国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

2022 Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. CHEN Yinglong *(Chairman)*
Mr. CHENG Xueren *(Managing Director)*
Mr. YANG Wenming

Non-executive Directors

Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. MENG Qingxin
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

REMUNERATION AND EVALUATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC COMMITTEE

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

REGISTERED OFFICE

Room 1601, Emperor Group Centre
288 Hennessy Road
Wanchai
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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)

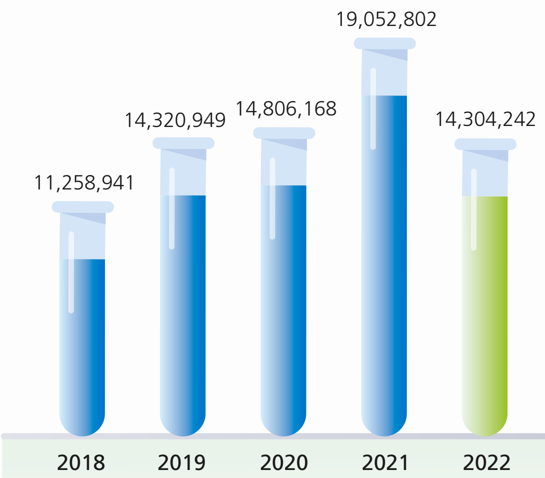
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022 RMB'000**	2018-2022 Compound Annual Growth Rate
Results						
Revenue	11,258,941	14,320,949	14,806,168	19,052,802	**14,304,242**	6.17%
Gross profit	6,193,573	8,575,788	9,126,075	11,829,163	**7,198,452**	3.83%
Profit from operations	2,156,025	2,460,716	2,490,631	2,753,058	**1,064,283**	-16.18%
Profit before taxation	1,856,697	2,154,618	2,230,091	2,520,280	**840,109**	-17.98%
Profit attributable to the shareholders of the Company	1,439,018	1,588,114	1,663,255	1,932,858	**764,266**	-14.63%
Profitability						
Gross profit margin	55.01%	59.88%	61.64%	62.09%	**50.32%**	
Operating profit margin	19.15%	17.18%	16.82%	14.45%	**7.44%**	
Net profit margin	13.92%	12.38%	12.57%	11.14%	**5.04%**	
Earnings per share						
Basic & diluted	29.84 cents	31.54 cents	33.03 cents	38.38 cents	**15.18 cents**	-15.55%
Financial position						
Total assets	30,287,390	32,473,725	33,088,383	36,389,268	**35,619,941**	
Total equity attributable to equity shareholders of the Company	15,551,433	16,623,415	18,064,086	19,718,669	**20,166,720**	
Total liabilities	12,776,819	13,423,000	12,191,962	13,728,339	**12,673,339**	
Bank balances and cash	6,349,714	5,613,633	3,440,240	2,894,757	**3,065,054**	
Debt asset ratio	42.19%	41.33%	36.85%	37.73%	**35.58%**	

Five-Year Financial Summary

(Expressed in RMB)

REVENUE

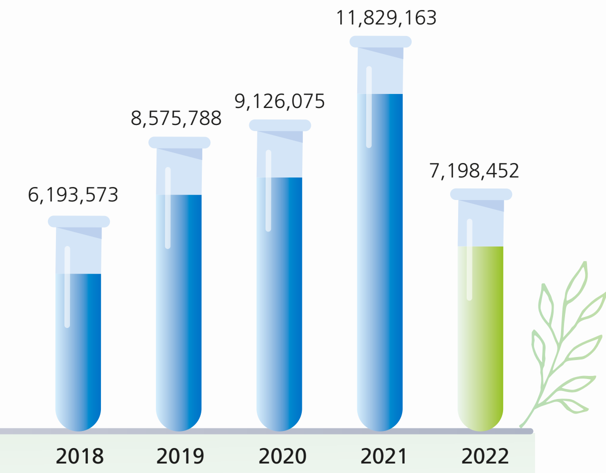
RMB'000



Annual Growth of 2021-2022 **-24.92%**

GROSS PROFIT

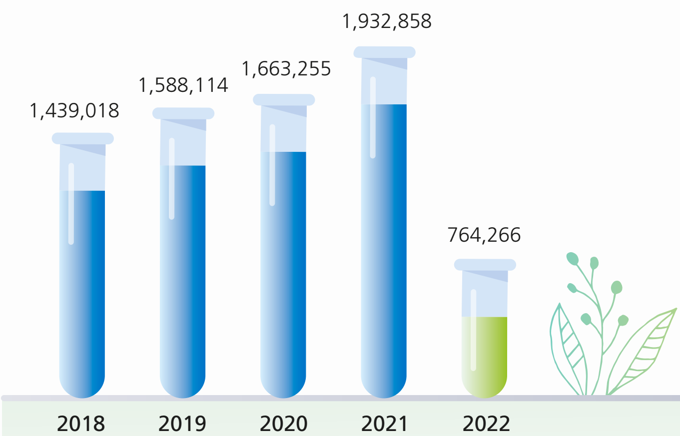
RMB'000



Annual Growth of 2021-2022 **-39.15%**

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

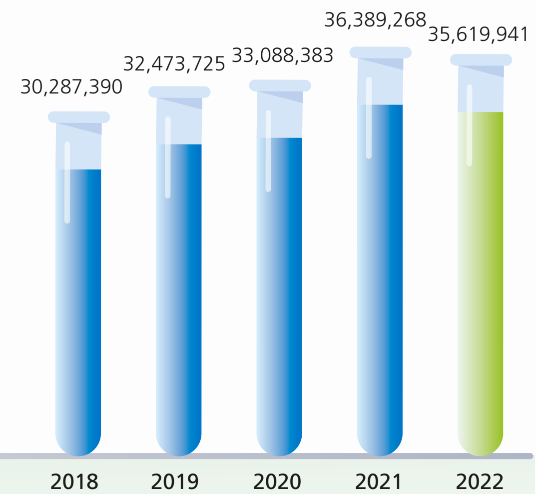
RMB'000



Annual Growth of 2021-2022 **-60.46%**

TOTAL ASSETS

RMB'000



Annual Growth of 2021-2022 **-2.11%**

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear shareholders,

Looking back to the extraordinary year 2022, the overall national economy continued to recover. Despite the impact of multiple domestic and international factors, especially the triple pressures of shrinking demand, disrupted supply and weakening expectations, China's GDP withstood the pressure and increased by 3%, outperformed top major economies in the world in terms of growth rate, fully demonstrating the resilience, potential and vitality of China's economy.

Concentrating on the TCM industry in which the Group engages, the industry ecology continuously optimised via frequent issuance of significant policies that are conducive to the development of TCM in 2022. In March 2022, the general office of the State Council issued the "14th Five-Year Plan for the Development of Traditional Chinese Medicine" (《「十四五」中醫藥發展規劃》) (the "Plan"), the first five-year plan for TCM issued in the name of the general office of the State Council, marking that the development of TCM has been included, as an important strategy, into the course of Chinese history. According to the Plan, the health services capability of TCM shall be significantly enhanced by 2025, and the policy and system for the high-quality development of TCM shall be further improved. The revitalization and development of TCM shall receive positive results, and its unique advantages in the construction of a healthy China shall be given into full play. The Group rode on the momentum and responded in an active manner to the national plan, unswervingly practiced the national development strategy of TCM, and further consolidated the advantages of the whole TCM healthcare industry chain, with a view to building a leading TCM manufacturing industry cluster in China, and promoting the inheritance and innovative development of TCM.

The clinical practice accumulated since the outbreak of COVID-19 pandemic proved that leveraging on the characteristic advantages of TCM stood for a vital approach to prevent and treat COVID-19 infection. The State Council's Comprehensive Group of the Joint Prevention and Control Mechanism issued the "Notice on Making Full Use of Chinese Herbal Decoction for the Treatment of COVID-19 Infection in Urban and Rural Areas at the Grassroots Level" (《關於在城鄉基層充分利用中藥湯劑開展新冠病毒感染治療工作的通知》), pointing out that Chinese herbal decoction is featured by abundant raw materials, numerous varieties, simple process, and highly adaptability, and that the role of TCM in treating COVID-19 infection shall be further given into play to safeguard the life safety and physical health of the people. National Administration of Traditional Chinese Medicine issued the "Guidelines for Chinese medicine intervention at home for people infected with COVID-19" (《新冠病毒感染者居家中醫藥干預指引》) (the "Intervention Guidelines"), pursuant to which 14 varieties of the Group's TCM finished drugs, including Huashi Baidu Granules (化濕敗毒顆粒), Jinye Baidu Granules (金葉敗毒顆粒) and Yu Ping Feng Granules (玉屏風顆粒), were included in the treatment scheme and prevention scheme of the Intervention Guidelines, respectively. According to statistics, among the 44 national/provincial prevention and treatment programs issued successively, a total of 16 varieties of the Group's TCM finished drugs have been included in such programs, while the Group's concentrated TCM granules and TCM decoction pieces products provide solutions for clinical treatment and syndrome differentiation.

BUSINESS PERFORMANCE

In 2022, the fundamentals of Chinese mainland's long-term economic improvement remained unchanged, whereas the revenue of the pharmaceutical manufacturing industry was under pressure and profits dropped sharply under the influence of the COVID-19 pandemic and the new medical reform policies. According to the data of the National Bureau of Statistics, the accumulated operating revenue of the pharmaceutical manufacturing industry above the national scale in 2022 was RMB2,911.14 billion, representing a year-on-year decrease of 1.6%, and the accumulated profit was RMB428.87 billion, representing a year-on-year decrease of 31.8%.

While the industry as a whole is facing with tremendous downward pressure, the Group's key business indicators have declined compared with that of the previous year due to the effect of the policy on the subdivision of concentrated TCM granules. For the year ended 31 December 2022, the revenue was RMB14.304 billion, representing a decrease of 24.9% compared with RMB19.053 billion in 2021. However, comparing the first half with the second half of the year, the revenue in the second half of 2022 increased by 42.0% compared with the first half of 2022, indicating that the decline trend has been significantly curbed.

Along with the further expansion of the medical demand of TCM and the continuous promotion of the transition between the new and former standards of concentrated TCM granules, as well as the balanced development among the Group's business segments such as Chinese medicinal herbs integration business, TCM decoction pieces, TCM finished drugs, and TCM great health products, we are of the view that the Group's operation will show a recovery growth trend in 2023.

STRATEGIC PROGRESS

During the Reporting Period, the Group unswervingly implemented the "14th Five-Year" strategic plan. Owing to the nationwide layout of the "whole TCM healthcare industry chain", the following five industrial leading strengths have been formed: No.1 in terms of the scientific research technology, production capability and market scale of the concentrated TCM granules in the country; No.1 in terms of the base layout and initial processing capability of Chinese medicinal herbs in the country; No.1 in terms of the business model of "Share of TCM – Intelligent Distribution Center" for TCM decoction pieces in the country; No.1 TCM finished drugs product echelon, production capacity and number of variety included in NEDL in the country; and leading position in terms of the traceability system of the whole TCM healthcare industry chain with whole process coverage in the country.

In respect of corporate governance, the Group, with the Board as its core, increased the driving force and vitality for the high-quality development of the enterprise via deepening reform on all fronts. The Group aligned itself with the top-ranking companies in the industry, continued to improve its weak links in business structure, industry synergy, medicinal herbs resources, talent development, brand influence, etc., unswervingly sought to get force from reform and get efficiency from management, adjusted organizational structure, optimized the operating system; set management objectives of cost reduction, revenue increase and transformation promotion, improved quality, storage and transportation, finance, human resources, administrative management and control efficiency, enhanced the strengths of the major businesses, and continued to explore new profit growth points.

SUSTAINABLE DEVELOPMENT

As the core platform of the modern TCM industry under China National Pharmaceutical Group Co., Ltd. ("CNPGC"), the Group consistently fulfills its responsibility and mission as a central state-owned enterprise to implement the national development strategy of TCM and lead the high-quality development of the TCM industry with satisfying and responding to the public need for TCM as a landing point. The pandemic has enabled the Group to fulfill the responsibilities as a central enterprise more firmly, work as one, take full advantage of its industrial chain and supply chain to ensure the drug supply, restore the economy, and contribute to the fight against the pandemic, and therefore, has been widely recognized.

In 2022, the Group continued to advance the construction of sustainable development, proactively assumed the responsibility of pharmaceutical enterprises, constantly improved the healthcare accessibility, and provided high-quality and reliable pharmaceutical services for more patients; we gave full play to on the advantages of business resources, strove to build a responsible supply chain, continued to develop and deepen exchanges among strategic partners, built a new ecology for business development, and promoted win-win industrial cooperation; we continued to improve the environmental management system, vigorously promoted the certification of the environmental management system of our subsidiaries, and solidly advanced the construction of ecological civilization from the aspects such as resource use, emission management, and responses to climate changes; we took the initiative to assume social responsibility, devoted ourselves to public welfare undertakings, proactively fulfilled our responsibilities in rural revitalization and community development, and joined hands in building a harmonious society with our utmost kindness. Details of which will be set out in our 2022 Environmental, Social and Governance report.

PROSPECTS

As the overall pandemic throughout the country has entered a low epidemic level, domestic production and living order has gotten on track, and medical institutions at all levels have gradually resumed normal operation. Benefiting from the unprecedentedly high acceptance of TCM by people due to the vital role of TCM in pandemic prevention, control and treatment, the Group has seen emerging opportunities to provide products and services in response to the demands from medical institutions and terminal pharmacies as well as the health needs of the people. Under the context of the normalization of centralized procurement of drug, the Group is expected to demonstrate its advantages in quality, quantity and cost in the centralized procurement of TCM via relying on its own industrialization, large scale production and whole industry chain. Based on the advantages of the whole TCM healthcare industry chain, the Group will continue to deepen reform, step up enterprise innovation, enhance the level of management and control, strengthen team building, and further reinforce and enhance its leading position in TCM industry, making continuous efforts in promoting the construction of a healthy China and advancing the high-quality development of the cause of TCM.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to Mr. WU Xian, who resigned as an executive Director and Chairman of the Board on 12 May 2022 and led the Group to complete the basic layout of the whole TCM healthcare industry chain nationwide during his tenure of service, devoted himself to promoting the development of the Group and made outstanding contributions. Meanwhile, I would like to extend my gratefulness to Mr. YANG Shanhua, who resigned as a non-executive Director on 19 November 2022 and earnestly performed his duties and actively offered advice and suggestions to safeguard the steady development of corporate governance during the five years since he worked for the Board.

The development of the Group is inseparable from the guidance and support of previous Directors, as well as the professional expertise and painstaking efforts of all incumbent Directors. At the same time, I would like to take this opportunity to extend the Board's heartfelt appreciation to all our employees for their dedication and efforts in overcoming difficulties over the past year, especially for their positive contribution to performance recovery in the second half of the year. My appreciation also extends to all shareholders, investors and partners for their ongoing support and trust in the Group.

In the future, I will make joint efforts with the fourth session of the Board, work together with colleagues in the pharmaceutical industry and from all walks of life, and continue to strive and contribute to the inheritance, innovation and development of TCM industry and the improvement of the health level of the whole people!

CHEN Yinglong
Chairman

Hong Kong, 24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

OVERVIEW

Since 2022, when facing circumstances such as the complex and severe economic situation, the volatile century pandemic, in-depth reform in pharmaceutical field and competition landscape reconstruction of industry, the Group, with "practicing national TCM development strategy, leading the high-quality development of TCM industrial group" as its mission, has promoted its "14th Five-Year" strategic plan in a comprehensive manner. Centering on the development plans for the six major business sectors of "Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health products, TCM medical institutions", the Group has advanced various works with its full effort, launched key measures, explored new growth drivers, worked hard to overcome difficulties in production and operation, improved management effectiveness, and striven to pursue the sustainable, synergistic and high-quality development of the whole TCM healthcare industry chain.

During the Reporting Period, the Group's revenue was approximately RMB14,304,242,000, representing a decrease of 24.9% from approximately RMB19,052,802,000 for the same period of the last year. This was mainly attributed to implementation of new policy on concentrated TCM granules and other factors. To analyze by revenue of each of the operating products, revenue from Chinese medicinal herbs integration business contributed approximately RMB1,272,761,000, representing 8.9% of the total revenue and with a year-on-year increase of 69.0%; revenue from TCM decoction pieces business contributed approximately RMB1,933,386,000, representing 13.5% of the total revenue and with a year-on-year increase of 31.8%; revenue from concentrated TCM granules business contributed approximately RMB7,710,933,000, representing 53.9% of the total revenue and with a year-on-year decrease of 42.5%; revenue from TCM finished drugs business contributed approximately RMB3,121,636,000, representing 21.9% of the total revenue and with a year-on-year decrease of 2.3%; revenue from TCM great health products business contributed approximately RMB134,202,000, representing 0.9% of the total revenue and with a year-on-year increase of 43.5%; revenue from TCM medical institutions business contributed approximately RMB131,324,000, representing 0.9% of the total revenue and with a year-on-year decrease of 9.2%.

BUSINESS REVIEW

I. Proactively respond to policies changes and resume performance under stable operation

During the Reporting Period, the Group suffered a certain operation volatility resulting from changes in the policies. In particular, since the formal implementation of the new policy on concentrated TCM granules business since November 2021, the industry has remained under transition between new and former standards. In the first half of 2022, except impact of pandemic, subject to shortages of published or recorded varieties of national standards and provincial standards, as well as products storage of enterprise standard by some medical institutions in advance at the initial stage of the implementation of the new policy, revenue from concentrated TCM granules business segment has seen a decrease. Under such impact, the Group's revenue recorded a year-on-year decrease of 27.5% in the first half of 2022.

The Group has well prepared for the policy transition through studies and analysis as well as timely adjustment of its operating strategy to cope with policy changes. Meanwhile, the Group effectuated stable transition by leveraging on strengths in the whole TCM healthcare industry chain, actively expanding business to achieve business growth. On the one hand, while fully cooperating with the relevant authorities of the State in promoting the implementation of the new policy on concentrated TCM granules, the Group reduced the impact of limits on prescription in medical ends resulting from insufficient standards by advancing the establishment of provincial standards in each province, and guided transition of new and former standards in medical institutions to promote the recovery of demand for new standard products in medical ends. On the other hand, the Group vigorously developed the trading of Chinese medicinal herbs by taking Chinese medicinal herbs industrial bases as a foothold; boosted growth in TCM decoction pieces business through the decoction and distribution service; explored the development potential of TCM great health products with the market demand as the starting point. Owing to the Group's unremitting efforts, sales continued to recover and increased steadily in the second half of 2022, with operating revenue growing by 42.0% as compared with the first half of the year.

II. Comprehensively deepen reform and innovation and stimulate the potential vitality of enterprises

In the face of changes in the external competitive environment and adjustments in industry policies, the Group has reacted to situation, actively responded to the changes, continued to deepen its reforms, and seized opportunities with changes to build a new development pattern.

Focusing on enhancing industrial leadership to deepen reform, the Group maximized its advantages as a leading enterprise in the industry, increased the allocation of various factors such as capital, technology and talents in key sectors affecting the development of the enterprise, promoted in-depth professional integration and adjustment and synergy within and outside the industry chain, and accelerated the clearance of non-advantaged businesses and inefficient and ineffective assets to further promote and improve the construction of TCM modern industrial system.

Focusing on enhancing scientific and technological innovation to deepen reform, the Group has effectively brought into play the industry's leading scientific research advantages, deployed innovation chains around the industry chain, especially in the field of Chinese medicinal herbs resources as well as the construction of standards for processing of TCM decoction pieces and national drug standards for concentrated TCM granules, which highlighted the importance of scientific and technological outputs, achievements, transformation and industries. The Group has united expert teams from multiple disciplines in the industry, strengthened the in-depth integration of industry-university-research driven by enterprises, and built an effectiveness-oriented scientific and technological innovation work system, so as to open up the "last mile" of industry applications.

Focusing on building a modern enterprise to deepen the reform, the Group has effectively strengthened the construction of corporate systems and strived to enhance the modernisation of corporate governance. Under the scientific decision of the Board, the Group has resolutely implemented organizational restructuring with the fundamental aim of enhancing enterprise vitality and improving efficiency, and improved the construction of organizational echelons to lay a solid foundation for sustainable development; at the same time, it has established and optimised the assessment mechanism, built a more precise, flexible, standardized and efficient income distribution mechanism, and bettered the remuneration system for core key talents with competitive advantages in the market, so as to further strengthen the core competitiveness of the enterprise.

Focusing on adapting to changes in the market to deepen the reforms, the Group has insisted on adapting to the new requirements of regulation and the emerging demands, actively analysed the impact of industry policy adjustments on the Group's operation from the cost, channel and sales ends, fully demonstrated the feasibility of price adjustments and carried out terminal price adjustments, promoted the conversion of the new standards for concentrated TCM granules at medical ends, and promoted the balance of supply and demand between production co-ordination and marketing.

During the Reporting Period, the Group successfully completed the main tasks under the Three-year Action Plan for the Reform of State-owned Enterprises, and further stimulated vitality and mobility of the enterprise through combining reforms with business development. The Group has improved its corporate governance structure, which highlighted the core governance role of the Board, and steadily advanced the level of corporate governance, opening a new chapter in high-quality development.

III. Make every effort in pandemic prevention and product supply and fulfill the responsibilities as a central enterprise

During the Reporting Period, facing the pandemic in Hong Kong, Shanghai, Beijing and even the whole country, the Group gave full play to the advantages of industry chain and supply chain, always adhered to the principle of "mobilizing all our staff, acting on all fronts, making efforts in all areas, and devoting all our efforts", timely launched emergency plans, and rapidly built a prevention and control mechanism to ensure anti-pandemic drugs production be expanded and supply be secured. The Group produced and supplied a total of 42.58 million boxes of anti-pandemic TCM finished drugs, mainly including 28.72 million boxes of Huashi Baidu Granules (化濕敗毒顆粒), Jinye Baidu Granules (金葉敗毒顆粒), Yu Ping Feng Granules (玉屏風顆粒) and other varieties, produced and supplied 90 million bags of concentrated TCM granules for all kinds of treatment and prevention, and supplied 17.50 million doses of preventive and therapeutic prescriptions of TCM decoction pieces for provinces (regions and municipalities) across the country to safeguard the health of hundreds of millions of people, fulfilled corporate responsibility in the course of pandemic prevention and control, and contributed the strongest strength of TCM.

IV. Fully implement the strategic plans on six major businesses and enhance the efficiency of the connection of industry chain

(I) Improve layout of Chinese medicinal herbs base and control the source advantage of medicinal herbs resources

As the source and material basis of the development of TCM industry, Chinese medicinal herb sources are the key guarantee to support the high-quality development of TCM industry. The Group applies the concept of "quality first" throughout the whole TCM healthcare industry chain, adheres to the core positioning of "high-quality TCM with raw materials from the major production areas of Chinese medicinal herbs", and regards Chinese medicinal herb sources as the starting point for the construction of the whole industry chain. The Group highlights the authentic attributes of medicinal herbs and the normalized, large-scale and specialized cultivating of Chinese medicinal herbs, vigorously develops planting bases for authentic medicinal herbs in accordance with the Good Agriculture and Collection Practices for Medicinal Plants (GACP), so as to satisfy the internal and external needs of high-quality medicinal herbs resources. As of 31 December 2022, the Group participated in jointly building a total of 226 GACP bases for Chinese medical herbs in 19 provinces (regions and municipalities) across the country, involving 91 varieties and with a planting area of over 250,000 mu.

Meanwhile, the Group proactively built the whole process quality management and traceability system for Chinese medicinal herbs on its planting, production and circulation. As of 31 December 2022, a total of 80 varieties have been recorded in the traceability management system of Chinese medicinal herbs and a traceability system has been established, of which 52 varieties of Chinese medicinal herbs can be traced through traceability code, making the whole output process of medicinal herbs traceable, and the quality of medicinal herbs stable and controllable.

(II) Continue to expand the terminal coverage of decoction pieces and leverage the knock-on effect of the featured model

Affected by factors such as favorable national policies, gradually improved industry norms and increased consumption demand, demand terminal on high-quality TCM decoction pieces has seen an increase. Relying on the authentic medicinal herb production bases and industrial parks, the Group's TCM decoction pieces enterprises nationwide have explored their regional market, expanded market share, showing robust growth momentum. During the Reporting Period, the number of newly developed medical ends customers of various types has exceeded 1,500 for decoction pieces business.

The Group has jointly built the "Share of TCM – Intelligent Distribution Center" ("Intelligent Distribution Center") with medical institutions nationwide to carry out services such as TCM decoction, distribution and herbal paste processing, and established a TCM product and service platform providing "multiple dosage form, personalized, one-stop" service. The business model of significant advantages gradually matured, with ever-increasing customer stickiness. As of 31 December 2022, the Group has constructed 35 Intelligent Distribution Centers in 12 provinces (regions and municipalities) across the country, of which 17 have been built in 2022, driving the continuous growth of sales scale and profitability of segment business.

In the next step, the Group will tap in-depth the development potential of the regional market, strengthen the promotion of the featured model, and provide more comprehensive, efficient and convenient TCM services to meet the growing demand for high-quality TCM decoction pieces.

(III) Fully promote the transition of new standard concentrated TCM granules products and consolidate the foundation for long-term and sound development

Since the implementation of the new policy on concentrated TCM granules, the Group has firmly seized the opportunities after the repeal of the regulations related to National Pilot Program of concentrated TCM granule, and played an exemplary and leading role by virtue of its pioneer advantage in this field. While proactively promoting the research and formulation of national and provincial standards, the Group has comprehensively promoted the transition from the former standards to the new ones to ensure a continuous and stable supply of new standard products. As of 31 December 2022, the Group has completed the marketing filing of 199 national standard varieties and 281 provincial standard varieties, ranking first in the industry in terms of marketing filing number, and made every effort to the clinical prescription medication terminal demand.

At the same time, the Group carried out in-depth research and propaganda on the new standard of concentrated TCM granules, actively guided the terminal to use products of national and provincial standards to make clinical prescription, and boosted the terminal demand recovery and growth. The Group also thoroughly implemented the online procurement access work of provinces throughout the country, and responded to medical insurance code, to ensure continuous updates of product information and incorporating it into the National Medical Insurance Information Business Coding Standard Database (國家醫保信息業務編碼標準數據庫), and to guarantee that products are sold across the country.

As the leader in concentrated TCM granules industry, the Group will make every effort to improve the supply capacity of all varieties of concentrated TCM granules, accelerate modernization, standardization and industrialization of TCM.

(IV) Adhere to equal emphasis on inheritance and innovation to revitalize finished drugs products

The Group has three Chinese time-honored brands including Tong Ji Tang, An Ning and Feng Liao Xing, and nearly 800 products specification of TCM finished drugs. The Group at all times lays equal emphasis on inheritance and innovation during its course of development, reinforces scientific research, attaches importance to clinical application and focuses on market expansion.

On scientific research side, through the combination of dialectical thinking of TCM and evidence-based thinking of western medicine, the Group carried out TCM evidence-based research on major products such as Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Trionycis Bolus (鱉甲煎丸) and Fengshi Gutong Capsules (風濕骨痛膠囊), improved product evidence chain and its value; on academic side, the Group continued to improve the quality of academic promotion, enhanced the product recognition among terminal doctors, and expanded the clinical application scope; on brand side, the Group, focused on the core strategy of "brand leading, market driven", drove the sustained growth of new retail business by virtue of the combination of the strength of "Sino-TCM" brand and product resources, as well as digital innovative marketing approach.

On 10 December 2022, National Administration of Traditional Chinese Medicine issued the "Guidelines for Chinese medicine intervention at home for people infected with COVID-19" (《新冠病毒感染者居家中醫藥干預指引》), of which the Group's Yu Ping Feng Granules was the only TCM finished drug that was included in the "prevention scheme via drug intervention"; 13 TCM finished drugs, including Huashi Baidu Granules (化濕敗毒顆粒) and Jinye Baidu Granules (金葉敗毒顆粒), were included in the "treatment and rehabilitation scheme". The Group's subsidiaries adhered to the responsibilities as central enterprises, and fully involved in the work of expanding production and ensuring supply, providing a strong guarantee to protect the people's lives and to minimize the impact of the pandemic on economic and social development.

(V) Activate the impetus of product output via diverse TCM great health products business segment

In recent years, TCM great health industry has seen rapid development and has a broad market prospect. On the one hand, the Group optimized and upgraded certain existing product categories of TCM great health, such as hangover cure and liver care (解酒護肝), beauty care (養顏美容), health care and preservation (保健養生). On the other hand, the Group carried out research on the three major aspects of functional products, Chinese medicine homologous food products and food for special dietary uses, and actively expanded the layout of the product line, with each subsidiary in this segment showing a trend of diverse expansion and highlights.

During the Reporting Period, while focused on "Chao Ge Chao Jie" (超葛超解) product, which set a promising start for the "bulk single product" model, Guangdong Qifeng Health Industry Co., Ltd. also strengthened bulk material supply and OEM/ODM business expansion, with annual revenue recorded a great year-on-year increase; Sinopharm Group Guizhou Healthcare Industry Development Company set its development directions on specialty channel and health products/foods for special dietary uses, and actively expanded product categories and C-end sales channels, with annual revenue recorded a significant year-on-year increase; as a honeysuckle technology innovation centre located in Linyi City, Shandong Zhongping Pharmaceutical Co., Ltd. ("Shandong Zhongping") has built a honeysuckle base with an area of more than 7,000 mu, and dominated by Qingyi (青烎), pure fresh flower dew of honeysuckle, with products covering 52 cities across the country; Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") has created and upgraded Chinese-style products, and "Yuejian Bencao" (閱鑒本草) series, a kind of Chinese medicine homologous food product, has been well recognized by consumers.

In light of the huge potential of the consumption demand for TCM great health products, the Group will rely on its own first-mover advantages in scientific and technological research and development, quality control and production processes, duly analyze the demand of target customers, markets and products, and increase its effort in the development of new products and market cultivation to create new performance growth point.

(VI) Explore new patterns for business operation and enrich product and service supply matrix

On 20 May 2022, the general office of the State Council issued the "14th Five-Year Plan for National Health Plan" (《「十四五」國民健康規劃》) which pointed out that it is necessary to give full play to the role of TCM in health services, enrich the service content of TCM medical institutions, promote the promotion and application of TCM techniques and a rehabilitation service model that is conducive to giving full play to the advantages of TCM. In response to the call of the State, the Group, with the three business lines of specialties, physical therapy and rehabilitation, and home healthcare as its core, proactively explored new patterns for business development.

In the course of exploring the operation model, the Group continuously improved the management of the existing TCM medical institutions, acted well in lean management, and established the benchmark of TCM medical institutions; explored community-based development model, investigated certain community medical projects, and initially carried out the development idea of "flagship store + community store". In the course of developing products and services, the Group strengthened the integration and development of three business lines, set up specialties, including postpartum rehabilitation and recuperation (產後康復調理), treatment of foreseeable disease (治未病調理) and moxa-moxibustion derivative services (艾灸衍生服務); carried out physical therapy activities such as intervening in adolescent myopia and scoliosis with TCM; introduced nine high-end retail commodities such as milkvetch root, and developed five expert prescription preparations such as "kidney tonic and body building prescription" (補腎強身方) and "rhinitis recuperation prescription" (鼻炎調理方), to create a four-in-one new business type in health industry with the integration of "medical treatment, medicine, regimen and food".

V. Improve the layout of scientific and technological innovation and create new strengths for development

(I) Continue to invest more in scientific research

During the Reporting Period, the Group continued to increase its investment in scientific research, with scientific research fund amounted to approximately RMB612 million, accounting for 4.3% of the revenue in the same period, and exceeding industry average level.

(II) Optimize the management of scientific research talents and strengthen the construction of scientific research platform

As of 31 December 2022, the Group's R&D team has a total of 1,309 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; 29 professional and technical talents with senior title and 106 professional and technical talents with vice-senior title; 3 postdoctorates, 11 doctors and 164 masters.

During the Reporting Period, the Group has set up 1 academician workstation (workstation of Academician Tong Xiaolin), 1 National Enterprise Technology Center, 3 Enterprises Technical Centers of Provincial Level and 1 CNAS Laboratories. Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang"), Jiangyin Tianjiang, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World") and other major subsidiaries co-established a Joint Entity on the Technological Innovation, and successfully won the bid of the MIIT's project "TCM Whole Industry Chain Quality & Technical Service Platform". Besides, they built a basic database of quality traceability, whole-process quality control, inspection and testing through the whole industry chain of TCM, and constructed the scientific and technological support system for the whole industry chain of TCM.

(III) Maintain the leading strength in the research of national and provincial standards for concentrated TCM granules

During the Reporting Period, the Group completed 64 national standard researches for concentrated TCM granules, with a total of 424 national standard researches completed. Chinese Pharmacopeia Commission announced 69 national drug standards for concentrated TCM granules in 2022, of which the research completed by the Group accounted for 37, ranking first across the country.

As of the end of the Reporting Period, a total of 30 provinces (regions and municipalities) in China has published 6,830 provincial drug standards for concentrated TCM granules, of which the research completed by the Group accounted for 3,843, representing for 56.3%, ranking first in the industry.

(IV) Achieve milestone progress on the research of TCM finished drugs, TCM decoction pieces and Chinese medicinal herb sources

During the Reporting Period, the Group continued to strengthen R&D of TCM finished drugs and completed a total of 28 benchmark sample researches on classical formulae and 15 pilot-scale production studies on classical formulae; launched Phase III clinical trial of Yushuda tablets on the efficacy and safety for the treatment of mild and moderate depression; and published the "Safety and efficacy of Yu Ping Feng Granules in children with recurrent respiratory tract infection: A randomized clinical trial" (《關於玉屏風顆粒治療小兒反覆呼吸道感染高質量RCT臨床研究成果》) on Pediatric Investigation, a leading research journal in pediatrics.

In respect of research on TCM decoction pieces, the Group completed the classification of 8 authentic medicinal herb decoction pieces including cmnamomi mmulus; successfully developed delicate processing decoction pieces including E-Jiao Zhu (阿膠珠), Jiu Zhi Feng Jiao (酒製蜂膠) and exocarpium citri grandis (化橘紅); Dandouchi (淡豆豉) and Licorice Infused with Earthworm (甘草泡地龍) awarded the title of "Guangdong Province Quality TCM decoction pieces product"; the Group has undertaken the amendments to the national standards for the processing of TCM decoction pieces and the Beijing standards for the processing of TCM decoction pieces, of which 16 variety standards and 98 variety standards were successfully published, respectively.

In respect of Chinese medicinal herb sources, the Group has promoted the relevant researches in an orderly manner, of which the international standard research of epimedium medicinal herb has passed domestic review and gained recommendation for international project approval.

(V) Fruitful scientific research and innovation results

During the Reporting Period, the Group's scientific research and innovation projects yielded fruitful results. The "Formulation of National Standard System of Concentrated TCM Granules and Innovation and Application of Key Technologies" jointly completed by Guangdong Yifang, Jiangyin Tianjiang, Guangdong Medi-World, Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong"), Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") and scientific research institutes won the first prize of Sci-Tech Advancement Award of Guangdong Province (廣東省科技進步一等獎). The "Accurate Analysis and Quality Control Key Technologies and Industrialization of the Whole Chain of Lingnan (South of the Five Ridges) Famous and Quality TCM" jointly participated by Guangdong Yifang and Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing Pharmaceutical") won the second prize of Sci-Tech Advancement Award of Guangdong Province. The "Construction and Application of High Quality Fuzi (Radix Aconiti) Standardized Production Technology System" participated and completed by Sinopharm Group Beijing Huamiao Pharmaceutical Co., Ltd. ("Beijing Huamiao") and Sichuan Jiangyou Zhongbafuzi Technology Development Co., Ltd. ("Sichuan Jiangyou") won the second prize of Sci-Tech Advancement Award of Sichuan Province (四川省科技進步二等獎). The "Interpretation and Application of the Scientific Connotation of Different Treatment of Raw and Stewed Rheum Officinale" participated by Jiangyin Tianjiang won the second prize of Jiangsu Science and Technology Award of TCM. The invention patent "Nifedipin Extended-release Preparation and its Preparation Method" independently developed by Guangdong Medi-World won the Outstanding Award of the 23rd Patent Awards of China. Guangdong Yifang's "Key Technologies for the Industrialization of Concentrated TCM Granules" was included in the Leading Technology (biomedical sector) List of "Innovation China".

VI. Improve the level of refined management to lead the high-efficiency and steady development of enterprise

(I) Comprehensively promote the deepening reform and steadily improve the corporate governance level

The Group is committed to strengthening the Board structure, to give full play to the core decision-making role of the Board and lead the development of the enterprise. During the Reporting Period, adjustments have been made regarding the chairman of the Board, managing Director, non-executive Directors and members of the special committees under the Board. The Board has formulated a specific working system with regard to the implementation of the functions and powers of the Board, the delegation of the Board, the implementation of resolutions of the Board, and the performance support of Directors, and passed the concept of governance to the subsidiaries at all levels, which comprehensively enhanced the modernization level of the Group's governance system construction and governance capability.

The Group has formed a modern ESG management pattern. During the Reporting Period, by virtue of its outstanding performance in ESG transparency and ESG performance evaluation, the Group won awards such as "ESG TOP20 of Listed Chinese Pharmaceutical Enterprises" and "Public Welfare Pioneer" of ESG Golden Bull Award 2022 by CSR Cloud, and was included in the ESG Governance · Pioneer 50 Index, fully demonstrating the Group's value orientation of social responsibility and sustainable development concept.

(II) Leverage on role of strategic leadership and improve top-level design of operation management

During the Reporting Period, the Group strove to promote the implementation of the "14th Five-Year" strategic plan, persisted in applying new development concept throughout the whole process and various fields of enterprise development, regarded strengthening strategic support and managing coordination as the major principle, and focused on specific development plans for each of the six business segments to fully stimulate the supporting role of enabling business by management.

By implementing the "Dragon Seal Decoding Action", the Group introduced strategic maps and balanced score cards in terms of two major lines including business development and functional management, broke the development objectives down into tasks assigned to all levels, defined development ideas and positioning, and highlighted management directions and implementation approaches. The Group also systematically enhanced the ability to execute strategies, which laid a solid foundation to build a strategic management system with the effective integration of strategic planning and operation and management activities.

(III) Promote human resources construction and give full play to the supporting role of talent team

The Group yielded remarkable achievements in human resources management and was highly recognized by different sectors via continuously improving the talent career development system and talent echelon construction mechanism. During the Reporting Period, the Group gained the "2022 Model of Talent Management Culture in China Award" by Beisen, "2022 Recruitment" and "Operation Benchmarking Enterprise Award" by Yonyou Dayee, "2022 Most Influential Employers" by ATAL Alumni, "2022 Guangdong Work Different Award" and "2022 Customer Success Award" by Liepin.

In addition, the Group constructed talent cultivation system with TCM characteristic, proposed the classification of "Five Key Aspects of Development Plan" cultivation system, focused on the combination of TCM industrial features with actual operating needs to set up special class for TCM characteristic talent, established "talent training class of Chinese medicinal herbs integration business" as experimental point, to build the knowledge system of industrial chain of Chinese Medicinal Herbs resources and to cultivate professional personnel related to Chinese Medicinal Herbs field.

(IV) Actively fulfill social responsibility and combine industrial construction with rural revitalization

In addition to its own operation, the Group also actively fulfilled its social responsibility and drove the integrated development of local tertiary industry by combining the construction of Chinese medicinal herbs base with rural revitalization strategy. During the Reporting Period, the Group has entered into Strategy and Alliance Agreement on Planting Demonstration Base with the local governments in various regions, promoted the construction of Chinese medicinal herbs standardization plantation base with involvement of farmers by adopting the work pattern of "company + cooperative + farmer". Besides, the Group, regarding the decided region, varieties, technique and standard as its breakthrough points, strove to build a stable, long-term and customized Chinese medicinal herbs production base, and promoted the natural connection between corporate development and the income creation and growth of farmer, with an aim to achieve common prosperity.

(V) Firmly prevent security risks and strengthen bottom-line mindset and compliance management

The Group attached great importance to work safety, propelled the implementation of safety responsibilities level by level, improved special work plans by compiling the laboratory safety management and standard operating procedure, organized and deployed special rectification actions with respect to mechanical injuries, self-built housing and hazardous chemicals, so as to effectively improve the Group's overall safety management level.

The Group continued to promote compliance governance and improve operation mechanisms such as the system establishment on compliance matters, responsibility implementation, work process and appraisals, established the compliance duty list in key positions and the compliance management system in key fields, and vigorously supervised the embedment of compliance measures into business process and key links, building a solid safeguard for corporate compliance operation.

The Group continued to improve legal system construction, standardized the establishment of external lawyer database. The key subsidiaries have employed the Chief Legal Counsel to further promote general legal knowledge and carry out legal training, so as to avoid or recover from economic loss.

OPPORTUNITIES AND CHALLENGES

On 29 March 2022, the general office of the State Council issued the "14th Five-Year Plan for the Development of Traditional Chinese Medicine" (《「十四五」中醫藥發展規劃》) which formulated the overall arrangements for TCM tasks during the "14th Five-Year" Plan period. Guided by deepening reform and innovation, the Plan has improved the policy measures and appraisal standard system, and created a benign policy-supported environment for the inheritance, innovation and development of TCM, so as to promote the high-quality development of TCM industry. Based on the overall requirements of the Plan, while focusing on the subdivision policies related to the Group's six major business segments, the opportunities and challenges for the subsequent period are as follows:

I. On Chinese medicinal herbs integration business

The Plan indicated the necessity of reinforced production management on authentic Chinese medicinal herbs, as well as consolidated construction of breeding bases and production bases for authentic Chinese medicinal herbs of superior varieties; advocated the industrialization, commercialization and moderate quantitative development of Chinese medicinal herbs with a view to improve the development level of TCM industry, and promoted the establishment of an information traceability system for Chinese medicinal herbs.

On 17 March 2022, National Medical Products Administration, the Ministry of Agriculture and Rural Affairs, the State Forestry and Grassland Administration and the National Administration of Traditional Chinese Medicine jointly issued the "Good Agricultural Practice" (《中藥材生產質量管理規範》) which emphasized the meticulous management of the entire process of Chinese medicinal herbs with focus on crucial procedures, encouraged the TCM manufacturing enterprises to self-establish and co-establish the production bases at their places of origin in accordance with the practice, extending the pharmaceutical quality management system to cover its place of origin.

Challenges: TCM resources represent the source and material basis for the development of the TCM industry, which provide indispensable supports to the industry for the high-quality development. In general, there is a lack of quality supervision in the production process of Chinese medicinal herbs in China, which is characterized by low market access threshold, and outdated production organization and technical level. For small-scale enterprises with insufficient investment, it is difficult to adhere to the relevant requirements under the "Good Agricultural Practice" throughout the whole production process of raw materials used for TCM decoction pieces and Chinese herb preparations, including provenance, planting (breeding), harvesting and local processing, especially when the control requirements on the genera, quality, pesticide residues, heavy metals and other related parameters of medicinal herbs have been further enhanced since the implementation of the national standard for concentrated TCM granules.

Opportunities: The Group has an industry-pioneering seed and seedling R&D system, leading the industry in the selective breeding of Chinese medicinal herbs and customized planting of Chinese medicinal herbs; at the same time, the Group has a huge demand for internal supply of TCM.

Combing with industrial requirement, the Group, as early as 2019, took the lead in deploying GACP bases in authentic medicinal herbs production areas across the country to guide the standardized planting of Chinese medicinal herbs, and established the industry-leading production quality management system in reliance on the industrial park companies deployed in various regions, covering the entire process of planting, harvesting, preliminary processing and storage, so as to realize the traceability and coding of the whole process of the TCM products and guarantee the stability and controllability in the quality of Chinese medicinal herbs raw materials.

II. On TCM decoction pieces

The Plan pointed out that in terms of quality control of TCM products, efforts shall be made in researching and promoting the construction of an information traceability system for TCM decoction pieces, and strengthening the supervision of the its sources.

On 30 December 2022, the National Medical Product Administration issued a notice on the implementation of the "National Standards on Processing TCM Decoction Pieces" (《國家中藥飲片炮製規範》), which pointed out that the production of the varieties of TCM decoction pieces included in the "National Standards on Processing" (《國家炮製規範》) shall meet the requirements of the "Chinese Pharmacopoeia" (《中國藥典》) and the "National Standards on Processing".

In early March 2022, the Inter-provincial Procurement Alliance of Chinese Medicinal Herbs and Sanming Procurement Alliance (National) led by Health Care Security Administration of Shandong province took the lead in launching the centralized procurement of TCM decoction pieces nationwide. On 18 November 2022, Inter-provincial Chinese Medicinal Herbs Procurement Alliance Procurement Office of Sanming Procurement Alliance officially issued the "Document on Joint Procurement of TCM Decoction Pieces of Inter-Provincial Chinese Medicinal Herbs Procurement Alliance under Sanming Procurement Alliance " (《三明採購聯盟省際中藥(材)採購聯盟中藥飲片聯合採購文件》), which clarified the total amount and varieties of the first batch of TCM decoction pieces jointly procured.

Challenges: Higher demands have been placed on enterprises which produce TCM decoction pieces regarding the construction of the traceability system of TCM decoction pieces and the production of TCM decoction pieces in compliance with the "National Standards on Processing". The construction of the relevant platforms requires enterprises to invest a certain cost on one hand, and the quality of their products will face more stringent supervision on the other hand.

Opportunities: In the long run, the centralized procurement of TCM decoction pieces is conducive to the enhancement of industry concentration, and the leading enterprises may benefit. The Group has established an industry-leading information traceability system for TCM decoction pieces, which is characterized by faultless industrial processing capacity and satisfies the relevant requirements of centralized and joint procurement of TCM decoction pieces.

III. On concentrated TCM granules

On 10 February 2021, National Medical Products Administration and other three departments jointly issued the "Announcement on Ending the Pilot Scheme of Concentrated TCM Granules" (《關於結束中藥配方顆粒試點工作的公告》), which was officially implemented on 1 November of the same year. The document clearly stipulated the 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, guiding the industry to have a healthy and orderly development.

On 30 August 2022, National Healthcare Security Administration issued the "Notice on Conducting the Information Maintenance of Concentrated TCM Granules Products" (《關於開展中藥配方顆粒產品信息維護的通知》), which pointed out that all enterprises shall maintain the information of concentrated TCM granules products with filing number issued by the drug regulatory department. Upon review and approval, it will be included in the National Medical Insurance Information Business Coding Standard Database (國家醫保信息業務編碼標準數據庫) for local medical security departments to use.

Challenges: Firstly, increased cost pressure has been imposed on enterprises due to the significant improvement in standard level of concentrated TCM granules products and in the requirements for the quality of raw materials of Chinese medicinal herbs, production and processing processes and equipment investment; secondly, enterprises' scientific research ability will be under test as a result of the difficulties in tackling key technical problems posed by the new standard; thirdly, market supply has been affected due to the difficulties in enterprises' cross-provincial filing process of all varieties caused by differences in provincial standards; fourthly, the centralized procurement of concentrated TCM granules will be the general trend with the promotion of the quality standard of concentrated TCM granules and the unified medical insurance code, and the acceleration of the online procurement via provincial centralized drug procurement platform.

Opportunities: Owing to the gradual improvement of the national concentrated TCM granules system and the full liberalisation of the primary healthcare market, the market scale will see a continuous expansion. In reliance on the nationwide implemented modern TCM industry system, as well as over 30 years of experience in the R&D of concentrated TCM granules and market advantages, the Group has taken the lead in adapting to changes and promoting standard transition work, thus securing preemptive opportunities for development.

IV. On TCM finished drugs

The Plan pointed out that it is necessary to strengthen the research on the clinical efficacy evaluation of TCM and carry out the R&D of innovative TCM on the basis of ancient classical formulae, renowned experience formulae, effective elements or components, etc.

Since 2022, the centralized procurement alliance of TCM finished drugs has been organized in many places across the country to carry out the centralized procurement of TCM finished drugs in succession. On 8 September 2022, the National TCM Finished Drugs Joint Procurement Office (全國中成藥聯合採購辦公室) issued the "Procurement Announcement of National TCM Finished Drugs Alliance (No. 1, 2022)" (《全國中成藥聯盟採購公告(2022年第1號)》), announcing the establishment of the National TCM Finished Drugs Joint Procurement Office, the daily work of which and the specific implementation shall be under the charge of Healthcare Security Administration of Hubei Province.

Challenges: For TCM finished drugs products that are included in the scope of centralized procurement, it is necessary to consider the impact brought by decline in ex-factory price, including the impact of sales volume of the centralized quantity procurement alliance and price decline on national sales volume, etc.; for TCM finished drugs products that are not included in the scope of centralized procurement, there is uncertainty in the sales prospect. With regard to the R&D of innovative TCM drugs, more resources are required to put in research on its safety and efficacy as the material foundation and pharmacological mechanism are more complex.

Opportunities: Clinical terminals and OTC terminals can develop in a coordinated manner benefiting from the Group's abundant resources of finished drugs products and wide network of sales channels; the clinical application and expansion potential of the products will be further released along with the abolishment of health insurance payment restrictions on certain of the Group's finished drugs upon the issuance of the National Medical Insurance Drug List in 2023; R&D of innovative TCM drugs and classical formulae are promoted consistently in an orderly manner, striving to be approved for commercialization through the review.

V. On TCM great health products and TCM medical institutions

The Plan pointed out that efforts shall be made to enrich the supply of TCM healthcare products, and in the R&D of TCM healthcare products with a focus on health supplements, formula foods for special medical purposes, functional cosmetics and household chemical products; and strive to build TCM medical institutions in all community health service centers and township health centers.

Challenges: Difficulties have seen in marketing due to fierce market competition of TCM great health products and serious homogenization of competing products; TCM medical institutions will experience slow development as a result of lacking operational personnel, and are highly dependent on physician resources and brands.

Opportunities: A benign foundation for the R&D and production of TCM great health products has been established by virtue of the Group's profound R&D strength in TCM industry; increased demand for health care and rehabilitation from people in the post-pandemic era further promotes the business growth in TCM great health products and TCM medical institutions.

Overall, "Promoting the inheritance, innovation and development of TCM and initiating the Healthy China program", a key deployment requirement in the field of TCM in China, delivers a favorable policy environment for TCM industry development. The Group will seize the new development opportunities in the industry and strive to pursue the sustainable, synergistic and high-quality development of the whole TCM healthcare industry chain.

MAJOR MEASURES IN 2023

Facing with the internal and external environment changes in TCM industry, the Group will unswervingly focus on the overall strategy of "all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry group", enhance the predictions on industrial policy trends and market competition landscape, thoroughly implement new development concepts, and actively adapt to the new development pattern, so as to move forward steadily on the right path in promoting the high-quality development of TCM path and make a greater achievement in the construction of serving "Health China".

1. Expand the scale of Chinese medicinal herbs plantation base to ensure Chinese medicinal herbs supply of major products, improve the resources management and control system for Chinese medicinal herbs and comprehensively promote the construction of traceability system;

2. Speed up the market development of the TCM decoction pieces and comprehensively enhance regional market share and competitiveness of the decoction pieces;

3. Systematically accomplish the standard transition of concentrated TCM granules, reinforce its position as a leader in concentrated TCM granules industry with regard to technology research and development, standards transition, techniques improvement, cost control, sales management and other fields;

4. Enhance the management of the synergy mechanism of production and marketing, deepen management reform, enhance medical end-market development and promote the development of OTC, online and new retail business;

5. Strengthen the development and innovation of diversified TCM healthcare products, identify products business models with characteristic to stimulate sales volume growth and brand value promotion;

6. Accelerate in-depth integration of the three business lines, strengthen the construction of specialized departments for specific diseases with regional characteristics, and speed up development of new TCM medical institution project in areas with better TCM basic conditions;

7. Integrate scientific research resources across the industry chain, continue to increase investment in scientific research, and bring into play the leading role of technological innovation;

8. Firmly implement digital transformation strategy, promote the implementation of digitalization and informatization construction projects in the concept of data integration across fields;

9. Continue to optimize Talent Development System with TCM characteristic and improve employer brand influence and exposure, and enhance the ability to attract talents of external market;

10. Enhance brand reputation, and gradually establish strong brand recognition of "Dragon Seal Sino-TCM" that stands for "high-quality Chinese medicinal herbs from main production areas" and "national brand".

INVESTMENT PROJECTS

The Group had no significant investments in 2022. As of the date of this report, the Group had no plan for material investments or acquisitions of capital assets.

BUSINESS ANALYSIS

During the Reporting Period, the Group's revenue was approximately RMB14,304,242,000, representing a decrease of 24.9% from approximately RMB19,052,802,000 for the same period last year. Revenue and cost of sales of each of business segment are as follows:

	Twelve months ended 31 December					
Business segments	**2022 Revenue RMB'000**	2021 Revenue RMB'000	Change	**2022 Cost of sales RMB'000**	2021 Cost of sales RMB'000	Change
Chinese medicinal herbs integration business	**1,272,761**	753,006	69.0%	**1,200,719**	688,096	74.5%
TCM decoction pieces	**1,933,386**	1,467,420	31.8%	**1,533,053**	1,212,468	26.4%
Concentrated TCM granules	**7,710,933**	13,400,064	-42.5%	**2,869,964**	3,835,265	-25.2%
TCM finished drugs	**3,121,636**	3,194,217	-2.3%	**1,313,843**	1,323,961	-0.8%
TCM great health products	**134,202**	93,515	43.5%	**107,315**	73,817	45.4%
TCM medical institutions	**131,324**	144,580	-9.2%	**80,896**	90,032	-10.1%
Total	**14,304,242**	19,052,802	-24.9%	**7,105,790**	7,223,639	-1.6%

1. Chinese medicinal herbs integration business

	Twelve months ended 31 December		
	2022 RMB'000	2021 RMB'000	Change
Revenue	**1,272,761**	753,006	69.0%
Cost of sales	**1,200,719**	688,096	74.5%
Gross profit	**72,042**	64,910	11.0%
Gross profit margin	**5.7%**	8.6%	-2.9pp

During the Reporting Period, the revenue of the Chinese medicinal herbs integration business segment was approximately RMB1,272,761,000, representing an increase of 69.0% compared with the revenue of approximately RMB753,006,000 for the same period last year and accounting for 8.9% of the total revenue. The rapid growth trend of the Chinese medicinal herbs integration business was mainly because: (1) the Group continued to develop authentic Chinese medicinal herbs industry, and proactively promoted Chinese medicinal herbs operation business by leveraging on its localised resources strength, realizing significant increase in revenue during the Period; and (2) the coverage of sales channels further expanded and sales volume gained robust growth owing to the proactive acquisition of high-quality customers during the Period.

The gross profit margin for the Period was 5.7%, representing a decrease of 2.9 percentage points compared with 8.6% for the same period last year, which was mainly attributed to the volatility in procurement price of raw materials resulting from increased demand for anti-pandemic Chinese medicinal herbs within a short term.

2. TCM decoction pieces

	Twelve months ended 31 December		
	2022	2021	
	RMB'000	RMB'000	Change
Revenue	**1,933,386**	1,467,420	31.8%
Cost of sales	**1,533,053**	1,212,468	26.4%
Gross profit	**400,333**	254,952	57.0%
Gross profit margin	**20.7%**	17.4%	3.3pp

During the Reporting Period, the revenue of the TCM decoction pieces business segment was approximately RMB1,933,386,000, representing an increase of 31.8% compared with the revenue of approximately RMB1,467,420,000 for the same period last year and accounting for 13.5% of the total revenue. TCM decoction pieces business segment showed a robust development momentum, which was mainly because: (1) continuous enhancement on the development of medical institutions terminal market improved brand influence and customer stability; (2) TCM decoction pieces business realized stable production and increase in income owing to the continuous improvement on the capability of manufacturing, processing and supply of TCM decoction pieces for treating COVID-19; and (3) the decoction business continuously grew due to an ever-increasing recognition of intelligent distribution service for TCM decoction pieces by our customers.

The gross profit margin for the Period was 20.7%, representing an increase of 3.3 percentage points compared with 17.4% for the same period last year. The increase in gross profit margin was mainly attributed to: (1) further optimization of our product structure; and (2) relatively higher gross profit of certain decoction pieces for anti-pandemic and supply guarantee use.

3. Concentrated TCM granules

	Twelve months ended 31 December		
	2022	2021	
	RMB'000	RMB'000	Change
Revenue	**7,710,933**	13,400,064	-42.5%
Cost of sales	**2,869,964**	3,835,265	-25.2%
Gross profit	**4,840,969**	9,564,799	-49.4%
Gross profit margin	**62.8%**	71.4%	-8.6pp

During the Reporting Period, the revenue of the concentrated TCM granules business segment was approximately RMB7,710,933,000, representing a decrease of 42.5% compared with the revenue of approximately RMB13,400,064,000 for the same period last year and accounting for 53.9% of the total revenue. This was mainly because: (1) during the Period, shortages of published or recorded varieties of national standards and provincial standards for concentrated TCM granules have put limits on prescription in medical ends, which affected sales for the Period; and (2) demands of some medical institutions for the Period have seen a decrease resulting from relatively sufficient products storage of enterprise standard at the end of 2021 to cope with the implementation of the new policy on concentrated TCM granules.

The gross profit margin for the Period was 62.8%, representing a decrease of 8.6 percentage points compared with 71.4% for the same period last year, which was mainly because: (1) the production cost has a significant increase since the application of national standards for concentrated TCM granules, whereas terminal price adjustment has not yet been fully put in place; and (2) effect arisen from the newly added amortisation of intangible asset of product protection rights for the Period.

4. TCM finished drugs

	Twelve months ended 31 December		
	2022	2021	
	RMB'000	RMB'000	Change
Revenue	**3,121,636**	3,194,217	-2.3%
Cost of sales	**1,313,843**	1,323,961	-0.8%
Gross profit	**1,807,793**	1,870,256	-3.3%
Gross profit margin	**57.9%**	58.6%	-0.7pp

During the Reporting Period, the revenue of the TCM finished drugs business segment was approximately RMB3,121,636,000, representing a decrease of 2.3% compared with the revenue of approximately RMB3,194,217,000 for the same period last year and accounting for 21.9% of the total revenue, which was mainly attributable to the decrease in product sales in the second half of the year resulting from factors such as epidemic and the integration of business channels.

The gross profit margin for the Period was 57.9%, representing a slight decrease compared with the same period last year, which was mainly due to the impact on cost of some raw materials resulting from the price fluctuation of Chinese medicinal herbs.

5. TCM great health products

	Twelve months ended 31 December		
	2022	2021	
	RMB'000	RMB'000	Change
Revenue	**134,202**	93,515	43.5%
Cost of sales	**107,315**	73,817	45.4%
Gross profit	**26,887**	19,698	36.5%
Gross profit margin	**20.0%**	21.1%	-1.1pp

During the Reporting Period, the revenue of TCM great health products business segment was approximately RMB134,202,000, representing an increase of 43.5% compared with the revenue of approximately RMB93,515,000 for the same period last year and accounting for 0.9% of the total revenue. TCM great health products business segment showed a rapid growth momentum, which was mainly because: (1) production and supply system that matched with the needs of product line has been built by relying on our advantages of Chinese medicinal herbs resources and the solid base in TCM industry, which brought a significant increase in the OEM/ODM business volume; and (2) self-owned brand products business realized increase in sales volume by focusing on developing a series of characteristic products as well as innovative and functional products.

The gross profit margin for the Period was 20.0%, representing a decrease of 1.1 percentage points compared with 21.1% for the same period last year, which was mainly due to lower gross profit derived from the OEM/ODM business as a result of changes in our product mix.

6. TCM medical institutions

	Twelve months ended 31 December		
	2022	2021	
	RMB'000	RMB'000	Change
Revenue	**131,324**	144,580	-9.2%
Cost of sales	**80,896**	90,032	-10.1%
Gross profit	**50,428**	54,548	-7.6%
Gross profit margin	**38.4%**	37.7%	0.7pp

During the Reporting Period, the revenue of TCM medical institutions business segment was approximately RMB131,324,000, representing a decrease of 9.2% compared with the revenue of approximately RMB144,580,000 for the same period last year and accounting for 0.9% of the total revenue, which was mainly because: (1) the revenue for the Period was affected by the short-term suspension of business of certain TCM medical institutions due to prevention and control of COVID-19 pandemic during the Period; and (2) some businesses with low profitability were suspended owing to the optimization of business structure. The gross profit margin for the Period was 38.4%, representing a slight increase from 37.7% for the same period last year.

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Other income

For the twelve months ended 31 December 2022, the Group's other income was approximately RMB230,010,000, representing an increase of 12.0% from approximately RMB205,412,000 for the same period last year. Such increase was mainly because the Group received government grants of approximately RMB152,251,000 during the Reporting Period, representing an increase of 19.0% from approximately RMB127,971,000 for the same period last year.

Other gains and losses

For the twelve months ended 31 December 2022, the Group's other losses were approximately RMB193,773,000 (twelve months ended 31 December 2021: other losses of approximately RMB16,785,000). During the Reporting Period, the changes in other gains and losses were mainly due to the fact that: the recognised impairment losses on investment properties and property, plant and equipment for the Period were approximately RMB135,075,000, representing a significant increase from the losses of approximately RMB12,100,000 in the same period last year; and the gains on disposal of property, plant and equipment for the Period decreased significantly as compared with that for the same period last year.

Impairment losses under expected credit loss model, net of reversal

For the twelve months ended 31 December 2022, in accordance with the Group's credit impairment loss provision policy, the Group's provision for credit impairment loss was approximately RMB10,073,000, representing a decrease compared with approximately RMB13,879,000 for the same period last year. During the Period, there was no material change in the credit patterns of the Group's customers, and the decrease in aforementioned provision for credit impairment losses was mainly because the balance of trade receivables decreased by 8.4% compared with the beginning of this year which was in line with the sales decline in the concentrated TCM granules.

Selling and distribution costs

For the twelve months ended 31 December 2022, the Group's selling and distribution costs were approximately RMB4,604,098,000 (twelve months ended 31 December 2021: approximately RMB7,581,963,000).

During the Reporting Period, the Group's selling and distribution costs decreased by 39.3% compared with the same period last year, higher than the decrease in revenue, which was mainly because: (1) in view of concentrated TCM granules products being under transitional period from the original standards to the new ones, there were still many unresolved issues, such as insufficient product varieties. Accordingly, the Group reduced its marketing investments since it was unable to carry out effective marketing activities under such prevailing market conditions; and (2) there were fewer business hospitality and meetings during the Period due to the sporadic outbreak of COVID-19 pandemic in many regions of China.

Administrative expenses

For the twelve months ended 31 December 2022, the Group's administrative expenses were approximately RMB944,404,000 (twelve months ended 31 December 2021: approximately RMB974,449,000), representing a decrease of 3.1% compared with the same period last year. The decrease in administrative expenses was mainly due to the remarkable achievement in reducing costs and cutting expenditures via implementing multiple measures to reduce various expenses during the Period.

Research and development expenses

For the twelve months ended 31 December 2022, the Group's research and development expenses amounted to approximately RMB611,831,000, representing a decrease of 11.9% over approximately RMB694,441,000 for the same period last year. During the Reporting Period, the Company's research and development expenses were mainly used to: (1) improve quality standards, focusing on standards for concentrated TCM granules; (2) improve future economic returns, focusing on R&D of innovative drugs as well as classical formulae for TCM products; and (3) improve operating efficiency, focusing on the R&D of TCM information service, as well as equipment development and improvement.

Finance costs

For the twelve months ended 31 December 2022, the Group's finance costs were approximately RMB220,695,000 (twelve months ended 31 December 2021: approximately RMB222,029,000). The year-on-year decrease in the finance costs was mainly due to the year-on-year decrease in the effective interest rate for the Group's loans along with the adjustments to the structure of the Group's financing products. During the Reporting Period, capitalised finance costs of the Group were nil (twelve months ended 31 December 2021: approximately RMB1,219,000). During the Reporting Period, the Group's effective loan interest rate was 3.08% (twelve months ended 31 December 2021: 3.11%). The Group will continue to monitor the changes in interest rates, adjust its borrowing and fundraising mechanism as appropriate, and refinance or enter into new agreements for existing bank loan, when favourable opportunities for bargaining arise.

Share of results of associates

For the twelve months ended 31 December 2022, the Group recorded shared loss attributable to associates of approximately RMB3,479,000, and approximately RMB10,749,000 for last year. Investment losses of approximately RMB5,180,000 were recognized regarding the Group's investment in Guangdong Baobaobao Healthy Soup Co., Ltd. in the same period last year, while no further investment losses were recognised during the Period.

Profit for the year

For the twelve months ended 31 December 2022, the Group's profit for the Period was approximately RMB720,752,000, representing a decrease of 66.1% as compared with approximately RMB2,123,424,000 for the same period last year, with a significant year-on-year decrease in revenue and a decrease in profit for the Period. The net profit margin (defined as profit for the Period divided by revenue for the Period) was 5.0%, representing a decrease of 6.1 percentage points from 11.1% for the same period last year, which was mainly because: (1) proportion of revenue from concentrated TCM granules business with high gross profit dropped by 16.4 percentage points as compared with the same period of last year due to decrease in sales volume resulting from sales structure; (2) gross profit margin of concentrated TCM granules business dropped by 8.6 percentage points as compared with the same period of last year, bringing a decrease in the Group's total gross profit margin; and (3) asset impairment losses for the Period and the increase in amortisation in protection rights of TCM granules products.

Earnings per share

For the twelve months ended 31 December 2022, basic earnings per share were RMB15.18 cents, representing a decrease of 60.4% over RMB38.38 cents for the same period last year. The decrease in basic earnings per share was because profit attributable to equity holders of the Company during the Reporting Period decreased by 60.5% to approximately RMB764,266,000 (twelve months ended 31 December 2021: approximately RMB1,932,858,000).

Liquidity and financial resources

As at 31 December 2022, the Group's current assets amounted to approximately RMB17,966,676,000 (31 December 2021: approximately RMB18,203,046,000), which included cash, cash equivalents and bank deposits of approximately RMB3,179,783,000 (31 December 2021: approximately RMB3,014,461,000), of which the pledged bank deposits amounted to approximately RMB114,729,000, mainly for bills payable security (31 December 2021: approximately RMB114,704,000). Trade and other receivables amounted to approximately RMB8,141,891,000 (31 December 2021: approximately RMB8,904,939,000). Current liabilities amounted to approximately RMB10,102,784,000, representing an increase as compared with approximately RMB8,764,528,000 as at 31 December 2021, which was mainly due to the reclassification of approximately RMB2,239,344,000 in three-year medium-term notes due within one year into current liabilities; and the year-on-year decrease of approximately RMB1,003,988,000 in trade and other payables resulting from the year-on-year decrease in sales scale. Net current assets aggregated to approximately RMB7,863,892,000 (31 December 2021: approximately RMB9,438,518,000). The Group's current ratio was 1.8 (31 December 2021: 2.1). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity holders of the Company) decreased from 25.2% as at 31 December 2021 to 24.6%.

Bank and other loans and pledge of assets

As at 31 December 2022, the Group's balance of bank and other loans was approximately RMB1,721,328,000 (31 December 2021: approximately RMB1,716,053,000), of which approximately RMB459,127,000 was secured borrowings (31 December 2021: approximately RMB320,829,000). Out of the balance of bank and other loans, approximately RMB1,255,268,000 and RMB466,060,000 were repayable within one year and over one year respectively (31 December 2021: approximately RMB1,140,495,000 and RMB575,558,000, respectively).

As at 31 December 2022, the Group's bank deposits of approximately RMB114,729,000, land use rights with carrying values of approximately RMB140,835,000, investment property and property, plant and equipment with carrying values of approximately RMB635,284,000 and bills receivable with carrying values of approximately RMB211,748,000 were pledged to secure certain borrowings and bill financing of the Group (31 December 2021: bank deposits of approximately RMB114,704,000, land use rights of approximately RMB123,654,000, investment property and property, plant and equipment of approximately RMB557,035,000 and bills receivable of approximately RMB306,182,000 were pledged).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. During the Reporting Period, major financing activities were as followings: the Group issued three tranches of Super & Short-term Commercial Paper of RMB3 billion in total in 2022 to adjust the structure of the Company's financing products and replenish the operating liquidity in stages, and completed the repayment of two tranches of Super & Short-term Commercial Paper of RMB2 billion in total before due within the year. As the discount rate in the bills market continued to decline, the Group obtained bills discount finance of RMB400 million and used it as a reserve for the procurement of materials, which has been repaid before due during the year. As at 31 December 2022, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB5,434,986,000.

Capital expenditure

For the twelve months ended 31 December 2022, the Group's fixed asset and intangible asset investment expense was approximately RMB753,162,000, compared with approximately RMB1,145,587,000 for the same period last year. During the Reporting Period, the capital expense was mainly used for later investment of the renewal project of the production base for certain concentrated TCM granules and TCM decoction pieces and expansion expense for increase of extraction capacity.

Financing capacity

As at 31 December 2022, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB153,576,000 (31 December 2021: approximately RMB1,008,011,000). Such capital commitments were mainly used for the construction of plants and purchase of production facilities. 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 2022 (31 December 2021: nil).

Financial risk

The Group mainly operates in Chinese mainland, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 31 December 2022, the Group had no Hong Kong Dollar bank borrowings. As at 31 December 2022, the Group did not hold or enter into new forward foreign exchange contracts. In the 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 2022, the Group had a total of 17,662 (31 December 2021: 17,098) employees, including Directors, of which 6,155 were sales staff, 7,008 were manufacturing staff, and 4,499 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 Reporting Period was approximately RMB2,168,604,000 (twelve months ended 31 December 2021: RMB2,067,452,000).

FINAL DIVIDEND

The Board recommended a final dividend of RMB4.55 cents (i.e. HK5.18 cents) per share for the year ended 31 December 2022 (2021: RMB5.98 cents (i.e. HK7.36 cents) per share). The final dividend for the year 2022 is subject to the approval by the shareholders of the Company at the forthcoming annual general meeting and is expected to be payable on 20 June 2023 to the shareholders on the register of members of the Company on 8 June 2023.

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

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 traditional Chinese medicine and pharmaceutical 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 2022, 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 Consolidated 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 2022 are set out in the section headed "Management Discussion and Analysis" of this annual report and the consolidated financial statements on pages 90 to 200.

The Board recommended a final dividend of RMB4.55 cents (i.e. HK5.18 cents) per share for the year ended 31 December 2022 (2021: RMB5.98 cents (i.e. HK7.36 cents per share)). The total distribution for the year ended 31 December 2022 is RMB4.55 cents (i.e. HK5.18 cents) per share (2021: RMB11.52 cents (i.e. HK14.02 cents) per share).

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 attributable profit audited according to 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 2022 are approximately RMB0.885 billion (31 December 2021: approximately RMB0.708 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 consolidated 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 43 to the consolidated 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 2022 are set out in notes 32 and 33 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and 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 2022 are set out in note 42 to the consolidated 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. CHEN Yinglong	*Chairman (appointed on 12 May 2022)*
Mr. CHENG Xueren	*Managing Director (appointed on 25 March 2022)*
Mr. YANG Wenming	
Mr. WU Xian	*ex-Chairman (retired on 12 May 2022)*

Non-executive Directors

Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. MENG Qingxin	*(appointed on 19 November 2022)*
Mr. KUI Kaipin	
Mr. WANG Xiaochun	*ex-Deputy Chairman (resigned on 25 March 2022)*
Mr. YANG Shanhua	*(resigned on 19 November 2022)*

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. WU Xian retired as an executive Director on 12 May 2022 due to reaching retire age. Mr. WANG Xiaochun resigned as a non-executive Director on 25 March 2022 due to personal health reason. Mr. YANG Shanhua resigned as a non-executive Director on 19 November 2022 due to change of work arrangement.

The Company has received from each independent non-executive Director an annual confirmation 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. MENG Qingxin 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. YANG Wenming, Mr. WANG Kan, Mr. YU Tze Shan Hailson and Mr. QIN Ling 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 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 82 of this report.

EXECUTIVE DIRECTORS' EMPLOYMENT AGREEMENTS

Mr. CHEN Yinglong entered into an employment agreement with the Company with effect from 12 May 2022 and which shall automatically be effective thereafter until terminated by either party to the employment 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 employment agreement by giving a one month's prior notice.

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

NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Ms. LI Ru renewed 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. MENG Qingxin entered into an appointment letter with the Company for a term of three years commencing from 19 November 2022.

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' APPOINTMENT LETTERS

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 2022.

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 RMB14,338,143.

DIRECTORS OF SUBSIDIARIES

A list of the 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 2022, the fee for the eligible independent non-executive Directors was fixed at HK$250,000 per annum.

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 the Directors. 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 2022 interim report is as follows:

– Mr. YANG Shanhua resigned as a non-executive Director and a member of audit committee of the Company and Remuneration and Evaluation Committee, with effect from 19 November 2022.

– Mr. MENG Qingxin was appointed as a non-executive Director, with effect from 19 November 2022. He was also 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 December 2022.

– Mr. WANG Kan, a non-executive Director, was appointed as a non-executive director of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 01099) with effect from December 2022.

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 2022, none of the Directors and chief executives of the Company had interests or short positions 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 (the "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 (the "Model Code") set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 31 December 2022, 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%

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 the SFO.

Save as disclosed above, the register which was required to be kept 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 2022.

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 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 2022 to 31 December 2022, the maximum daily deposit balance by the Group in Ping An Bank amounted to RMB485,371,000, which was below the annual cap for the maximum daily deposit balance of RMB600 million (including any interest accrued thereon) for the year ended 31 December 2022.

Master Purchase Agreement and Master Supply Agreement with CNPGC (2020-2022)

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 31 December 2020, 2021 and 2022.

Pursuant to the 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 "Master Purchase Agreement"). 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 31 December 2020, 2021 and 2022 respectively.

Pursuant to the 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 (the "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 31 December 2020, 2021 and 2022 respectively.

On 11 November 2022, the Company and CNPGC entered into the supplemental master purchase agreement (the "Supplemental Master Purchase Agreement") to revise the original purchase cap of RMB70 million to the revised purchase cap of RMB110 million for the year ended 31 December 2022. For further details of the Supplemental Master Purchase Agreement, please refer to the announcement of the Company dated 11 November 2022.

On 20 November 2019 and 11 November 2022, Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC is the parent company of Sinopharm Hongkong and therefore CNPGC is a connected person of the Company. The transactions contemplated under the Master Supply Agreement, the Master Purchase Agreement and the Supplemental 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 and pharmaceutical 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 a large 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 Master Purchase Agreement enables the Group to source stable and quality supply of the materials and the equipment for its business use, while the 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 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 continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2019 and 28 December 2019 respectively. The Master Purchase Agreement, the 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 2022 to 31 December 2022, the actual purchases of materials by the Group from CNPGC Group amounted to RMB56,146,000 (excluding value added tax) which was below the annual cap of RMB110,000,000 for the year ended 31 December 2022.

During the period from 1 January 2022 to 31 December 2022, the actual sales of products by the Group to CNPGC Group amounted to RMB1,004,473,000 (excluding value added tax) which was below the annual cap of RMB1,700,000,000 for the year ended 31 December 2022.

New Master Purchase Agreement and New Master Supply Agreement with CNPGC (2023-2025)

As the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps have expired on 31 December 2022. On 11 November 2022, the Company 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 ending 31 December 2023, 2024 and 2025.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase TCM and chemical materials (the "Materials") to be supplied by the CNPGC Group during the period from 1 January 2023 to 31 December 2025 (the "New Master Purchase Agreement"). The value of the purchases shall not exceed the annual caps of RMB300 million, RMB450 million and RMB675 million for each of the three financial years ending 31 December 2023, 2024 and 2025 respectively.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the pharmaceutical products (the "Products") to the CNPGC Group during the period from 1 January 2023 to 31 December 2025 (the "New Master Supply Agreement"). The value of the sales shall not exceed the annual caps of RMB1,750 million, RMB2,100 million and RMB2,500 million for each of the three financial years ending 31 December 2023, 2024 and 2025 respectively.

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

On 11 November 2022, Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC is the parent company of Sinopharm Hongkong. As such, CNPGC is a connected person of the Company. The New Master Purchase Agreement and the New Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The New Master 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 only life- and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering R&D, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc. 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, 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 Group is one of the largest pharmaceutical companies in the PRC and has comparatively strong planting resources as well as advanced processing technologies, 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 Company's announcements dated 11 November 2022 and 20 December 2022 and circular dated 15 December 2022. 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 4 January 2023.

Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance") (11/2019 – 11/2022)

On 20 November 2019, the Company entered into the Financial Services Framework Agreement with Sinopharm Group Finance (the "Financial Services Framework Agreement"), 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 expected the service fees payable to Sinopharm Group Finance for the other financial services would not exceed HK$3 million for each of the three years ended 19 November 2020, 2021 and 2022.

On 20 November 2019, Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. Sinopharm Group Finance is owned as to 80% by CNPGC and as to 20% by Sinopharm Group Co., Ltd. (a subsidiary of CNPGC). CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, both CNPGC and Sinopharm Group Finance are 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 letter of credits, 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.

New Financial Services Framework Agreement with Sinopharm Group Finance (11/2022 – 11/2025)

On 18 November 2022, the Company entered into the New Financial Services Framework Agreement (the "New Financial Services Framework Agreement") with Sinopharm Group Finance, pursuant to which Sinopharm Group Finance agreed to provide the Financial Services to the Group during the period from 20 November 2022 to 19 November 2025.

Pursuant to the New Financial Services Framework Agreement, the annual caps for the deposit services (i.e. the maximum daily deposit balance, including accrued interest) during the effective period of the New Financial Services Framework Agreement, the maximum daily outstanding deposit balance is RMB600 million.

On 18 November 2022, Sinopharm Hongkong is the controlling Shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. Sinopharm Group Finance is owned as to approximately 58.2%, 9.1%, 10.9%, 10.9% and 10.9% by CNPGC, Sinopharm Group Co. Ltd., China National Biotech Group Company Limited, China National Traditional Chinese Medicine Co., Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., respectively, and CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, Sinopharm Group Finance is a connected person of the Company and the New Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 18 November 2022.

During the period from 1 January 2022 to 31 December 2022, the maximum daily deposit balance by the Group in Sinopharm Group Finance amounted to RMB595,194,000 which was below the annual cap for the maximum daily deposit balance of RMB600 million for the year ended 31 December 2022.

During the period from 1 January 2022 to 19 November 2022, 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 feepayable by Guangdong Medi-World pursuant to the R&D Agreements amounts 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 owned 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 2022 to 31 December 2022, 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 2022 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 2022, 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 40 of the audited consolidated financial statements of this report. 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 caps.

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

For the year ended 31 December 2022, 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 7.0% and 12.1% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 7.0% 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 3.1% and 11.6% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.8% 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 issued shares) 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 35 to the consolidated financial statements.

AUDITOR

Deloitte Touche Tohmatsu retired as auditor of the Company with effect from the conclusion of the annual general meeting of the Company held on 30 June 2021 (the "2021 AGM") and did not seek reappointment. 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 would be determined by the Board.

After the consideration and approval at the 2021 AGM, the Company appointed Deloitte Touche Tohmatsu as the auditor of the Company. For the 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 AGM. A resolution for the re-appointment of Ernst & Young as the auditor of the Company is to be proposed at the AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2022 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 63 to 64 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 54 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

CHEN Yinglong
Chairman

Hong Kong, 24 March 2023

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 2022.

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. CHEN Yinglong	*Chairman (appointed on 12 May 2022)*
Mr. CHENG Xueren	*Managing Director (appointed on 25 March 2022)*
Mr. YANG Wenming	
Mr. WU Xian	*ex-Chairman (retired on 12 May 2022)*
Non-executive Directors:	
Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. MENG Qingxin	*(appointed on 19 November 2022)*
Mr. KUI Kaipin	
Mr. WANG Xiaochun	*ex-Deputy Chairman (resigned on 25 March 2022)*
Mr. YANG Shanhua	*(resigned on 19 November 2022)*
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, execution 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 annual confirmation letters 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 aware of any potential conflicts of interest that may arise on their part in relation to the Group's business. In case of such conflict of interest arises, the Director concerned would declare his/her interest to the Board, and abstain from voting on the issues or matters to be resolved. The role of Chairman and the Managing Director is separate which ensures that there is a balance of power and authority. The responsibilities of both are set out in the section headed "RESPONSIBILITY OF THE BOARD" in this Corporate Governance Report.

The Board has put in place mechanisms to ensure independent views and inputs from Directors are available to the Board. The Chairman holds meetings annually with the independent non-executive Directors without the presence of other Directors to encourage them to voice out their independent views and promote an open and constructive dialogue. During the year, the Chairman had one meeting with the independent non-executive Directors to discuss matters relating to the Group and its operations.

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. Joint company secretaries of the Company assist 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 charged with providing effective and responsible leaderships for the Company. 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 and senior managements, 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 consolidation financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2022 is set out below:

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

During the year ended 31 December 2022, the Company convened four regular Board meetings, two other Board meetings and the 2022 annual general meeting. The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings		
Directors	**Regular Board Meetings**	**Other Board Meetings**	**2022 Annual General Meeting**
Executive Directors:			
Mr. CHEN Yinglong *(Chairman)(appointed on 12 May 2022)*	3/3	1/1	1/1
Mr. CHENG Xueren *(Managing Director)(appointed on 25 March 2022)*	3/3	1/1	1/1
Mr. YANG Wenming	4/4	2/2	1/1
Mr. WU Xian *(ex-Chairman)(retired on 12 May 2022)*	1/1	1/1	N/A
Non-executive Directors:			
Ms. LI Ru	4/4	2/2	1/1
Mr. YANG Binghua	4/4	2/2	1/1
Mr. WANG Kan	4/4	2/2	1/1
Mr. MENG Qingxin *(appointed on 19 November 2022)*	N/A	N/A	N/A
Mr. KUI Kaipin	3/4	2/2	1/1
Mr. WANG Xiaochun *(ex-Deputy Chairman)(resigned on 25 March 2022)*	0/1	1/1	N/A
Mr. YANG Shanhua *(resigned on 19 November 2022)*	3/4	1/2	1/1
Independent Non-executive Directors:			
Mr. XIE Rong	4/4	2/2	1/1
Mr. YU Tze Shan Hailson	4/4	2/2	1/1
Mr. QIN Ling	4/4	2/2	1/1
Mr. LI Weidong	4/4	2/2	1/1

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 policies, 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 operation, to the Chairman of the Board, Managing Director 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 from 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 Committee, the Remuneration and Evaluation Committee, the nomination committee (the "Nomination Committee") and strategic committee (the "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 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 core shareholder protection standards set out in Appendix 3 to the Listing Rules and the Articles of Association proposed to be amended, any person appointed as a Director by the Board, either to fill a casual vacancy or as an addition to the Board, shall hold office only until the first annual general meeting of the Company after his appointment, and shall then be eligible for re-election.

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. CHEN Yinglong *(Chairman) (appointed on 12 May 2022)*	A, B, C
Mr. CHENG Xueren *(Managing Director) (appointed on 25 March 2022)*	A, B, C
Mr. YANG Wenming	A, B, C
Mr. WU Xian *(ex-Chairman) (retired on 12 May 2022)*	B
Non-executive Directors:	
Ms. LI Ru	A, B
Mr. YANG Binghua	A, B
Mr. WANG Kan	A, B
Mr. MENG Qingxin *(appointed on 19 November 2022)*	A, B
Mr. KUI Kaipin	A, B
Mr. WANG Xiaochun *(ex-Deputy Chairman) (resigned on 25 March 2022)*	B
Mr. YANG Shanhua *(resigned on 19 November 2022)*	B
Independent Non-executive Directors:	
Mr. XIE Rong	A, B
Mr. YU Tze Shan Hailson	A, B
Mr. QIN Lin	A, B
Mr. LI Weidong	A, B

A: Attending training related to update on "2022 Listing Rules and Corporate Governance Code";

B: Online reading materials including corporate governance, internal control, risk management, accounting and auditing, relevant laws and regulations, etc;

C: Attending training related to "Duties and Responsibilities of Directors of Hong Kong Listed Companies".

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, three Nomination Committee meetings were held and the following topics were reviewed and discussed: 1) nomination of executive Directors and non-executive Directors, recommendation of re-appointment of independent non-executive Directors and considering adjustment plans for the composition of relevant special committees; 2) review of the structure of the Board and its committees and other executives, and the diversity of the composition; 3) the independence of the independent non-executive Directors; 4) time committed by non-executive Directors to the Company in the performance of their duties; and 5) list of Directors to be retiring by rotation AGM in 2022. The individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance/ Number of meetings**
Executive Directors:	
Mr. CHEN Yinglong *(Chairman) (appointed on 12 May 2022)*	1/1
Mr. CHENG Xueren *(appointed on 25 March 2022)*	2/2
Mr. YANG Wenming	3/3
Mr. WU Xian *(ex-Chairman) (retired on 12 May 2022)*	1/1
Non-executive Director:	
Mr. WANG Xiaochun *(resigned on 25 March 2022)*	1/1
Independent Non-executive Directors:	
Mr. XIE Rong	3/3
Mr. YU Tze Shan Hailson	3/3
Mr. QIN Ling	3/3
Mr. LI Weidong	3/3

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.

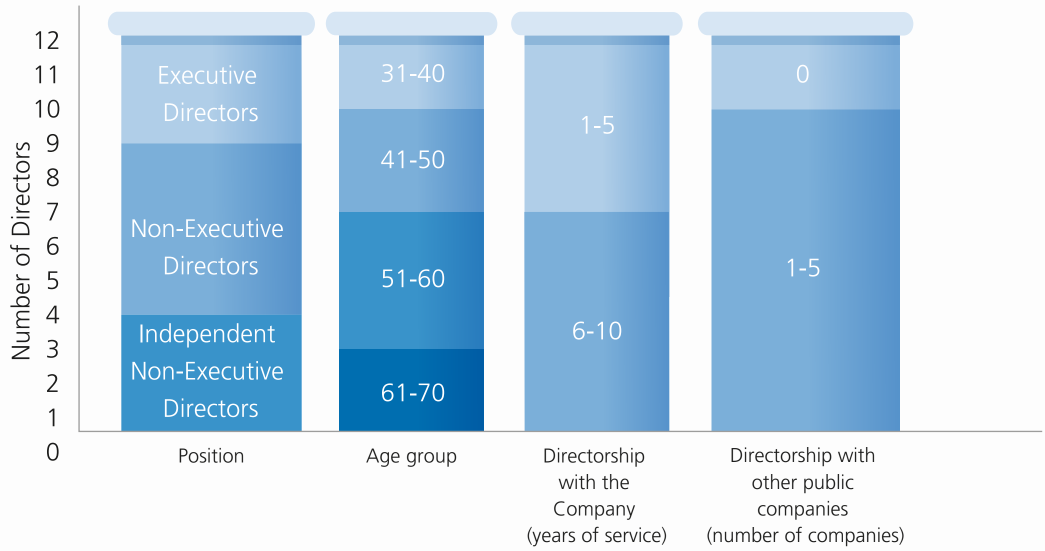
The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and 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.

Currently the Board has one female non-executive Director. We will continue to embrace gender diversity when making future Board appointments but no specific targets or timelines to further enhance gender diversity have been set as it is of the view that all aspects of diversity should be considered as a whole in the selection of suitable candidates for appointment to the Board.

The same approach to gender diversity at the Board level also applies to the Group's workforce. The gender ratio in the Group's workforce for the year ended 31 December 2022 is set out in the section headed "Fair Employment" and the "Performance Data Table" in the 2022 Environmental, Social and Governance (ESG) Report.

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 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, five 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 *(resigned on 19 November 2022)*	4/5
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	5/5
Mr. YU Tze Shan Hailson	5/5
Mr. QIN Ling	5/5
Mr. LI Weidong	5/5

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2021 and the interim results and the interim report of the Group for the six months ended 30 June 2022, 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 department, and their training programmes and budget.

REMUNERATION AND EVALUATION COMMITTEE

As at the date of this report, the Remuneration and Evaluation Committee comprises of 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 Company's 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 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. It also reviews and approves the management's remuneration proposals based on the corporate policies and goals set by the Board, reviews and evaluates the performance of executive Directors during the relevant financial year to determine the amount of bonus payment (if any), and the emoluments of the non-executive Directors and the independent non-executive Directors are recommended by Remuneration and Evaluation Committee to the Board to ensure that no director and any of his associates shall be involved in determining his own 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, three 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 *(resigned on 19 November 2022)*	2/3
Independent Non-executive Directors:	
Mr. QIN Ling *(Chairman)*	3/3
Mr. XIE Rong	3/3
Mr. YU Tze Shan Hailson	3/3
Mr. LI Weidong	3/3

During the year, the Remuneration and Evaluation Committee had 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 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. CHEN Yinglong, Mr. CHENG Xueren, Mr. YANG Wenming, Mr. YU Tze Shan Hailson and Mr. QIN Ling. Mr. CHEN Yinglong 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, 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, one Strategic Committee meeting was 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. CHEN Yinglong *(Chairman) (appointed on 12 May 2022)*	N/A
Mr. CHENG Xueren *(appointed on 25 March 2022)*	N/A
Mr. YANG Wenming	1/1
Mr. WU Xian *(ex-Chairman) (retired on 12 May 2022)*	1/1
Non-executive Director:	
Mr. WANG Xiaochun *(resigned on 25 March 2022)*	1/1
Independent Non-executive Directors:	
Mr. YU Tze Shan Hailson	1/1
Mr. QIN Ling	1/1

During the year, the Strategy Committee had reviewed Environmental, Social and Governance report 2021 and made the detailed recommendations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2022, 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.

ESG REPORT

The Group has published the Environmental, Social and Governance Report in accordance with the "Environmental, Social and Governance Reporting Guide" issued by the Stock Exchange.

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 Law of the People's Republic of China, 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 36 new drugs are at different research and development stages and the Group possesses production approvals for more than 815 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 AUDITORS' 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, results and cash flow of the Group for that period. In preparing the accounts for the year ended 31 December 2022, 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.

AUDITORS' REMUNERATION

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

Services rendered	Fee paid/ payable in 2022 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

On 25 March 2022, Ms. LEUNG Suet Lun resigned as the joint company secretary of the Company due to work re-allocation. On the same day, the Company appointed a representative of an external service provider, Ms. NG Sau Mei, as the joint company secretary of the Company to jointly serve as the joint company secretaries with Mr. ZHAO Dongji, the main contact of Ms. NG in the Company is Mr. ZHAO.

Both Ms. NG and Mr. ZHAO confirmed that they had taken not less than 15 hours relevant professional training which complied with Rule 3.29 of the Listing Rules during the Reporting Period.

INSIDE INFORMATION DISCLOSURE POLICY

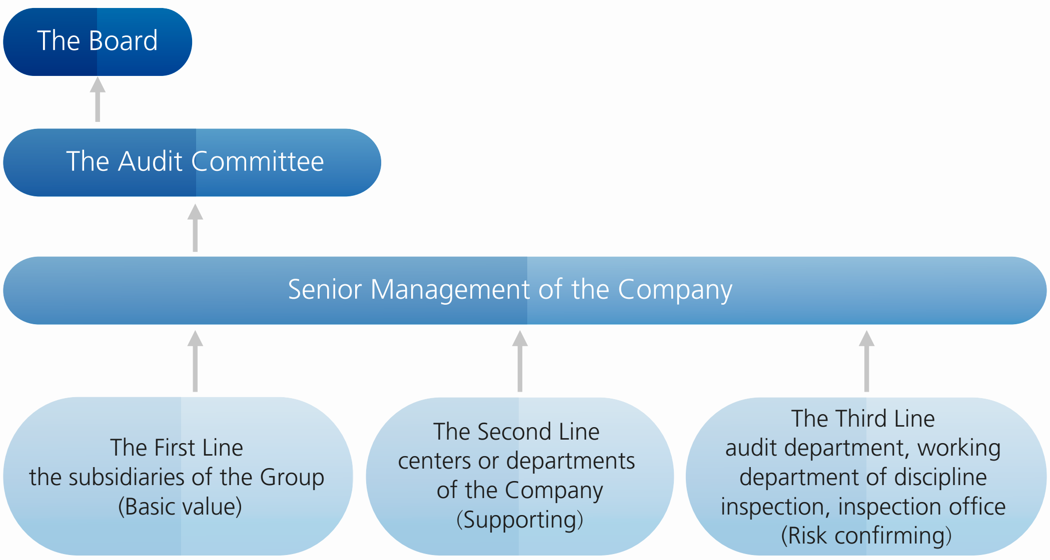
In 2013, the Board adopted an inside information disclosure policy in relation to the procedures and internal controls for handling and disseminating inside information. The Group's inside information disclosure policy sets out guidelines and procedures for Directors, senior management and related personnel 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 will be updated and amended 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 of the Code and the Board 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 Operation Management Department, as a coordinating unit between the Company's subsidiaries and functional departments and the Audit Committee, reports regularly every year 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, strengthened horizontal synergy and vertical management, and made works in institutionalization and process construction go deeper: 1) The Company established the institutional management chain covering subsidiaries at all level, progressively straightened out the institutional management mechanism from headquarters to subsidiaries, and promoted the implementation of the institutional system in a coordinated manner at every level. In 2022, 86 subsidiaries and 85 system management specialists were under our daily management. The Company comprehensively promoted the abolition, amendment and establishment of 1,844 systems; 2) The Company strengthened the system management and control from the Company to its subsidiaries. In 2022, the Company organized the functional departments of headquarters to sort out the existing system, clarified the list of system construction for subsidiaries, and guided and directed subsidiaries to establish and improve relevant systems. As of the end of 2022, 28 systems of headquarters were revised in a coordinated manner in subsidiaries, and a total of 248 systems of subsidiaries were revised; 3) The Company strengthened supervision over the implementation of the systems, organized and carried out inspection and self-inspection of subsidiaries, with a focus on spot checks on the provisions and implementation of major systems such as contract management system, seal management system, brand management system, etc., and supervised the implementation of rectification in view of issues found in spot checks, all of which were completed as planned by the end of the year; 4) The Company strengthened the capability of internal control management departments of key subsidiaries. In 2022, with regard to the internal control management and system management departments of key subsidiaries such as Jiangyin Tianjiang, Guangdong Yifang, Tongjitang Pharmaceutical and Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical"), the person in charge of the internal control department of the headquarters provided one-to-one assistance, improved the unified management consensus of superior and subordinate departments, enhanced the their coordination, and promoted the management capability of subordinate counterpart departments via on-site investigation, supervision and guidance, experience sharing and other forms.

During the year, the Company focused on special work to prevent and defuse risks and improve the Company's efficiency: 1) launched self-evaluation of internal control in 70 subsidiaries, which revealed the weak links in operation and management and promoted the continuous improvement of the internal control system; 2) organized investigation of responsibility for illegal operation and investment, and supervised the signing of the liability agreement. 1,729 agreements have been signed in 2022, raising the awareness of responsibility and improving the basis of responsibility management and investigation; and 3) carried out economic responsibility audits and other audit projects on 58 subsidiaries, with audit coverage of 90.54%.

In terms of internal control, during the Reporting Period, the Company continued to strengthen audit supervision and promote internal management. A total of 712 problems were found by the audit, 382 of which should be rectified when due, 382 of which had been completed, and the completion rate of due rectification was 100%.

During the Reporting Period, the Company is of the view that the existing risk management internal control systems of the Group are effective and adequate.

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, (86) 757 8833 3168
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.

During the year ended 31 December 2022, the Board has reviewed the effectiveness of the shareholders' communication policy and considered it to be effective and adequate.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision A.2.1 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 e nd 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. CHEN Yinglong, aged 51, was appointed to the Board and served as the Chairman of the Board on 12 May 2022. Mr. CHEN graduated from Heilongjiang University with a bachelor degree of English majoring in English Literature in 1993 and completed the master course of Management Science and Engineering in School of Management of Harbin Institute of Technology in 1999. Mr. CHEN has the professional qualification of senior enterprise information manager and senior economist. Mr. CHEN was the business manager of the first business department of Harbin Metals and Minerals Import and Export Corporation from December 1993 to September 1994; the first representative of Harbin branch of Eisenberg Group United Development Co., Ltd. from September 1994 to October 1999; the general manager of Harbin Runhe Technology Development Co., Ltd. from October 1999 to April 2004; a director and general manager of Harbin Baida Pharmaceutical Co., Ltd. from April 2004 to November 2009; a manager of the raw material department and successively a manager of the safety and environmental protection department of China National Pharmaceutical Industry Company Limited from November 2009 to August 2010; the deputy general manager, general legal adviser and secretary of the board of directors of China Traditional Chinese Medicine Co. Ltd. (formerly known as China National Corp. of Traditional & Herbal Medicine) from August 2010 to December 2018. He served as a vice president of the Company from December 2018 to May 2020, during which he was also the standing committee member of the municipal committee and deputy mayor of Baishan City of Jilin Province. He has been director of public affairs department of China National Pharmaceutical Group Co., Ltd. from May 2020 to June 2022. Mr. CHEN is currently the deputy Party secretary of the Company and the chairman of the board of directors, general manager and provisional deputy Party secretary of the China Traditional Chinese Medicine Co. Ltd.

Mr. CHENG Xueren, aged 59, was appointed to the Board and served as the Managing Director on 25 March 2022. 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 finished master course of Basic Theory of Integrated Chinese and Western Medicine in Guangzhou University of Chinese Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and attending physician. Mr. CHENG 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 R&D director, a person in charge of quality, a deputy manager of production, the deputy manager of sale, chairman, general manager and secretary of Party committee of Guangdong Yifang Pharmaceutical Co., Ltd. from March 1993 to September 2021. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015, and a vice president of the Company from December 2019 to September 2021. Mr. CHENG has been a director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 6 May 2022. Mr. CHENG is currently the president of the Company, and holds directorship in multiple subsidiaries of the Company.

Mr. YANG Wenming, aged 59, 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 the Company.

NON-EXECUTIVE DIRECTORS

Ms. LI Ru, aged 43, 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, Ms. LI has acted as deputy director and director of the risk and operation management department (currently known as risk management department) of China National Pharmaceutical Group Co., Ltd. successively.

Mr. YANG Binghua, aged 42, 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, the deputy department head of the second secretarial department, a deputy director of the party committee office, the deputy department head and the department head of the propaganda department of party committee directly under the SASAC from July 2004 to March 2017, during when, Mr. YANG engaged in the basic training programme in Daqing Oilfield production plant No.2 from April 2010 to March 2011; in the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; and served as a staff member of the management enhancement group office of SASAC from July 2012 to August 2014. Mr. YANG has been working in CNPGC since March 2017, and was a deputy director and deputy director (incharge of the department) of party committee department. He is currently the director of party committee department of China National Pharmaceutical Group Co., Ltd. Mr. Yang also serves as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129).

Mr. WANG Kan, aged 38, 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 worked at the planning development and industrial management department of China National Pharmaceutical Industry Company Limited and investment management department and securities department of China National Biotech Group Company Limited from August 2009 to November 2014. Mr. WANG has worked in the CNPGC since November 2014, and served as director assistant and deputy director of the investment management department. Mr. WANG has been the director of the investment management department and deputy director of the policy research department in China National Pharmaceutical Group Co., Ltd. Mr. WANG also serves as a director of Sinopharm Group Co. Ltd., China National Biotec Group Company Limited, Chongqing Taiji Industry (Group) Co., Ltd., and Fresenius Kabi SSPC.

Mr. MENG Qingxin, aged 43, was appointed to the Board on 19 November 2022. Mr. MENG was graduated from Northwest Minzu University in environmental engineering in 2003. Mr. MENG has a senior engineering qualification. From August 2003 to August 2007, Mr. MENG served as the technical safety specialist in equipment department of the 200 National Factory; from August 2007 to February 2009, he served as a technical safety specialist in equipment department of Beijing Aerospace Guanghua Electronics Technology Co., Ltd.; from February 2009 to December 2012, he served as a deputy director of equipment department and a deputy director of safety and security department of Beijing Aerospace Guanghua Electronics Technology Co., Ltd.; from December 2012 to October 2013, he served as a deputy director of the Ninth Standardization Research Office of China Aerospace Science and Technology Corporation. Since October 2013, he has successively served as a senior supervisor, a director assistant and a deputy director of the safety, environmental protection and quality management department of China National Pharmaceutical Group Corporation (currently known as China National Pharmaceutical Group Co., Ltd.). Mr. MENG is currently the director of safety, environmental protection and quality management department of China National Pharmaceutical Group Co., Ltd. Mr. MENG also serves as a non-executive director of Chongqing Taiji Industry (Group) Co., Ltd.

Mr. KUI Kaipin, aged 38, 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 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. Mr. KUI 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 70, 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; a professor of the Shanghai National Accounting Institute from October 2002 to November 2017, and the vice president of the Shanghai National Accounting Institute from October 2002 to August 2012. 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 (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), Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange) and China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange), Shenwan Hongyuan Group Co., Ltd. (a company listed on the Stock Exchange and the Shenzhen Stock Exchange), and Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen 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, from April 2010 to April 2016 , from January 2013 to January 2019, from January 2015 to November 2021 and from June 2015 to November 2021 respectively. Mr. XIE has been an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange) and Shanghai Foreign Service Holding Group Co., Ltd. (a company listed on the Shanghai Stock Exchange) since June 2018 and September 2021, respectively.

Mr. YU Tze Shan Hailson, aged 66, 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 (中國國際信託投資（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 in charge of transfer of colleague scientific technology achievement at Technology Transfer Office of The University of Hong Kong. In 2021, he was the chief operation officer of HKU Innovation Holdings Limited in charge of its 9 AI, robot and biological pharmaceutical scientific research centre. Mr. YU has retired from The University of Hong Kong in 2022, and served as the director of scientific results transfer and entrepreneurship in Macau University of Science and Technology since 2023.

Mr. YU was 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. He has served 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. He also serves as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd (a company listed on the Stock Exchange and the Shanghai Stock Exchange) since June 2021.

Mr. QIN Ling, aged 64, 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 from September 1994 until the present. He also served (or serves) as director of the Bone Quality and Health Centre, and director of Innovative Orthopaedics Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong (CUHK). Mr. QIN is currently a professor of Orthopaedics and director of laboratory of CUHK, head of the CUHK Hong Kong – Shenzhen Innovation and Technology Research Institute (Futian), and a doctorate and a post-doctorate supervisor.

Mr. LI Weidong, aged 55, 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. Mr. LI is currently a director of Haipai 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), and an independent director of LUFAX Holding, Ltd. (a company listed on the New York Stock Exchange, stock code: LU).

SENIOR MANAGEMENT

Mr. SHEN Lixin, aged 56, 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 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 58, 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. Mr. LAN has been with Jiangzhong (Pharmaceutical) Group Co., Ltd. For 17 years, Served as 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 55, has been appointed as a vice president, joint company secretary, chief legal advisor and chief compliance officer since 5 June 2017, 21 July 2017, 14 October 2019 and 24 March 2023 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 55, 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 200, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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.

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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 2022, the carrying value of goodwill and other intangible assets with infinite useful lives in the consolidated financial statements amounted to RMB3,456,313,000 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 management performed impairment tests on these assets by using the discounted cash flow model as at 31 December 2022. 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 consolidated financial statements.	Our audit procedures included, among others, the following: Involved our internal valuation specialists to assist us in evaluating the methodologies and the discount rates used by the Group for determining the recoverable amounts of each cash-generating unit (the "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 2022; Evaluated the management's assumptions of growth rates 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.

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 2022 amounted to RMB6,764,445,000, RMB3,917,820,000 and RMB1,159,821,000, respectively. These assets are reviewed annually by management for potential indicators of impairment. 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 certain long-term non-financial assets.	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.
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 consolidated financial statements.	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 2022 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.

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KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
As at 31 December 2022, the Group had trade receivables of RMB7,619,677,000, after making a provision of RMB110,297,000. 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 consolidated 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.

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.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

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

24 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	4	**14,304,242**	19,052,802
Cost of sales		**(7,105,790)**	(7,223,639)
Gross profit		**7,198,452**	11,829,163
Other income	6	**230,010**	205,412
Other gains and losses	7	**(193,773)**	(16,785)
Selling and distribution expenses		**(4,604,098)**	(7,581,963)
Administrative expenses		**(944,404)**	(974,449)
Research and development expenses		**(611,831)**	(694,441)
Impairment losses under expected credit loss model, net of reversal	8	**(10,073)**	(13,879)
PROFIT FROM OPERATIONS		**1,064,283**	2,753,058
Finance costs	9	**(220,695)**	(222,029)
Share of losses of associates		**(3,479)**	(10,749)
PROFIT BEFORE TAX		**840,109**	2,520,280
Income tax expense	10	**(119,357)**	(396,856)
PROFIT FOR THE YEAR	11	**720,752**	2,123,424
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit plan		**1,274**	–
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gain on debt instruments measured at fair value through other comprehensive income		**10,791**	3,008
Impairment loss reversed for debt instruments at fair value through other comprehensive income included in profit or loss		**(939)**	(200)
Income tax relating to items that may be reclassified subsequently		**(1,556)**	514
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**9,570**	3,322
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**730,322**	2,126,746

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Profit attributable to:			
Owners of the parent		**764,266**	1,932,858
Non-controlling interests		**(43,514)**	190,566
		720,752	2,123,424
Total comprehensive income attributable to:			
Owners of the parent		**773,114**	1,935,921
Non-controlling interests		**(42,792)**	190,825
		730,322	2,126,746
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and Diluted (RMB cents)	*15*	**15.18**	38.38

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**6,764,445**	6,659,985
Investment properties	17	**89,751**	268,768
Right-of-use assets	18	**1,159,821**	1,205,766
Goodwill	16	**3,456,313**	3,492,184
Other intangible assets	19	**5,874,634**	6,257,809
Investments in associates	21	**15,353**	18,006
Deposits and prepayments	22	**107,919**	96,235
Deferred tax assets	31	**185,029**	187,469
Total non-current assets		**17,653,265**	18,186,222
CURRENT ASSETS			
Trade and other receivables	23	**8,141,891**	8,904,939
Inventories	25	**6,039,880**	5,042,890
Debt instruments at fair value through other comprehensive income ("FVTOCI")	26	**605,122**	1,240,756
Time deposits	27(a)	**–**	5,000
Pledged bank deposits	27(b)	**114,729**	114,704
Cash and cash equivalents	27(c)	**3,065,054**	2,894,757
Total current assets		**17,966,676**	18,203,046
CURRENT LIABILITIES			
Trade and other payables	28	**5,232,179**	6,236,167
Lease liabilities	18	**16,764**	14,996
Contract liabilities	29	**290,677**	204,079
Interest-bearing bank and other borrowings	32	**1,255,268**	1,140,495
Unsecured notes	33	**3,241,610**	1,015,226
Tax payable		**66,286**	153,565
Total current liabilities		**10,102,784**	8,764,528
NET CURRENT ASSETS		**7,863,892**	9,438,518
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,517,157**	27,624,740

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	*30*	**437,839**	390,695
Deferred tax liabilities	*31*	**1,603,784**	1,680,204
Unsecured notes	*33*	**–**	2,234,858
Bank and other borrowings	*32*	**466,060**	575,558
Lease liabilities	*18*	**62,872**	82,496
Total non-current liabilities		**2,570,555**	4,963,811
Net assets		**22,946,602**	22,660,929
EQUITY			
Equity attributable to owners of the parent			
Share capital	*34*	**11,982,474**	11,982,474
Reserves		**8,184,246**	7,736,195
		20,166,720	19,718,669
Non-controlling interests		**2,779,882**	2,942,260
Total equity		**22,946,602**	22,660,929

Approved and authorised for issue by the board of directors on 24 March 2023 and signed on its behalf by:

CHEN Yinglong
EXECUTIVE DIRECTOR

CHENG Xueren
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	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 2021	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)
Interim 2021 dividends declared	–	–	–	–	–	(279,811)	(279,811)	–	(279,811)
Acquisition of non-controlling interests 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
Profit for the year	–	–	–	–	–	764,266	764,266	(43,514)	720,752
Other comprehensive income for the year	–	–	–	8,848	–	–	8,848	722	9,570
Total comprehensive income for the year	–	–	–	8,848	–	764,266	773,114	(42,792)	730,322
Disposal of a subsidiary	–	–	–	–	–	–	–	1,448	1,448
Dividends distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(93,058)	(93,058)
Final 2021 dividend declared	–	–	–	–	–	(316,337)	(316,337)	–	(316,337)
Acquisition of non-controlling interests of a subsidiary	–	–	–	–	(9,288)	–	(9,288)	(29,476)	(38,764)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	1,500	1,500
Change in other reserve arisen from an associate	–	–	–	–	562	–	562	–	562
Transfer to statutory surplus reserve	–	–	154,778	–	–	(154,778)	–	–	–
At 31 December 2022	11,982,474	(165,183)	874,107	(3,652)	(60,060)	7,539,034	20,166,720	2,779,882	22,946,602

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 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**840,109**	2,520,280
Adjustments for:			
Depreciation and amortisation	*11*	**1,099,397**	849,597
Amortisation of deferred government grants	*6*	**(77,775)**	(36,276)
Impairment losses recognised/(reversed) in respect of			
– goodwill	*11*	**35,871**	29,779
– right-of-use assets	*11*	**12,451**	1,144
– intangible assets	*11*	**1**	2,265
– other property, plant and equipment	*11*	**135,075**	12,100
– trade receivables	*11*	**10,898**	15,208
– other receivables	*11*	**114**	(1,129)
– debt instruments at FVTOCI	*11*	**(939)**	(200)
Write-down of inventories	*11*	**24,632**	37,783
Finance costs	*9*	**220,695**	222,029
Interest income	*6*	**(67,269)**	(62,576)
Gain on disposal of property, plant and equipment	*7*	**(4,747)**	(24,569)
Loss on disposal of other intangible assets	*7*	**–**	40
Net foreign exchange loss/(gain)	*7*	**117**	(765)
Share of losses of associates	*21*	**3,479**	10,749
		2,232,109	3,575,459
Increase in inventories		**(1,021,622)**	(172,188)
Decrease/(increase) in trade and other receivables		**722,668**	(4,092,341)
(Decrease)/increase in trade and other payables		**(1,038,564)**	1,856,055
Increase/(decrease) in contract liabilities		**86,598**	(88,252)
Decrease in debt instruments at FVTOCI		**392,050**	145,985
Cash generated from operations		**1,373,239**	1,224,718
PRC Enterprise Income Tax paid		**(280,877)**	(428,689)
Net cash flows from operating activities		**1,092,362**	796,029

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash consideration paid for the acquisition of subsidiaries in the prior year		**–**	(15,998)
Purchase of property, plant and equipment		**(523,785)**	(787,094)
Payments for acquisition of for right-of-use assets		**(589)**	–
Proceeds from disposal of intangible assets		**4**	–
Proceeds from disposal of property, plant and equipment		**14,054**	32,025
Purchase of other intangible assets		**(2,899)**	(90,104)
Withdrawal of time deposits		**5,000**	203,000
Placement of time deposits		**–**	(5,000)
Assets-related government grants received		**67,084**	21,879
Capital injection to an associate		**(266)**	(6,594)
(Increase)/decrease in pledged bank deposits		**(25)**	48,374
Interest received		**67,269**	62,576
Net cash flows used in investing activities		**(374,153)**	(536,936)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of unsecured notes	*41*	**3,000,000**	1,000,000
Issuance cost of unsecured notes	*41*	**(4,167)**	(7,500)
New bank and other borrowings	*41*	**3,747,971**	2,895,521
Repayments of unsecured notes	*41*	**(3,000,000)**	(1,000,000)
Repayments of bank and other borrowings	*41*	**(3,636,583)**	(3,058,501)
Repayments of lease liabilities	*41*	**(19,122)**	(19,159)
Dividends paid	*41*	**(314,427)**	(275,779)
Interest paid	*41*	**(205,755)**	(204,589)
Dividends paid to non-controlling interests of a subsidiary	*41*	**(87,971)**	(63,150)
Acquisition of additional interests in a subsidiary		**(38,725)**	(497)
Capital injection from non-controlling interests		**1,500**	9,500
Capital returned to non-controlling interests		**–**	(162)
Net cash flows used in financing activities		**(557,279)**	(724,316)

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**160,930**	(465,223)
Cash and cash equivalents at beginning of year	*27(c)*	**2,717,684**	3,185,627
Effect of foreign exchange rate changes, net		**949**	(2,720)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,879,563**	2,717,684
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position		**3,065,054**	2,894,757
Restricted cash	*27(c)*	**(185,491)**	(177,073)
Cash and cash equivalents as stated in the statement of cash flows		**2,879,563**	2,717,684

Notes to the Consolidated Financial Statements

31 December 2022

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 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

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

3 No mandatory effective date yet determined but available for adoption

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

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

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

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 upon loss of significant influence 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	1 to 20 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 other comprehensive income.

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. 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.

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. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

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

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)

Offsetting of financial instruments

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

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

Chinese Mainland

The employees of the Group's subsidiary which operates in Chinese Mainland 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. Proposed final dividends are disclosed in the notes to the financial statements.

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)

Judgements (continued)

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distribution of dividends from a subsidiary according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether the subsidiary of the Group is determined to be Chinese resident enterprise by the PRC governing tax authorities in the future.

Management considered that the Group's subsidiary in Chinese Mainland will distribute the retained profits as at the end of each of the reporting periods in the foreseeable future and provision for withholding tax was made accordingly. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 consolidated financial statements.

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).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the 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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 consolidated 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 consolidated financial statements.

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 consolidated financial statements.

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2022 **RMB'000**	2021 RMB'000
Types of goods or services		
Concentrated TCM granules	**7,710,933**	13,400,064
TCM finished drugs	**3,121,636**	3,194,217
TCM decoction pieces	**1,933,386**	1,467,420
Chinese medicinal herbs integration business	**1,272,761**	753,006
TCM great health products	**134,202**	93,515
TCM medical institutions	**131,324**	144,580
Total	**14,304,242**	19,052,802

	2022 **RMB'000**	2021 RMB'000
Geographical markets		
Chinese Mainland	**14,173,919**	18,952,171
Hong Kong	**26,333**	14,707
Overseas and others	**103,990**	85,924
Total	**14,304,242**	19,052,802
Timing of revenue recognition		
At point in time	**14,304,242**	19,052,802

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:

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers		
External customers	**14,304,242**	19,052,802
Intersegment sales	**2,306,772**	2,014,308
Total	**16,611,014**	21,067,110
Intersegment adjustments and eliminations	**(2,306,772)**	(2,014,308)
Total	**14,304,242**	19,052,802

(iii) 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 assets are transferred to the customers, the customers have 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. Discounts to customers are 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)

(iii) 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 four reportable operating segments as follows:

i. Yi Fang segment mainly engages in the manufacture and sales of concentrated TCM granules ("CTCMG"), TCM healthcare products, and TCM decoction pieces under "Yi Fang" brand. Majority of the revenue of Yi Fang segment is derived from the sales of CTCMG.

ii. Tian Jiang segment mainly engages in the manufacture and sales of CTCMG, TCM decoction pieces, and TCM healthcare products under "Tian Jiang" brand. The Tianjiang segment also provides 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 product (the "TCM Healthcare Solutions"), through its offline medical institutions under "Tian Jiang" brand. Majority of the revenue of Tian Jiang segment is derived from the sales of CTCMG.

iii. Tong Ji Tang segment mainly engages in the manufacture and sale of CTCMG, TCM decoction pieces and TCM finished drugs under "Tong Ji Tang" brand. The Tong Ji Tang segment also engages in the manufacture and sale of a wide range of healthcare products in great health industry.

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

iv. Medi-World segment mainly engages in the manufacture and sales of TCM finished drugs under various brands, including but not limited to "Medi-world", "De Zhong" and "Feng Liao Xing"; and provision of a variety of TCM Healthcare Solutions through its offline medical institutions under "Feng Liao Xing" brand.

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Following the Group's business restructure and changes in management team, the Group's CODM reallocated the Grouping of the operating segments as above with the aim to align more closely with the Group's strategic direction and streamline the financial performance of the Group's operating segments. For the purposes of assessing segment performance and allocating resources between segments, the CODM then monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit or loss from the continuing operations. Adjusted profit or loss from the continuing operations is measured consistently with the Group's profit after tax from continuing operations except that corporate expenses in head office are excluded from such measurement. 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.

Certain comparative amounts have been restated to conform with the above-mentioned presentation and disclosure in current period.

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

(i) Segment results, assets and liabilities

Year ended 31 December 2022	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue (note 4)						
External customers	5,559,073	4,145,173	1,419,925	3,180,071	–	14,304,242
Intersegment sales	366,410	340,564	336,129	1,263,669	(2,306,772)	–
	5,925,483	4,485,737	1,756,054	4,443,740	(2,306,772)	14,304,242
Segment results	300,242	340,906	98,862	17,373	–	757,383
Reconciliation:						
Other unallocated head office and corporate expenses						(36,631)
Profit for the year						720,752
Other segment information:						
Interest income	17,976	3,392	4,310	41,591	–	67,269
Finance cost	(89,954)	(70,034)	13,881	(74,588)	–	(220,695)
Share of profits and losses of associates	–	25	–	(3,504)	–	(3,479)
Depreciation and amortisation	(457,261)	(372,188)	(105,544)	(164,404)	–	(1,099,397)
Write-down of inventories	1,736	(9,970)	(10,792)	(5,606)	–	(24,632)
Impairment losses under expected credit loss model, net of reversal	4,587	(15,678)	(1,323)	2,341	–	(10,073)
Impairment loss recognised in respect of						
– goodwill	–	–	–	(35,871)	–	(35,871)
– right of use assets	(12,451)	–	–	–	–	(12,451)
– other intangible assets	(1)	–	–	–	–	(1)
– property, plant and equipment	(134,674)	(401)	–	–	–	(135,075)

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

As at 31 December 2022	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	16,480,031	11,831,102	5,418,427	6,787,526	–	40,517,086
Reconciliation:						
Elimination of intersegment receivables						(6,242,297)
Deferred tax assets						185,029
Corporate and other unallocated assets						1,160,123
Total assets						35,619,941
Segment liabilities	5,951,364	4,188,718	1,105,203	5,002,874	–	16,248,159
Reconciliation:						
Elimination of inter-segment payables						(6,242,297)
Tax liabilities						66,286
Deferred tax liabilities						1,603,784
Corporate and other unallocated liabilities						997,407
Total liabilities						12,673,339

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

Year ended 31 December 2021 (restated)	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue (note 4)						
External customers	8,241,394	6,387,879	1,449,371	2,974,158	–	19,052,802
Intersegment sales	322,548	144,103	336,771	1,210,886	(2,014,308)	–
	8,563,942	6,531,982	1,786,142	4,185,044	(2,014,308)	19,052,802
Segment results	1,214,209	820,241	140,007	13,391	–	2,187,848
Reconciliation:						
Other unallocated head office and corporate expenses						(64,424)
Profit for the year						2,123,424
Other segment information:						
Interest income	14,311	5,144	3,888	39,233	–	62,576
Finance cost	(88,118)	(67,543)	11,579	(77,947)	–	(222,029)
Share of profits and losses of associates	–	24	–	(10,773)	–	(10,749)
Depreciation and amortisation	(344,428)	(275,895)	(96,724)	(132,550)	–	(849,597)
Write-down of inventories	(10,161)	(8,807)	(2,583)	(16,232)	–	(37,783)
Impairment losses under expected credit loss model, net of reversal	4,020	(15,227)	1,890	(4,562)	–	(13,879)
Impairment loss recognised in respect of						
– goodwill	–	–	(18,558)	(11,221)	–	(29,779)
– right of use assets	–	–	–	(1,144)	–	(1,144)
– other intangible assets	–	–	–	(2,265)	–	(2,265)
– property, plant and equipment	–	(1,539)	–	(10,561)	–	(12,100)

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

As at 31 December 2021 (restated)	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	17,032,686	12,156,638	5,271,859	6,769,331	–	41,230,514
Reconciliation:						
Elimination of intersegment receivables						(5,713,420)
Deferred tax assets						187,469
Corporate and other unallocated assets						684,705
Total assets						36,389,268
Segment liabilities	6,280,154	4,507,458	1,043,606	5,056,694	–	16,887,912
Reconciliation:						
Elimination of inter-segment payables						(5,713,420)
Tax liabilities						153,565
Deferred tax liabilities						1,680,204
Corporate and other unallocated liabilities						720,078
Total liabilities						13,728,339

(ii) Geographical information and information about major customers

Analysis of the Group's non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in Chinese Mainland, 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 2022 and 2021.

6. OTHER INCOME

	2022 RMB'000	2021 RMB'000
Government grants		
– Unconditional subsidies (note i)	**74,476**	91,695
– Conditional subsidies (note ii)	**77,775**	36,276
Interest income on bank deposits	**67,269**	62,576
Rental income from investment properties	**10,490**	14,865
	230,010	205,412

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	**2022** **RMB'000**	2021 RMB'000
Impairment loss recognised in respect of			
– goodwill	*16*	**(35,871)**	(29,779)
– right-of-use assets	*18*	**(12,451)**	(1,144)
– other intangible assets	*19*	**(1)**	(2,265)
– Investment properties and property, plant and equipment	*17*	**(135,075)**	(12,100)
Net gain on disposal of property, plant and equipment		**4,747**	24,569
Net loss on disposal of other intangible assets		**–**	(40)
Net foreign exchange (losses)/gains		**(117)**	765
Others		**(15,005)**	3,209
Losses		**(193,773)**	(16,785)

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

	2022 **RMB'000**	2021 RMB'000
Impairment losses (recognised)/reversed in respect of		
– trade receivables	**(10,898)**	(15,208)
– other receivables	**(114)**	1,129
– debt instruments at FVTOCI	**939**	200
	(10,073)	(13,879)

Details of impairment assessment for the year ended 31 December 2022 are set out in note 39.

9. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest expense:		
– Interest on bank borrowings	**77,658**	94,693
– Effective interest expense on unsecured notes	**118,557**	105,660
– Factoring of trade receivables	**19,245**	18,101
– Interest on lease liabilities	**5,235**	4,794
Total interest expense on financial liabilities	**220,695**	223,248
Less: Amounts capitalised	**–**	1,219
	220,695	222,029

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate 4.50% per annum to expenditure on qualifying assets in 2021.

10. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax:		
Enterprise income tax ("EIT")	**189,400**	431,369
Underprovision in prior year	**5,493**	12,308
	194,893	443,677
Deferred tax credit (note 31)	**(75,536)**	(46,821)
	119,357	396,856

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. Certain subsidiaries of the Group were qualified enterprises located in the western region of the PRC or recognised as advanced and new technology enterprises and, accordingly, enjoyed a preferential enterprise income tax rate of 15% during the year ended 31 December 2022 and 2021. Certain subsidiaries of the Group were qualified enterprise with operation of medicinal plants primary processing business in the PRC and enjoys a full enterprise income tax exemption during the years ended 31 December 2022 and 2021.

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:

	2022 **RMB'000**	2021 RMB'000
Profit before tax	**840,109**	2,520,280
Tax at the domestic income tax rate of 25%	**210,027**	630,071
Tax effect of expenses not deductible for tax purposes	**18,082**	16,782
Tax effect of income not taxable for tax purposes	**(26,243)**	(76,595)
Income tax at concessionary rate	**(126,041)**	(205,934)
Additional tax deduction for qualified research and development expenses	**(78,723)**	(78,748)
Effect of tax exemptions granted to PRC subsidiaries	**(23,856)**	(17,209)
Underprovision in respect of prior years	**5,493**	12,308
Tax losses not recognised	**107,911**	77,739
Utilisation of tax losses previously not recognised	**(3,354)**	(469)
Withholding tax on interest income from PRC entities	**9,158**	10,746
Withholding tax on distributable profits of PRC entities	**26,903**	28,165
Income tax expense for the year	**119,357**	396,856

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	**2022** **RMB'000**	2021 RMB'000
Directors' remuneration	*12*	**8,971**	8,003
Other staff costs			
Salaries, wages and other benefits		**2,018,194**	1,941,075
Contributions to defined contribution retirement benefits		**141,439**	118,374
		2,159,633	2,059,449
Cost of sales		**7,105,790**	7,223,639
Included: Write-down of inventories to net realisable value*	*25*	**24,632**	37,783
Auditor's remuneration		**4,993**	4,993
Impairment loss recognised in respect of			
– goodwill	*7*	**35,871**	29,779
– right of use assets	*7*	**12,451**	1,144
– other intangible assets	*7*	**1**	2,265
– investment properties and property, plant and equipment	*7*	**135,075**	12,100
Impairment losses recognised/(reversed) in respect of			
– trade receivables	*8*	**10,898**	15,208
– other receivables	*8*	**114**	(1,129)
– debt instruments at FVTOCI	*8*	**(939)**	(200)
Depreciation of			
– investment properties	*17*	**17,164**	15,588
– property, plant and equipment	*17*	**632,747**	570,989
– right-of-use assets	*18*	**49,306**	47,054
Amortisation of other intangible assets	*19*	**400,180**	215,966
Total depreciation and amortisation		**1,099,397**	849,597
Gross rental income from investment properties	*6*	**(10,490)**	(14,865)
Less: Direct operating expenses incurred for investment properties		**1,453**	3,229
		(9,037)	(11,636)

* 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:

	2022				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Chen Yinglong (note a)	–	742	1,031	74	1,847
Cheng Xueren (note b)	–	761	1,104	22	1,887
Yang Wenming	–	1,060	1,473	108	2,641
Wu Xian (note a)	–	562	773	61	1,396
Non-executive director					
Wang Xiaochun (note c)	94	9	25	–	128
Independent non-executive directors					
Xie Rong	215	53	–	–	268
Yu Tze Shan Hailson	215	53	–	–	268
Qin Ling	215	53	–	–	268
Li Weidong	215	53	–	–	268
	954	3,346	4,406	265	8,971

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

			2021		
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Yang Wenming	–	1,302	1,227	101	2,630
Wu Xian (note a)	–	1,364	1,289	101	2,754
Non-executive director					
Wang Xiaochun (note c)	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

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.

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

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

Note:

(a) On 12 May 2022, Mr. Wu Xian retired as a director of the Company and Mr. Chen Yinglong was appointed as an executive director of the Company.

(b) Mr. Cheng Xueren has been appointed as an executive director and managing director of the company with effect from 25 March 2022. His emoluments disclosed above exclude those for services rendered by him as the president of the company.

(c) On 25 March 2022, Mr. Wang Xiaochun resigned as a non-executive director of the Company.

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 2022 and 2021.

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 2022 and 2021.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two directors (2021: two directors), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries and allowances	**2,687**	3,240
Discretionary bonuses	**3,487**	3,071
Retirement benefits	**326**	212
	6,500	6,523

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

	2022 **Number of individuals**	2021 Number of individuals
HK$		
2,000,001 – 2,500,000	**1**	1
2,500,001 – 3,000,000	**2**	2

14. DIVIDENDS

	2022 **RMB'000**	2021 RMB'000
Proposed final – HK5.18 cents (2021: HK7.36 cents) per ordinary share	**229,280**	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.

	2022 **RMB'000**	2021 RMB'000
Interim declare and paid – nil (2021: HK6.66 cents) per ordinary share	**–**	279,811
Final declare and paid – HK7.36 cents (2021: Nil) per ordinary share	**316,337**	–
	316,337	279,811

The proposed 2021 final dividend of HK7.36 cents per ordinary share, amounting to a total of HK$370,635,000 (approximately RMB316,337,000), was approved by the Company's shareholders at the annual general meeting on 24 June 2022.

On 20 August 2021, the board of directors have approved the interim dividend of HK6.66 cents 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.

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:

	2022	2021
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent	**764,266**	1,932,858

	'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 2022 and 2021 were presented as there were no potential ordinary shares in issue for both 2022 and 2021.

16. GOODWILL

	2022	2021
	RMB'000	RMB'000
COST		
At 31 December	**3,568,984**	3,568,984
IMPAIRMENT		
At 1 January	**(76,800)**	(47,021)
Impairment loss recognised for the year	**(35,871)**	(29,779)
At 31 December	**(112,671)**	(76,800)
CARRYING VALUES		
At 31 December	**3,456,313**	3,492,184

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 2021	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
Additions	**54,766**	**54,210**	**2,646**	**536,159**	**101,331**	**749,112**	**1**	**749,113**
Transfer from construction in progress	**347,167**	**177,872**	**169**	**(593,254)**	**67,989**	**(57)**	**57**	**–**
Transfer to other assets	**–**	**–**	**–**	**(14,111)**	**–**	**(14,111)**	**–**	**(14,111)**
Transfer from right-of-use assets	**–**	**–**	**–**	**1,100**	**–**	**1,100**	**7,629**	**8,729**
Transfer from investment properties	**192,241**	**–**	**–**	**–**	**–**	**192,241**	**(192,241)**	**–**
Transfer to investment properties	**(8,861)**	**–**	**–**	**–**	**–**	**(8,861)**	**8,861**	**–**
Transfer to right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**(23,044)**	**(23,044)**
Disposals	**(3,490)**	**(24,709)**	**(29,836)**	**(2,741)**	**(14,737)**	**(75,513)**	**–**	**(75,513)**
At 31 December 2022	**5,924,018**	**2,150,761**	**16,245**	**544,814**	**1,120,552**	**9,756,390**	**125,794**	**9,882,184**

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 2021	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
Additions	**311,736**	**142,583**	**5,684**	**–**	**172,744**	**632,747**	**17,164**	**649,911**
Transfer from right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**515**	**515**
Transfer from investment properties	**40,610**	**–**	**–**	**–**	**–**	**40,610**	**(40,610)**	**–**
Transfer to investment properties	**(2,616)**	**–**	**–**	**–**	**–**	**(2,616)**	**2,616**	**–**
Transfer to right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**(1,904)**	**(1,904)**
Disposals	**(3,029)**	**(21,311)**	**(26,632)**	**(401)**	**(12,493)**	**(63,866)**	**–**	**(63,866)**
Impairment	**129,542**	**2,633**	**–**	**401**	**–**	**132,576**	**2,499**	**135,075**
At 31 December 2022	**1,445,435**	**907,472**	**3,878**	**232**	**634,928**	**2,991,945**	**36,043**	**3,027,988**
CARRYING VALUES								
At 31 December 2022	**4,478,583**	**1,243,289**	**12,367**	**544,582**	**485,624**	**6,764,445**	**89,751**	**6,854,196**
At 31 December 2021	4,373,003	1,159,821	18,440	617,429	491,292	6,659,985	268,768	6,928,753

(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 8 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 2022 was RMB128,358,000 (2021: RMB591,390,000). The fair value of the investment properties as at 31 December 2022 and 31 December 2021 have been arrived at based on a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent valuer not connected with the Group.

The fair value of the investment properties as at 31 December 2022 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:

	2022		2021	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Commercial property units	**1,509**	**7,710**	5,547	7,784
Office and plant units	**88,242**	**120,648**	263,221	583,606
	89,751	**128,358**	268,768	591,390

(d) Certain of the Group's buildings with carrying values of RMB635,284,000 (2021: RMB557,035,000) 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 RMB1,010,123,000 (2021: RMB878,007,000). 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 1 to 20 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:

	Notes	Leasehold land RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Total
As at 1 January 2021		1,159,718	83,035	35	1,242,788
Additions		–	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 and 1 January 2022		**1,130,562**	**75,204**	**–**	**1,205,766**
Additions		**1,151**	**2,363**	**–**	**3,514**
Transfer from investment property	*17*	**21,140**	**–**	**–**	**21,140**
Transfer to construction in progress	*17*	**(1,100)**	**–**	**–**	**(1,100)**
Transfer to investment property	*17*	**(7,114)**	**–**	**–**	**(7,114)**
Depreciation charge*		**(30,753)**	**(19,181)**	**–**	**(49,934)**
Impairment	*7*	**(12,451)**	**–**	**–**	**(12,451)**
As at 31 December 2022		**1,101,435**	**58,386**	**–**	**1,159,821**

* Amount of RMB628,000 were capitalised during the year ended 31 December 2022.

Certain of the Group's right-of-use assets with carrying values of RMB140,835,000 (2021: RMB123,654,000) 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

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**97,492**	103,955
New leases	**1,266**	7,902
Accretion of interest recognised during the year	**5,235**	4,794
Payments	**(24,357)**	(19,159)
Carrying amount at 31 December	**79,636**	97,492
Analysed into:		
Current portion	**16,764**	14,996
Non-current portion	**62,872**	82,496

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
Within one year	**16,764**	14,996
Within a period of more than one year but not more than two years	**15,274**	24,688
Within a period of more than two years but not more than five years	**31,984**	44,043
Within a period of more than five years	**15,614**	13,765
	79,636	97,492
Less: Amount due for settlement with 12 months shown under current liabilities	**16,764**	14,996
Amount due for settlement after 12 months shown under non-current liabilities	**62,872**	82,496

18. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities (continued)

The weighted average incremental borrowing rate applied to lease liabilities is 4.88% (2021: 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 20 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 RMB6,845,000 (2021: RMB7,056,000) 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 2022 and 2021, 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 RMB79,636,000 are recognized with related right-of-use assets of RMB74,434,000 as at 31 December 2022 (2021: lease liabilities of RMB97,492,000 and related right-of-use assets of RMB75,204,000). 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 2021	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**
Additions	**300**	**–**	**–**	**2,232**	**–**	**367**	**2,899**
Transfer from construction in progress	**–**	**–**	**–**	**14,111**	**–**	**–**	**14,111**
Disposals	**(7)**	**–**	**–**	**(213)**	**–**	**–**	**(220)**
At 31 December 2022	**2,830,345**	**2,006,335**	**59,000**	**67,319**	**2,245,552**	**336,814**	**7,545,365**
AMORTISATION AND IMPAIRMENT							
At 1 January 2021	290,172	21,955	59,000	13,633	620,734	47,341	1,052,835
Amortisation for the year	64,108	979	–	6,820	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**
Amortisation for the year	**272,728**	**979**	**–**	**8,778**	**109,041**	**8,654**	**400,180**
Write-back on disposals	**(3)**	**–**	**–**	**(213)**	**–**	**–**	**(216)**
Impairment loss recognised in profit or loss	**–**	**–**	**–**	**1**	**–**	**–**	**1**
At 31 December 2022	**627,005**	**23,913**	**59,000**	**29,310**	**846,013**	**85,490**	**1,670,731**
CARRYING VALUES							
At 31 December 2022	**2,203,340**	**1,982,422**	**–**	**38,009**	**1,399,539**	**251,324**	**5,874,634**
At 31 December 2021	2,475,772	1,983,401	–	30,445	1,508,580	259,611	6,257,809

19. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2022, the carrying amount of other intangible assets with finite useful lives was RMB3,917,820,000 (2021: RMB4,300,995,000). Other intangible assets with finite useful lives are amortised on a straight-line:

	2022 RMB'000	2021 RMB'000
Product protection rights	**2,203,340**	2,475,772
Trademarks	**25,608**	26,587
Software	**38,009**	30,445
Customer relationship	**1,399,539**	1,508,580
Licences and franchises	**251,324**	259,611
	3,917,820	4,300,995

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 2022, 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	
	2022	2021
	RMB'000	RMB'000
Tongjitang Group*		
– Tongjitang Pharmaceutical	**209,047**	209,047
– Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. ("Jingfang")	**37,779**	37,779
– Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")	**5,037**	5,037
Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang")	**110,403**	110,403
Jiangyin Tianjiang Group^	**645,674**	645,674
Jiangyin Yifang Group^	**948,874**	948,874
	1,956,814	1,956,814

* 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 and trademarks (including brand names) with indefinite useful lives set out in notes 16 and 19 have been allocated to individual CGUs as below:

	Goodwill		**Trademarks**	
	2022 **RMB'000**	2021 RMB'000	**2022** **RMB'000**	2021 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")	**–**	–	**–**	–
Tongjitang Group				
– Tongjitang Pharmaceutical	**770,153**	770,153	**209,047**	209,047
– Jingfang	**139,184**	139,184	**37,779**	37,779
– Pulante	**–**	–	**5,037**	5,037
Jiangyin Tianjiang	**925,154**	925,154	**645,674**	645,674
Jiangyin Yifang	**1,283,826**	1,283,826	**948,874**	948,874
Huayi Pharmaceutical Co., Ltd. ("Huayi")	**–**	5,852	**–**	–
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403
Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal")	**29,433**	29,433	**–**	
Beijing Huamiao	**–**	–	**–**	
Anhui Fengliaoxing TCM Decoction Pieces Co., Ltd. ("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	**–**	–
Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")	**–**	–	**–**	–
	3,456,313	3,492,184	**1,956,814**	1,956,814

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

In addition to goodwill and trademarks 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 and trademarks are also included in the respective CGUs for the purpose of impairment assessment.

During the year ended 31 December 2022, the management of the Group has recognised an impairment loss of RMB35,871,000 in relation to goodwill in the CGUs of Huayi and Guizhou Tongjitang Pharmacy Chain (2021: RMB29,779,000 in relation to Luya and Pulante). 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 2022 and 2021.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2022 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	
	2022	2021	**2022**	2021	**2022**	2021
Jiangyin Tianjing	**18.82%**	10.00%	**3.00%**	3.50%	**11.19%**	12.56%
Jiangyin Yifang Pharmaceutical Co., Ltd. ("Jiangyin Yifang")	**19.47%**	10.80%	**3.00%**	3.50%	**10.94%**	12.58%
Dezhong	**16.00%**	15.60%	**3.00%**	3.50%	**12.21%**	12.06%
Tongjitang Pharmaceutical	**13.01%**	13.19%	**3.00%**	3.50%	**12.21%**	12.08%
Jingfang	**18.79%**	16.88%	**3.00%**	3.50%	**11.85%**	11.98%
Shanghai Tongjitang	**10.77%**	13.48%	**3.00%**	3.50%	**11.96%**	12.18%
Others	**4.40%-12.12%**	3.29%-54.19%	**3.00%**	3.50%	**11.99%-13.12%**	11.62%-14.30%

As at 31 December 2022, the recoverable amounts of Jiangyin Tianjing CGU and Jiangyin Yifang CGU exceeded their carrying amounts by 85% and 62%, respectively; and the recoverable amount for above CGUs, other than Jiangyin Tianjing CGU and Jiangyin Yifang CGU, exceeds their carrying amount by 5% to 53%.

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

	2022 **RMB'000**	2021 RMB'000
Cost of investments in associates, unlisted	**50,975**	50,711
Share of post-acquisition losses, other comprehensive expense and reserve movement of associates	**(35,622)**	(32,705)
	15,353	18,006

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
		2022	2021	**2022**	2021	
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

	2022 **RMB'000**	2021 RMB'000
The Group's share of losses and total comprehensive expense	**(3,479)**	(10,749)
Aggregate carrying amount of the Group's interests in associates	**15,353**	18,006

22. DEPOSITS AND PREPAYMENTS

	2022 **RMB'000**	2021 RMB'000
Prepayments for property, plant and equipment	**107,919**	96,235
	107,919	96,235

23. TRADE AND OTHER RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Trade receivables	**7,729,974**	8,442,834
Less: Allowance for credit losses	**(110,297)**	(100,076)
	7,619,677	8,342,758
Prepayments for raw materials	**150,250**	110,874
Advance tax payments	**164,473**	313,231
Other receivables	**240,424**	170,946
Less: Allowance for credit losses	**(32,933)**	(32,870)
	522,214	562,181
	8,141,891	8,904,939

The Group allows a credit period within 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:

	2022 **RMB'000**	2021 RMB'000
0 to 90 days	**5,235,952**	5,805,014
91 to 180 days	**1,366,199**	1,501,015
181 to 365 days	**1,038,373**	1,062,472
Over 365 days	**89,450**	74,333
	7,729,974	8,442,834

As at 31 December 2022, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of RMB676,305,000 (2021: RMB351,504,000) which were past due as at the reporting date.

Included in trade and other receivables are RMB10,009,000 (2021: RMB4,829,000) and RMB32,699,000 (2021: RMB13,815,000), 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 2022 **RMB'000**	31 December 2021 RMB'000
At the beginning of the year	**132,946**	122,711
Impairment losses, net (note 8)	**11,012**	14,079
Amount written off as uncollectible	**(728)**	(3,844)
At the end of the year	**143,230**	132,946

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 year 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 2022

Group A

		Past due		
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.15	59.44	100.00	0.84
Gross carrying amount (RMB'000)	4,795,186	15,757	23,883	4,834,826
Expected credit losses (RMB'000)	7,338	9,366	23,883	40,587

Group B

		Past due		
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.99	53.89	100.00	3.07
Gross carrying amount (RMB'000)	616,712	10,984	1,070	628,766
Expected credit losses (RMB'000)	12,293	5,919	1,070	19,282

Group C

		Past due		
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.13	64.35	100.00	2.23
Gross carrying amount (RMB'000)	2,228,606	35,067	2,709	2,266,382
Expected credit losses (RMB'000)	25,153	22,566	2,709	50,428

TOTAL

		Past due		
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.59	61.24	100.00	1.43
Gross carrying amount (RMB'000)	7,640,504	61,808	27,662	7,729,974
Expected credit losses (RMB'000)	44,784	37,851	27,662	110,297

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2021

Group A

	Less than 1 year	Past due 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	Past due 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	Past due 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	Past due 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

24. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2022 and 2021 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	
	2022	2021
	RMB'000	RMB'000
Carrying amount of transferred assets	**36,972**	12,625
Carrying amount of associated liabilities	**(36,972)**	(12,625)
Net position	**–**	–

25. INVENTORIES

	2022	2021
	RMB'000	RMB'000
Raw materials	**1,785,310**	1,814,633
Work in progress	**1,963,450**	1,217,228
Finished goods	**2,291,120**	2,011,029
	6,039,880	5,042,890

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

	2022	2021
	RMB'000	RMB'000
Carrying amount of inventories sold	**7,081,158**	7,185,856
Write down of inventories	**24,632**	37,783
	7,105,790	7,223,639

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:

	2022	2021
	RMB'000	RMB'000
0 to 90 days	**436,747**	313,166
91 to 180 days	**141,938**	900,457
181 to 365 days	**26,437**	27,133
	605,122	1,240,756

Details of impairment assessment are set out in note 39.

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

(a) Time deposits

There were no time deposits as at 31 December 2022 (2021: RMB5,000,000 with fixed interest of 1.80% per annum with an original maturity of 6 months).

(b) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.25% to 1.70% per annum (2021: 0.30% to 1.55%).

(c) Bank balances and cash

Included in bank balances and cash is RMB2,879,563,000 (2021: RMB2,717,684,000) which represents cash held by the Group and short-term deposits carrying interest at prevailing market rates ranging from 0.25% to 1.90% per annum (2021: 0.30% to 1.73% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB185,491,000 (2021: RMB177,073,000), in which RMB166,475,000 (2021: RMB136,660,000) 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 RMB11,147,000 (2021: RMB17,427,000) and RMB1,369,000 (2021: RMB580,000), 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 39.

28. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables	**1,386,867**	1,463,628
Deposits received	**1,022,284**	1,000,397
Salaries and welfare payables	**403,140**	446,318
Other tax payables	**318,425**	127,281
Accruals of operating expenses	**796,847**	2,098,609
Bills payable	**502,104**	629,400
Dividends payable	**98,923**	93,706
Consideration payable for acquisition of subsidiaries	**3,717**	3,550
Collection of accounts receivable on behalf of financial institutions that entered into the non-recourse factoring arrangement with the Group	**166,475**	136,660
Other payables	**533,397**	236,618
	5,232,179	6,236,167

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:

	2022	2021
	RMB'000	RMB'000
0 to 90 days	**1,366,448**	1,168,564
91 to 180 days	**330,655**	428,416
181 to 365 days	**112,123**	359,509
Over 365 days	**79,745**	136,539
	1,888,971	2,093,028

Included in trade and other payables is RMB1,410,000 (2021: RMB1,407,100), which is denominated in HK$, the currency other than functional currency of the relevant group entities.

29. CONTRACT LIABILITIES

	2022 **RMB'000**	2021 RMB'000
Amounts received in advance of delivery products	**290,677**	204,079

Contract liabilities as at 1 January 2022 and 2021 were fully recognised as revenue for the years ended 31 December 2022 and 2021, 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:

	2022 **RMB'000**	2021 RMB'000
At the beginning of the year	**390,695**	405,092
Additions	**124,919**	21,879
Credited to profit or loss (note 6)	**(77,775)**	(36,276)
At the end of the year	**437,839**	390,695

As at 31 December 2022, 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:

	2022 **RMB'000**	2021 RMB'000
Deferred tax assets	**(185,029)**	(187,469)
Deferred tax liabilities	**1,603,784**	1,680,204
	1,418,755	1,492,735

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 2021	1,583,474	91,326	(35,076)	(2,072)	35,576	(55,832)	(13,250)	(64,077)	1,540,069
Acquisition of subsidiaries									
(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
(Credited)/charged to profit or loss	(92,049)	1,056	(76)	–	26,903	(13,364)	(529)	15,164	(62,895)
Credit to other comprehensive income	–	–	–	1,556	–	–	–	–	1,556
Release upon dividends declared	–	–	–	–	(12,641)	–	–	–	(12,641)
At 31 December 2022	1,448,463	91,928	(34,499)	(984)	63,452	(51,069)	(5,345)	(93,191)	1,418,755

31. DEFERRED TAXATION (CONTINUED)

At the end of the reporting period, the Group had unused tax losses of RMB1,372,895,000 (2021: RMB1,040,945,000) available for offset against future profits. A deferred tax asset of RMB5,345,000 (2021: RMB4,816,000) has been recognised in respect of RMB41,614,000 (2021: RMB30,391,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB1,331,281,000 (2021: RMB1,010,554,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses with expiry dates as disclosed in the following table:

	2022 **RMB'000**	2021 RMB'000
2023	**13,625**	45,775
2024	**114,759**	114,759
2025	**105,555**	105,555
2026	**339,425**	339,425
2027	**209,192**	–
2028	**36,236**	36,236
2029	**35,381**	35,381
2030	**112,802**	112,802
2031	**220,621**	220,621
2032	**143,685**	–
	1,331,281	1,010,554

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 RMB7,870,317,000 (2021: RMB7,550,069,000) 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

	2022 **RMB'000**	2021 RMB'000
Bank loans	**1,642,153**	1,700,735
Other loans	**79,175**	15,318
	1,721,328	1,716,053
Secured	**459,127**	320,829
Unsecured	**1,262,201**	1,395,224
	1,721,328	1,716,053

	2022 **RMB'000**	2021 RMB'000
Carrying amounts of the above borrowings are repayable:		
Within one year	**1,255,268**	1,140,495
More than one year, but not exceeding two years	**66,028**	339,611
More than two year, but not exceeding five years	**368,032**	186,947
More than five years	**32,000**	49,000
	1,721,328	1,716,053
Less: Amounts due within one year shown under current liabilities	**(1,255,268)**	(1,140,495)
Amounts shown under non-current liabilities	**466,060**	575,558

As at 31 December 2022, secured other borrowings amounting to RMB36,972,000 were guaranteed by bills receivable (2021: RMB12,625,000).

	2022 **RMB'000**	2021 RMB'000
Fixed rate borrowings	**1,638,328**	1,588,016
Floating rate borrowings	**83,000**	128,037
	1,721,328	1,716,053

32. INTEREST-BEARING 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:

	2022	2021
Effective interest rate		
– Fixed rate borrowings	**0.00%-4.75%**	1.20% – 5.00%
– Floating rate borrowings	**4.35%-4.70%**	3.65% – 4.85%

The Group's floating rate borrowings carried interest at Loan Prime Rate ("LPR") plus 0.05% (2021: LPR less 0.2% to LPR plus 0.05%).

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

	2022 **RMB'000**	2021 RMB'000
Fixed rate		
– expiring within one year	**3,810,962**	5,578,207
– expiring beyond one year	**1,624,024**	1,182,433
	5,434,986	6,760,640

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

	Carrying value	
	31 December **2022** **RMB'000**	31 December 2021 RMB'000
Property, plant and equipment	**635,284**	557,035
Right-of-use assets	**140,835**	123,654
Debt instruments at FVTOCI	**211,748**	306,182
Pledged bank deposits	**114,729**	114,704
	1,102,596	1,101,575

33. UNSECURED NOTES

	2022 RMB'000	2021 RMB'000
Carrying amount repayable	**3,241,610**	3,250,084
Less: Amounts due within one year shown under current liabilities	**(3,241,610)**	(1,015,226)
Amounts shown under non-current liabilities	**–**	2,234,858

On 5 June 2021, 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 25 February 2022, the Company fully repaid the short-term commercial papers amounting to RMB1,000,000,000 which were issued on 28 May 2021.

On 18 February 2022, 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 2.40% per annum, which was fully repaid on 14 November 2022.

On 21 March 2022, 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 2.32% per annum, which was fully repaid on 14 October 2022.

On 27 October 2022, 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 1.88% per annum.

34. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2022 **'000**	2021 '000	**2022** **RMB'000**	2021 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:	2.9%
Expected rate of future pension cost increases:	0%/6%

36. OPERATING LEASES

The Group as lessor

All of the properties held for rental purposes have committed lessees for the next 6 years.

Minimum lease payments receivable on leases are as follows:

	2022 RMB'000	2021 RMB'000
Within one year	**4,651**	10,194
In the second year	**1,625**	5,989
In the third year	**1,597**	2,299
In the fourth year	**1,533**	1,970
In the fifth year	**1,268**	1,906
After the fifth year	**411**	3,684
	11,085	26,042

37. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Investments in PRC entities	**–**	640,000
– Acquisition of other intangible assets	**6,509**	–
– Acquisition of property, plant and equipment (note a)	**147,067**	368,011
	153,576	1,008,011

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.

38. 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 lease liabilities, interest-bearing bank and other borrowings, and unsecured notes as disclosed in notes 18, 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 2022 and 2021 are as follows:

	2022 **RMB'000**	2021 RMB'000
Current liabilities:		
Bank and other borrowings	**1,255,268**	1,140,495
Unsecured notes	**3,241,610**	1,015,226
	4,496,878	2,155,721
Non-current liabilities:		
Bank and other borrowings	**466,060**	575,558
Unsecured notes	**–**	2,234,858
	466,060	2,810,416
Total debt	**4,962,938**	4,966,137
Less: Cash and cash equivalents	**(2,879,563)**	(2,717,684)
Adjusted net debt	**2,083,375**	2,248,453
Total equity	**22,946,602**	22,660,929
Adjusted net debt-to-equity ratio	**9%**	10%

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.

39. 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:

2022

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	605,122	–	605,122
Financial assets included in trade and other receivables	–	7,827,168	7,827,168
Pledged bank deposits	–	114,729	114,729
Cash and cash equivalents	–	3,065,054	3,065,054
	605,122	11,006,951	11,612,073

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in trade and other payables	4,510,614
Interest-bearing bank and other borrowings	1,721,328
Unsecured notes	3,241,610
Lease liabilities	79,636
	9,553,188

39. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

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

39. 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 risk

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 2022 and 2021 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.

	2022 RMB'000	2021 RMB'000
If HK$ weakens against RMB by 5%		
Decrease in profit before tax	**(793)**	(835)
If HK$ strengthens against RMB by 5%		
Increase in profit before tax	**793**	835
If USD weakens against RMB by 5%		
Decrease in profit before tax	**(1,278)**	(540)
If USD strengthens against RMB by 5%		
Increase in profit before tax	**1,278**	540

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.

39. 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	
	2022	2021
	RMB'000	RMB'000
If decrease by 50 basis points	**24**	244
If increase by 50 basis points	**(24)**	(244)

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.

39. 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 2022

	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	605,122	–	–	–	605,122
Trade receivables*	–	–	–	7,729,974	7,729,974
Financial assets included in other receivables					
– Normal**	240,424	–	–	–	240,424
Time deposits					
– Not yet past due	–	–	–	–	–
Pledged deposits					
– Not yet past due	114,729	–	–	–	114,729
Cash and cash equivalents					
– Not yet past due	3,065,054	–	–	–	3,065,054

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging (continued)

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

* 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.

39. 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.

39. 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 2022					
Trade and other payables	**4,510,614**	**–**	**–**	**4,510,614**	**4,510,614**
Interest bank and other borrowing	**1,224,984**	**504,745**	**15,731**	**1,745,460**	**1,721,328**
Unsecured note	**3,287,458**	**–**	**–**	**3,287,458**	**3,241,610**
Lease liabilities	**20,438**	**54,341**	**16,940**	**91,719**	**79,636**
	9,043,494	**559,086**	**32,671**	**9,635,251**	**9,553,188**

	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

39. 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)**
	2022	2021		
Financial assets at FVTOCI				
Debt instrument at FVTOCI	**605,122**	1,240,756	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

	2022 **RMB'000**	2021 RMB'000
Carrying amount	**3,241,610**	3,250,084
Fair value under level 2 fair value hierarchy	**3,246,483**	3,273,327

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.

40. 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:

	2022 **RMB'000**	2021 RMB'000
Short-term employee benefits	**14,880**	14,072
Post-employments benefits	**591**	454
	15,471	14,526

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

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

		2022 **RMB'000**	2021 RMB'000
(i)	Sales of finished goods to CNPGC's subsidiaries other than the Group	**1,004,473**	1,035,125
(ii)	Purchase of raw materials from CNPGC's subsidiaries other than the Group	**56,146**	60,674
(iii)	Other purchase from CNPGC's subsidiaries other than the Group	**10,220**	30,377
(iv)	Rental income from CNPGC's subsidiaries other than the Group	**2,646**	2,894
(v)	Interest income from CNPGC's subsidiaries other than the Group	**621**	340
(vi)	Interest income from Ping An Bank	**5,942**	11,268
(vii)	Interest expense to Ping An Bank	**5**	948

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

Particulars of significant balances between the Group and the related parties are as follows:

	2022 **RMB'000**	2021 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	**455,174**	627,688
(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	**30,311**	39,533
(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	**549,635**	595,194
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 27	**9,040**	199,149

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.

40. 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 consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("state-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.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	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 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 and 1 January 2022	97,492	1,716,053	3,250,084	1,280	92,426	5,157,335
Financing cash flows	(24,357)	(72,383)	(127,031)	(314,427)	(87,971)	(626,169)
Net foreign exchange loss	–	–	–	(1,780)	–	(1,780)
Dividend recognised	–	–	–	316,337	93,058	409,395
New leases entered	1,266	–	–	–	–	1,266
Interest expense	5,235	77,658	118,557	–	–	201,450
At 31 December 2022	79,636	1,721,328	3,241,610	1,410	97,513	5,141,497

42. 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
		2022	2021	**2022**	2021	
Directly held the Company						
Jiangyin Yifang	The PRC	**RMB84,555,556**	RMB84,555,556	**87.3%**	87.3%	Manufacture of TCM Products
Jiangyin Tianjiang Enterprice Co., Ltd.	The PRC	**RMB3,005,467,800**	RMB3,005,467,800	**100%**	100%	Manufacture of Management TCM Products
Indirectly held the Company						
Jiangyin Tianjiang#	The PRC	**RMB310,000,000**	RMB310,000,000	**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 Pharmaceutical#	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	**RMB1,543,800,000**	RMB1,273,800,000	**100%**	100%	Manufacture and sale of TCM decoction products

42. 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
		2022	2021	**2022**	2021	
Indirectly held the Company (Continued)						
Feng Liao Xing (Zhongshan) Pharmaceutical Co., Ltd.^	The PRC	**RMB26,000,000**	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
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Co., Ltd.^	The PRC	**RMB90,000,000**	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
Sinopharm Wuzhai Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB30,000,000**	RMB30,000,000	**87.3%**	87.3%	Manufacture and sale of TCM decoction products
Jilin Baiqi Pharmaceutical Co., Ltd.^	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**	RMB60,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Shandong Zhongping^	The PRC	**RMB300,000,000**	RMB300,000,000	**44.5%**	44.5%	Manufacture of TCM Products

42. 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
		2022	2021	**2022**	2021	
Indirectly held the Company (Continued)						
Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB102,040,800**	RMB102,040,800	**44.5%**	44.5%	Development, Manufacture, and Sale of TCM products
Lixian Dahuang Technology and Science Co., Ltd.^	The PRC	**RMB94,613,000**	RMB94,613,000	**74.2%**	74.2%	Development, Manufacture, and sale of TCM decoction products
Xihebanxia Technology and Science Co., Ltd.^~	The PRC	**RMB99,870,000**	RMB99,870,000	**44.5%**	44.5%	Development, Manufacture, and sale of TCM decoction products
Jiangxi Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB150,000,000**	RMB150,000,000	**52.4%**	52.4%	Development, Manufacture and Sale of TCM
Jiangxi Fanglian Pharmaceutical Co., Ltd.^	The PRC	**RMB5,000,000**	RMB5,000,000	**52.4%**	52.4%	Sale of TCM products
Heilongjiang Sinopharm Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB36,000,000**	RMB31,000,000	**87.3%**	87.3%	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	**RMB87,520,000**	RMB72,520,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
Guangdong Yifang^	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture, and sale of TCM granules
Longxi Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products

42. 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
		2022	2021	**2022**	2021	
Indirectly held the Company (Continued)						
Longxiyifang Pharmaceutical Company Limited^	The PRC	**RMB50,000,000**	RMB10,000,000	**87.3%**	87.3%	Sale of TCM products
Anhui Tianxiang Pharmaceutical Co., Ltd.^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Jiangyin Tianjiang Chinese Medical Clinics Co., Ltd.^~	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 Co., Ltd.^	The PRC	**RMB190,000,000**	RMB190,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM products
Sinopharm Tianxiong Pharmaceutical Co., Ltd.^	The PRC	**RMB150,500,000**	RMB150,500,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Shandong Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB300,000,000**	RMB300,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Zhejiang Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Shaanxi Yifang Pingkang Pharmaceutical Co., Ltd.^	The PRC	**RMB150,000,000**	RMB150,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM products
Shaanxi Jitaining Pharmaceutical Co., Ltd.^	The PRC	**RMB2,000,000**	RMB992,760	**44.5%**	44.5%	Sale of TCM products
Hunan Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**79.4%**	79.4%	Development, manufacture and sale of TCM products

42. 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
		2022	2021	**2022**	2021	
Indirectly held the Company (Continued)						
Changde Yifan Pharmaceutical Co., Ltd.^	The PRC	**RMB12,000,000**	RMB5,000,000	**79.4%**	79.4%	Sale of TCM products
Sichuan Tianhao Pharmaceutical Co., Ltd.^	The PRC	**RMB10,000,000**	RMB10,000,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Beijing Huamiao^	The PRC	**RMB244,383,898**	RMB174,383,898	**100%**	100%	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm Medical Material Co., Ltd.^	The PRC	**RMB30,000,000**	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
Taizhou Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB70,000,000**	RMB70,000,000	**87.3%**	44.5%	Manufacture and sale of TCM products
Sichuan Sinopharm Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB233,061,200**	RMB233,061,200	**53.22%**	53.22%	Development, manufacture and sale of TCM
Fujian Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB136,500,000**	RMB136,500,000	**44.5%**	44.5%	Development, manufacture and sale of TCM

42. 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
		2022	2021	**2022**	2021	
Indirectly held the Company (Continued)						
Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.^~	The PRC	**RMB89,981,200**	RMB89,981,200	**44.5%**	44.5%	Development, manufacture and sale of TCM
Guangdong Jiuan Pharmaceutical Marketing Service Co., Ltd.^	The PRC	**RMB100,000,000**	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 Co., Ltd.^	The PRC	**RMB207,697,944**	RMB137,690,944	**100%**	100%	Property leasing
Gansu Longzhong Pharmaceutical Co., Ltd.^	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.

42. 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**
		2022	**2022 RMB'000**	**2022 RMB'000**
Jiangyin Tianjiang Group (note)	The PRC	**12.7%**	**27,787**	**1,179,314**
Jiangyin Yifang Group (note)	The PRC	**12.7%**	**(72,991)**	**1,403,581**
Individually immaterial subsidiaries with non–controlling interests			**1,690**	**196,987**
			(43,514)	**2,779,882**

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

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.

42. 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, the only sub-group of the Group which has material non-controlling interest as at 31 December 2022.

2022

	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Current assets	**5,916,873**	**9,301,468**
Non-current assets	**4,895,511**	**5,947,426**
Current liabilities	**(3,863,295)**	**(5,401,274)**
Non-current liabilities	**(777,606)**	**(1,347,073)**
Net equity (Note)	**6,171,483**	**8,500,547**
Equity attributable to owners of Jiangyin Tianjiang Group	**5,718,407**	**8,129,400**
Non-controlling interests of Jiangyin Tianjiang Group	**453,076**	**371,147**

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 RMB1,559,694,000 and RMB2,180,614,000, respectively.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2022 (continued)

	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Revenue	**4,517,048**	**5,956,265**
Expenses	**(4,180,096)**	**(5,663,721)**
Profit and total comprehensive income for the year (Note)	**336,952**	**292,544**
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group	**354,141**	**418,711**
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group	**(17,189)**	**(126,167)**
Total comprehensive income for the year	**336,952**	**292,544**
Dividends declared to non-controlling interests	**39,196**	**53,501**
Net cash inflow from operating activities	**532,605**	**368,366**
Net cash outflow from investing activities	**(377,139)**	**(13,506)**
Net cash outflow from financing activities	**(420,119)**	**(373,233)**
Effect of foreign exchange rate changes, net	**9**	**–**
Net cash outflow	**(264,644)**	**(18,373)**

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 RMB104,228,000 and RMB148,747,000, respectively.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

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	5,682,102	8,135,304
Non-controlling interests of Jiangyin Tianjiang 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.

42. 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	878,946	1,249,608
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang 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 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. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2022	2021
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,584,368**	13,584,986
Loans to subsidiaries	**–**	3,866,707
	13,584,368	17,451,693
CURRENT ASSETS		
Other receivables	**118**	109
Amounts due from subsidiaries (note a)	**4,285,496**	562,427
Bank balances and cash	**11,273**	22,453
	4,296,887	584,989
CURRENT LIABILITIES		
Trade and other payables	**17,348**	19,580
Amounts due to subsidiaries (note b)	**887,051**	1,236,273
Unsecured notes – due within one year	**3,241,610**	1,015,226
	4,146,009	2,271,079
NET CURRENT ASSETS/(LIABILITIES)	**150,878**	(1,686,090)
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,735,246**	15,765,603
NON-CURRENT LIABILITIES		
Unsecured notes – due after one year	**–**	2,234,858
Deferred tax liabilities	**54,122**	27,286
	54,122	2,262,144
NET ASSETS	**13,681,124**	13,503,459
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves (note c)	**1,698,650**	1,520,985
TOTAL EQUITY	**13,681,124**	13,503,459

Approved and authorised for issue by the board of directors on 24 March 2023 and are signed on its behalf by:

CHEN Yinglong
EXECUTIVE DIRECTOR

CHENG Xueren
EXECUTIVE DIRECTOR

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note a: Amounts due to subsidiaries represent short-term operating receivables which are unsecured, interest bearing from 3.25% to 4.35% per annum (2021: 4.35%) and repayable in the following year and dividends receivable which are unsecured and repayable on demand

Note b: The amounts are unsecured, interest-free 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 2021	813,199	406,690	1,219,889
Profit and total comprehensive income for the year	–	580,907	580,907
Interim 2021 dividends declared (note 14)	–	(279,811)	(279,811)
At 31 December 2021	813,199	707,786	1,520,985
Profit and total comprehensive income for the year	–	494,002	494,002
Final 2021 dividends declared (note 14)	–	(316,337)	(316,337)
At 31 December 2022	813,199	885,451	1,698,650

All of the Company's accumulated profits is available for distribution to equity shareholders.

44. MAJOR NON-CASH TRANSACTION

During the current year, bills received by the Group from its customers with an aggregate amount of RMB132,317,000 (2021: RMB270,864,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

During the year 2022, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB14,120,000 (2021: RMB7,902,000) and RMB14,120,000 (2021: RMB7,902,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

45. 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:

	2022	2021
	RMB'000	RMB'000
Outstanding endorsed and discounted bills receivable with recourse	**326,827**	354,332

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.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2023.