 2020 are as follows:

	2021 **RMB'000**	2020 RMB'000
Current liabilities:		
Bank and other borrowings	**1,140,495**	1,658,026
Unsecured notes	**1,015,226**	1,006,793
	2,155,721	2,664,819
Non-current liabilities:		
Bank and other borrowings	**575,558**	221,410
Unsecured notes	**2,234,858**	2,230,523
	2,810,416	2,451,933
Total debt	**4,966,137**	5,116,752
Less: Cash and cash equivalents	**(2,717,684)**	(3,185,627)
Adjusted net debt	**2,248,453**	1,931,125
Total equity	**22,660,929**	20,896,421
Adjusted net debt-to-equity ratio	**10%**	9%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Group. The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

40. FINANCIAL INSTRUMENTS

Categories of financial instruments

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

2021

Financial assets

	Debt instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debt instruments at FVTOCI	1,240,756	–	1,240,756
Financial assets included in trade and other receivables	–	8,480,834	8,480,834
Time deposits	–	5,000	5,000
Pledged bank deposits	–	114,704	114,704
Cash and cash equivalents	–	2,894,757	2,894,757
	1,240,756	11,495,295	12,736,051

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in trade and other payables	5,662,568
Interest-bearing bank and other borrowings	1,716,053
Unsecured notes	3,250,084
Lease liabilities	97,492
	10,726,197

40. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

2020

Financial assets

	Debt instrument at fair value through other comprehensive income ("FVTOCI") RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debt instruments at FVTOCI	1,383,732	–	1,383,732
Financial assets included in trade and other receivables	–	4,629,096	4,629,096
Time deposits	–	203,000	203,000
Pledged bank deposits	–	163,078	163,078
Cash and cash equivalents	–	3,440,240	3,440,240
	1,383,732	8,435,414	9,819,146

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in trade and other payables	3,319,101
Interest-bearing bank and other borrowings	1,879,436
Unsecured notes	3,237,316
Lease liabilities	103,955
	8,539,808

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, debt instruments at FVTOCI, time deposits, pledged bank deposits, bank balances and cash, trade and other payables, lease liabilities, unsecured notes and interest-bearing bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risks

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2021 and 2020 to a reasonably possible change by 5% in the RMB exchange rates against HK$ and US$, 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.

	2021 **RMB'000**	2020 RMB'000
If HK$ weakens against RMB by 5% Decrease in profit before tax	**(835)**	(1,034)
If HK$ strengthens against RMB by 5% Increase in profit before tax	**835**	1,034
If USD weakens against RMB by 5% Decrease in profit before tax	**(540)**	(583)
If USD strengthens against RMB by 5% Increase in profit before tax	**540**	583

The Group manages the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in the Group's profit before tax	
	2021	2020
	RMB'000	RMB'000
If decrease by 50 basis points	**244**	85
If increase by 50 basis points	**(244)**	(85)

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Debt instrument at FVTOCI	1,240,756	–	–	–	1,240,756
Trade receivables*	–	–	–	8,442,834	8,442,834
Financial assets included in other receivables					
– Normal**	170,946	–	–	–	170,946
Time deposits					
– Not yet past due	5,000	–	–	–	5,000
Pledged deposits					
– Not yet past due	114,704	–	–	–	114,704
Cash and cash equivalents					
– Not yet past due	2,894,757	–	–	–	2,894,757

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Debt instrument at FVTOCI	1,383,732	–	–	–	1,383,732
Trade receivables*	–	–	–	4,640,875	4,640,875
Financial assets included in other receivables					
– Normal**	110,932	–	–	–	110,932
Time deposits					
– Not yet past due	203,000	–	–	–	203,000
Pledged deposits					
– Not yet past due	163,078	–	–	–	163,078
Cash and cash equivalents					
– Not yet past due	3,440,240	–	–	–	3,440,240

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

** The credit quality of the financial assets included in other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful"

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging (continued)

Before accepting any new customer, the management of the Group carries out researches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group only accepts bills issued or guaranteed by reputable PRC. In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment test assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix.

The credit risk on liquid funds is limited because the counterparties are state-owned banks and banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and different regions of the PRC.

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and lease liabilities Cash flows are being closely monitored on an ongoing basis.

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

	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Total carrying amount RMB'000**
31 December 2021					
Trade and other payables	**5,662,568**	**–**	**–**	**5,662,568**	**5,662,568**
Interest bank and other borrowing	**1,201,682**	**564,750**	**62,540**	**1,828,972**	**1,716,053**
Unsecured note	**1,098,660**	**2,272,160**	**–**	**3,370,820**	**3,250,084**
Lease liabilities	**19,809**	**77,599**	**17,528**	**114,936**	**97,492**
	7,982,719	**2,914,509**	**80,068**	**10,977,296**	**10,726,197**

	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
31 December 2020					
Trade and other payables	3,319,101	–	–	3,319,101	3,319,101
Interest bank and other borrowing	1,687,563	175,354	84,990	1,947,907	1,879,436
Unsecured note	1,090,581	2,335,756	–	3,426,337	3,237,316
Lease liabilities	18,698	65,382	41,730	125,810	103,955
	6,115,943	2,576,492	126,720	8,819,155	8,539,808

40. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

Financial assets	Fair value		Fair value hierarchy	Valuation techniques(s) and key input(s)
	2021	2020		
Financial assets at FVTOCI				
Debt instrument at FVTOCI	**1,240,756**	1,383,732	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

There were no transfers between Level 1 and 3 during both years.

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	2021 RMB'000	2020 RMB'000
Carrying amount	**3,250,084**	3,237,316
Fair value under level 2 fair value hierarchy	**3,273,327**	3,175,702

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

41. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 12 and 13, is as follows:

	2021 **RMB'000**	2020 RMB'000
Short-term employee benefits	**14,072**	12,604
Post-employments benefits	**454**	195
	14,526	12,799

Other related party transactions

Name of related party	**Relationship**
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group
Ping An Bank	Fellow subsidiary of a substantial shareholder

41. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	2021 RMB'000	2020 RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**1,035,125**	840,246
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**60,674**	34,632
(iii) Other purchase from CNPGC's subsidiaries other than the Group	**30,377**	7,874
(iv) Rental income from CNPGC's subsidiaries other than the Group	**2,894**	3,397
(v) Interest income from CNPGC's subsidiaries other than the Group	**340**	813
(vi) Interest income from Ping An Bank	**11,268**	6,831
(vii) Interest expense to CNPGC's subsidiaries other than the Group	**–**	4,806
(viii) Interest expense to Ping An Bank	**948**	499

41. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2021 **RMB'000**	2020 RMB'000
(i) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivable balances set out in note 23	**627,688**	482,930
(ii) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payable balances set out in note 28	**39,533**	21,467
(iii) Time deposits and bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 27	**595,194**	591,003
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 27	**199,149**	172,634
(v) Bank loans from Ping An Bank as included in bank and other borrowings set out in note 32	**–**	40,000

The above related party transactions (i), (ii) and related party balances (iii), (iv) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing Connected transactions" of the section headed "Report of the Directors" of the annual report.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Lease liabilities RMB'000	Interest-bearing bank and other borrowings RMB'000	Unsecured notes RMB'000	Dividend payable RMB'000	Dividend payable to non-controlling interests RMB'000	Total RMB'000
At 1 January 2020	114,118	799,334	4,868,724	1,412	117,546	5,901,134
Financing cash flows	(16,625)	1,016,796	(1,780,192)	(216,346)	(113,899)	(1,110,266)
Net foreign exchange loss	–	3,008	–	(3,088)	–	(80)
Dividend recognised	–	–	–	219,329	60,661	279,990
New leases entered	2,204	–	–	–	–	2,204
Covid-19-related rent concessions from lessors	(781)	–	–	–	–	(781)
Interest expense	5,039	60,298	148,784	–	–	214,121
At 31 December 2020	103,955	1,879,436	3,237,316	1,307	64,308	5,286,322
At 1 January 2021	103,955	1,879,436	3,237,316	1,307	64,308	5,286,322
Financing cash flows	(19,159)	(258,076)	(92,892)	(275,779)	(63,150)	(709,056)
Net foreign exchange loss	–	–	–	(4,059)	–	(4,059)
Dividend recognised	–	–	–	279,811	91,268	371,079
New leases entered	7,902	–	–	–	–	7,902
Interest expense	4,794	94,693	105,660	–	–	205,147
At 31 December 2021	97,492	1,716,053	3,250,084	1,280	92,426	5,157,335

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2021	2020	**2021**	2020	
Directly held the Company						
Jiangyin Yifang Pharmaceutical Company limited	The PRC	**RMB84,555,556**	–	**87.3%**	–	Manufacture of TCM Products
Jiangyin Tianjiang Enterprise Company limited	The PRC	**RMB3,005,467,800**	–	**100%**	–	Manufacture of Management TCM Products
Indirectly held the Company						
Jiangyin Tianjiang#	The PRC	**RMB310,000,000**	RMB394,555,556	**87.3%**	87.3%	Development, manufacture and sale of TCM granules
Dezhong#	The PRC	**USD6,460,000**	USD6,460,000	**98.3%**	98.3%	Development, manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing#	The PRC	**USD7,526,100**	USD7,526,100	**98%**	98%	Development, manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World*	The PRC	**USD172,640,000**	USD172,640,000	**100%**	100%	Development, manufacture and sale of pharmaceutical products and investment holding
Luya#	The PRC	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices^	The PRC	**RMB1,273,800,000**	RMB885,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Feng Liao Xing Zhongshan Company Limited^	The PRC	**RMB10,000,000**	RMB10,000,000	**100%**	100%	Retail of Pharmaceuticals and decoction Pharmaceutical
Winteam Sales^	The PRC	**RMB260,000,000**	RMB260,000,000	**100%**	100%	Trading of pharmaceutical products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2021	2020	**2021**	2020	
Indirectly held the Company (continued)						
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Company Limited^	The PRC	**RMB47,000,000**	RMB47,000,000	**100%**	100%	Investment of the TCM health industry
Guizhou Tongjitang Pharmacy Chain^	The PRC	**RMB5,000,000**	RMB5,000,000	**60%**	60%	Retail of pharmaceuticals
Huayi^	The PRC	**RMB139,000,000**	RMB139,000,000	**100%**	100%	Development, manufacture, and sale of TCM products
Shanxi Huamiao Pharmaceutical Company Limited^	The PRC	**RMB30,000,000**	RMB5,800,000	**87.3%**	100%	Manufacture and sale of TCM decoction products
Jilin Baiqi Pharmaceutical Company Limited^	The PRC	**RMB180,450,000**	RMB180,450,000	**65%**	65%	Development, manufacture, and sale of TCM products
Shanghai Tongjitang^	The PRC	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Tongjitang Herbal^	The PRC	**RMB60,000,000**	RMB54,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Shandong Zhongping Pharmaceutical Company Limited^	The PRC	**RMB300,000,000**	RMB292,000,000	**44.5%**	44.5%	Manufacture of TCM Products
Liaoning Tianjiang Yifang Pharmaceutical Company Limited^~	The PRC	**RMB2,500,000**	RMB2,500,000	**87.3%**	87.3%	Development, manufacture, and sale of TCM products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2021	2020	**2021**	2020	
Indirectly held the Company (continued)						
Shanxi Guoxin^~	The PRC	**RMB102,040,800**	RMB102,040,800	**44.5%**	44.5%	Development, manufacture, and sale of TCM products
Lixian Dahuang Technology and Science Company Limited^	The PRC	**RMB94,613,000**	RMB49,978,500	**74.2%**	74.2%	Development, manufacture, and sale of TCM decoction products
Xihebanxia Technology and Science Company Limited^~	The PRC	**RMB99,870,000**	RMB99,870,000	**44.5%**	44.5%	Development, manufacture, and sale of TCM decoction products
Jiangxi Yifang Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB150,000,000**	RMB150,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM
Jiangxi Fanglian Pharmaceutical Company Limited^	The PRC	**RMB5,000,000**	RMB5,000,000	**52.4%**	52.4%	Sale of TCM products
Heilongjiang Sinopharm Group Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB31,000,000**	RMB30,000,000	**87.3%**	52.4%	Manufacture and sale of TCM
Jingfang^	The PRC	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
Pulante^	The PRC	**RMB72,520,000**	RMB42,520,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
GD Yifang^	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture, and sale of TCM granules

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2021	2020	**2021**	2020	
Indirectly held the Company (continued)						
Longxi Yifang^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Longxiyifang Pharmaceutical Company Limited^	The PRC	**RMB10,000,000**	RMB5,000,000	**87.3%**	87.3%	Sale of TCM products
Tianxiang^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Jiangyin Tianjiang Medical Clinics Co. Limited^-	The PRC	**RMB11,500,000**	RMB11,500,000	**44.5%**	44.5%	Retail of pharmaceuticals and provision of TCM consultation services
Chongqing Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB190,000,000**	RMB190,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Yunnan Tianjiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB200,000,000**	RMB200,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM products
Sichuan Tianxiong^	The PRC	**RMB150,500,000**	RMB150,500,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Longxixian Fengliaoxing^	The PRC	**RMB50,000,000**	RMB50,000,000	**87.3%**	100%	Manufacture and sale of TCM decoction product
Shandong Yifang Pharmaceutical Company Limited^	The PRC	**RMB300,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Zhejiang Yifang Pharmaceutical Company Limited^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2021	2020	**2021**	2020	
Indirectly held the Company (continued)						
Yifang Pingkang^	The PRC	**RMB150,000,000**	RMB150,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM products
Shaanxi Jitaining Pharmaceutical Company Limited ^	The PRC	**RMB992,760**	RMB458,700	**44.5%**	44.5%	Sale of TCM products
Hunan Yifang^	The PRC	**RMB200,000,000**	RMB200,000,000	**79.4%**	79.4%	Development, manufacture and sale of TCM products
Changde Yifan Pharmaceutical Company Limited^	The PRC	**RMB5,000,000**	RMB5,000,000	**79.4%**	79.4%	Sale of TCM products
Sichuan Tianhao^	The PRC	**RMB10,000,000**	RMB10,000,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Company Limited^	The PRC	**RMB200,000,000**	RMB200,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Beijing Huamiao^	The PRC	**RMB174,383,898**	RMB174,383,898	**100%**	100%	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm^	The PRC	**RMB16,000,000**	RMB16,000,000	**100%**	100%	Sale of medical herbs
Sichuan Jiangyou^	The PRC	**RMB54,200,000**	RMB54,200,000	**100%**	100%	Manufacture and sale of TCM decoction products
Anhui Fengliaoxing^	The PRC	**RMB28,595,300**	RMB28,595,300	**51%**	51%	Manufacture and sale of TCM decoction products
Jiangkang Pharmaceutical^~	The PRC	**RMB70,000,000**	RMB70,000,000	**44.5%**	44.5%	Manufacture and sale of TCM products
Sichuan Sinopharm Group Tianjiang Pharmaceutical Company Limited ^~	The PRC	**RMB233,061,200**	RMB233,061,200	**53.22%**	53.22%	Development, manufacture and sale of TCM

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital 2021	Issued and fully paid capital/registered capital 2020	Equity interest attributable to the Group 2021	Equity interest attributable to the Group 2020	Principal activities
Indirectly held the Company (continued)						
Fujian Tianjiang^~	The PRC	**RMB136,500,000**	RMB136,500,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Heilongjiang Sinopharm Group Shuanglanxing Pharmaceutical Company Limited ^~	The PRC	**RMB89,981,200**	RMB89,981,200	**44.5%**	44.5%	Development, manufacture and sale of TCM
Guangdong Jiuan Pharmaceutical Marketing Service Company Limited^	The PRC	**RMB30,000,000**	RMB30,000,000	**100%**	100%	Marketing, advertising and consulting of TCM
Tongjitang Pharmaceutical*	The PRC	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sale of TCM products
Zhonglian Pharmaceutical^~	The PRC	**RMB622,280,661**	RMB622,280,661	**44.5%**	44.5%	Development, manufacture and sale of TCM
Foshan Nanhai Golden Footwear Company Limited ^	The PRC	**RMB137,697,944**	RMB137,697,944	**100%**	100%	Property leasing
Longzhong Pharmaceutical^	The PRC	**RMB50,000,000**	RMB50,000,000	**44.5%**	44.5%	Manufacture and sale of TCM decoction products

* These companies were established in the PRC in the form of wholly Foreign-owned enterprises.
# These companies were established in the PRC in the form of Sino-foreign equity joint ventures.
^ These companies were established in the PRC in the form of domestic enterprises.
~ 51% directly or indirectly controlled by Jiangyin Tiangjiang which is a 87.3% owned subsidiary of the Group.

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

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

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held non-controlling interests	Profit allocated to non-controlling interests	Accumulated non-controlling interests
		2021	**2021 RMB'000**	**2021 RMB'000**
Jiangyin Tianjiang Group* (note)	The PRC	**12.7%**	**61,051**	**1,227,920**
Jiangyin Yifang Group* (note)	The PRC	**12.7%**	**124,605**	**1,532,111**
Individually immaterial subsidiaries with non-controlling interests			**4,910**	**182,229**
			190,566	**2,942,260**

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held non-controlling interests	Profit allocated to non-controlling interests	Accumulated non-controlling interests
		2020	2020 RMB'000	2020 RMB'000
Jiangyin Tianjiang Group* (note)	The PRC	12.7%	195,261	2,625,165
Individually immaterial subsidiaries with non-controlling interests			2,128	207,170
			197,389	2,832,335

Note: The amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangyin Tianjiang Group and Jiangyin Yifang Group.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Summarised consolidated financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group and Jiangyin Yifang Group, which has material non-controlling interest as at 31 December 2021.

2021

	Jiangyin Tianjiang Group* RMB'000	Jiangyin Yifang Group* RMB'000
Current assets	**6,286,490**	**9,579,645**
Non-current assets	**5,003,337**	**6,233,097**
Current liabilities	**(3,718,714)**	**(3,468,184)**
Non-current liabilities	**(1,382,718)**	**(3,710,327)**
Net equity (Note)	**6,188,395**	**8,634,231**
Equity attributable to owners of Jiangyin Tianjiang Group/ Jiangyin Yifang Group	**5,682,102**	**8,135,304**
Non-controlling interests of Jiangyin Tianjiang Group/ Jiangyin Yifang Group	**506,293**	**498,927**

Note: The net equity of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes fair value adjustments on properties, intangible assets and related deferred taxation arising from a business combination amounting to RMB1,670,845,000 and RMB2,345,468,000, respectively.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2021 (continued)

	Jiangyin Tianjiang Group* RMB'000	Jiangyin Yifang Group* RMB'000
Revenue	**6,601,229**	**8,662,720**
Expenses	**(5,772,858)**	**(7,447,207)**
Profit and total comprehensive income for the year (Note)	**828,371**	**1,215,513**
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group/Jiangyin Yifang Group	**878,946**	**1,249,608**
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group/Jiangyin Yifang Group	**(50,575)**	**(34,095)**
Total comprehensive income for the year	**828,371**	**1,215,513**
Dividends declared to non-controlling interests	**39,223**	**47,683**
Net cash inflow from operating activities	**160,010**	**322,866**
Net cash outflow from investing activities	**(408,980)**	**(471,829)**
Net cash inflow (outflow) from financing activities	**(861,711)**	**(246,117)**
Net cash outflow	**(1,110,681)**	**(395,080)**

Note: The profit for the year of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes adjustments for depreciation of properties and amortisation of intangible assets recognised upon the business combination amounting to RMB49,415,000 and RMB68,205,000, respectively.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2020

	Jiangyin Tianjiang Group* RMB'000
Current assets	12,952,137
Non-current assets	10,895,667
Current liabilities	(5,286,793)
Non-current liabilities	(5,213,092)
Net equity (Note)	13,347,919
Equity attributable to owners of Jiangyin Tianjiang Group	12,282,651
Non-controlling interests of Jiangyin Tianjiang Group	1,065,268

Note: The net equity includes fair value adjustments on properties, intangible assets and related deferred taxation arising from business combination amounting to RMB3,959,067,000.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2020 (continued)

	Jiangyin Tianjiang Group* RMB'000
Revenue	11,217,000
Expenses	(9,491,477)
Profit and total comprehensive income for the year (Note)	1,725,523
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	1,752,878
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group	(27,355)
Total comprehensive income for the year	1,725,523
Dividends declared to non-controlling interests	60,034
Net cash inflow from operating activities	335,270
Net cash outflow from investing activities	(2,270,139)
Net cash inflow (outflow) from financing activities	739,126
Net cash outflow	(1,195,743)

Note: The profit for the year includes adjustments for depreciation of properties and amortisation of intangible assets recognised upon the business combination amounting to RMB85,415,000.

* During the year ended 31 December 2021, the Group spined off JiangYin Yifang Group from Jiangyin Tianjiang Group to optimise the business operation of the concentrated TCM granules segment via repositioning of the Group's concentrated TCM granules products, "Tianjiang" and "Yifang".

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,584,986**	13,604,506
Loans to subsidiaries (note a)	**3,866,707**	4,251,729
Property, plant and equipment	**–**	1
	17,451,693	17,856,236
CURRENT ASSETS		
Other receivables	**109**	120
Amounts due from subsidiaries (note b)	**562,427**	396,077
Bank balances and cash	**22,453**	19,353
	584,989	415,550
CURRENT LIABILITIES		
Trade and other payables	**19,580**	22,373
Amounts due to subsidiaries (note b)	**1,236,273**	1,390,313
Bank borrowings	**–**	400,090
Unsecured notes – due within one year	**1,015,226**	1,006,793
	2,271,079	2,819,569
NET CURRENT LIABILITIES	**(1,686,090)**	(2,404,019)
TOTAL ASSETS LESS CURRENT LIABILITIES	**15,765,603**	15,452,217
NON-CURRENT LIABILITIES		
Unsecured notes – due after one year	**2,234,858**	2,230,523
Deferred tax liabilities	**27,286**	19,331
	2,262,144	2,249,854
NET ASSETS	**13,503,459**	13,202,363
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves (note c)	**1,520,985**	1,219,889
TOTAL EQUITY	**13,503,459**	13,202,363

Approved and authorised for issue by the board of directors on 25 March 2022 and are signed on its behalf by:

WU Xian
Executive Director

YANG Wenming
Executive Director

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note a: The amounts are unsecured, interest bearing of 4.35% per annum (2020: 4.00% to 4.35%) and repayable in 1 to 2 years.

Note b: The amounts are unsecured and repayable on demand.

Note c: Movements in the Company's reserves

	Translation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2020	813,199	253,146	1,066,345
Profit and total comprehensive income for the year	–	372,873	372,873
Dividends recognised as distribution (note 14)	–	(219,329)	(219,329)
At 31 December 2020	813,199	406,690	1,219,889
Profit and total comprehensive income for the year	–	580,907	580,907
Dividends recognised as distribution (note 14)	–	(279,811)	(279,811)
At 31 December 2021	813,199	707,786	1,520,985

All of the Company's accumulated profits is available for distribution to equity shareholders.

45. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB270,864,000 (2020: RMB16,067,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

During the year 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB7,902,000 (2020: RMB3,663,000) and RMB7,902,000 (2020: RMB3,663,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

46. CONTINGENT LIABILITIES

During the year, the Group endorsed certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	2021 **RMB'000**	2020 RMB'000
Outstanding endorsed and discounted bills receivable with recourse	**354,332**	223,214

The outstanding endorsed and discounted bills receivable are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivable approximate their fair values.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2022.