国药集团
SINOPHARM

國藥控股股份有限公司
SINOPHARM GROUP CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)

(Stock Code: 01099)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

The board of directors (the "**Board**") of Sinopharm Group Co. Ltd. (the "**Company**" or "**Sinopharm**") is pleased to announce the consolidated results of the Company and its subsidiaries (the "**Group**") prepared under the Hong Kong Financial Reporting Standards ("**HKFRSs**") for the year ended 31 December 2021 (the "**Reporting Period**").

CHAIRMAN'S STATEMENT

I would like to express my heartfelt gratitude to the shareholders and members of the community for your concern and strong support to Sinopharm. Looking back on the whole year of 2021, it was a milestone year in the development of the Group. The pharmaceutical distribution industry has steadily recovered from the shock of the outbreak of the COVID-19 in 2020, but it still faces an extremely complicated market environment such as recurring COVID-19 pandemic, turbulence of international situation and adjustment of industry policies. All employees of Sinopharm spared no effort to actively implement and complete all development goals under the leadership of the Board and the management team. While ensuring that the growth rate of results continued to be higher than the average growth rate of the industry, the Group made outstanding achievements and new breakthroughs in the fields of structural adjustment, innovation-driven development, industrial breakthrough, organizational reform, etc. in full accordance with the development strategy of "14th Five-Year Plan".

In 2021, our businesses overcame the challenges brought by the COVID-19 to show strong endogenous momentum. On the basis of steady growth of main businesses, the Group have achieved a breakthrough in revenue scale from RMB400 billion to RMB500 billion in recent two years, with compound annual growth rate of 10.69%.

In 2021, the Group carefully studied and judged the reforming tendency, actively digested the pressure of transformation, and made every effort to cope with the subversion of pattern. The growth goals of core indicators such as revenue and net profit have been continuously achieved and advantages of scale have been emerged.

In 2021, we scientifically studied and judged the situation and implemented the forward-looking strategy. Guided by the "14th Five-Year Plan" strategy, the Group further cultivated its main business, optimized its structure and accelerated its transformation. The Group's core segments such as pharmaceutical distribution, medical device and retail pharmacy fully grasped the industry opportunities to conduct differentiated development, and its chemical reagent and medical device manufacturing achieved major breakthroughs.

In 2021, we continued to promote service innovation. The number of users of the B2B e-commerce platform for devices and the Internet hospital continued to increase, the synergetic advantages of device franchise stores and retail-device linkage began to emerge, the "dual-channel" pharmacies expanded rapidly, the vaccine tracking system was actively promoted nationwide, and innovative genes continued to take root in the Group.

In 2021, we deepened the reform measures, continuously enhanced the organic conformity of development strategy and assessment mechanism, improved the construction of the Board and the design and implementation of internal control system, and effectively promoted the consistency between business development and social responsibility.

In 2021, we strengthened the consciousness of corporate culture, organically integrated the corporate culture into business governance, employees' behaviors and social responsibility, optimized and improved the practice standards of corporate ESG, and promoted the concept of high-quality business development.

In 2021, we adhered to our mission, always spared no effort to meet all kinds of medical supply chain service demands at the frontiers of natural disasters and emergencies, affected areas at risk of the COVID-19 and at the scenes of venues of Beijing 2022 Winter Olympic Games, and fulfilled the responsibility of central enterprises, fully demonstrating the role of the national team and industry leader of the healthcare sector.

Looking back to the year 2021, Sinopharm made many proud development achievements and breakthroughs.

Looking forward to the future, the domestic and overseas economic situation will remain complicated and changeable, and the deepened reform of medical and healthcare system will further evidence the necessity of reform and innovation. According to the new development planning and idea, we have made full preparations to carry out the structure optimization, reform and innovation, and business transformation to comprehensively promote high-quality development.

For pharmaceutical and medical advice distribution business, the Group will continuously optimize the network coverage and operational efficiency, increase the level of serving the grassroots and people's livelihood, and enhance business stickiness. For retail pharmacies, the Group will further increase endogenous growth and external mergers and acquisitions, and actively lay out DTP (Direct to Patient) pharmacies, "social medicare pharmacies" and "dual-channel" pharmacies with significant products and services advantages to meet the needs of chronic, serious and special diseases at the grassroots level.

On this basis, the Group will concentrate resources to accelerate the integration of innovative capability, innovative resources and innovative talents in the supply chain, and build an innovation incubation platform with the in-depth collaboration of business resources. In key sectors such as derivative services, medical devices manufacturing, chemical reagent business, the Group will strengthen the R&D reserves of core technologies and products, promote technological iteration and business upgrading to consolidate the medium and long-term growth momentum for its development.

Facing the change, the Board and the management team hold full confidence in the Group's future. We firmly believe that with Sinopharm's leading pharmaceutical and device supply chain network in the industry, upstream and downstream business partners with in-depth services, precisely planned development strategic objectives and closely united professional management team, the Group will continue to consolidate its leading position in the industry and play a great leading role in the process of implementing the national innovation-driven strategy, perfecting the industrial chain development and serving the "healthy China" policy.

Once again, I would like to thank the shareholders, partners and people from all walks of life for your long-term support and help to Sinopharm. We look forward to further deepening cooperation with you in the future and witnessing the development and achievements of Sinopharm together.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in Renminbi thousand unless otherwise stated)

YEAR ENDED 31 DECEMBER 2021

	Notes	**2021**	2020
Revenue	*4*	**521,051,235**	456,414,611
Cost of sales	*8*	**(477,000,627)**	(416,091,300)
Gross profit		**44,050,608**	40,323,311
Other income	*5*	**589,193**	652,002
Selling and distribution expenses	*8*	**(15,437,533)**	(14,141,741)
Administrative expenses	*8*	**(7,760,993)**	(7,049,812)
Impairment losses on financial and contract assets	*6*	**(598,478)**	(750,224)
Losses on disposal of financial assets measured at amortised cost		**(1,130,821)**	(1,273,561)
Operating profit		**19,711,976**	17,759,975
Other gains – net	*7*	**218,420**	138,880
Other expenses	*8*	**(594,233)**	(341,207)
Finance income		**558,562**	673,532
Finance costs		**(3,961,431)**	(3,620,547)
Finance costs – net	*10*	**(3,402,869)**	(2,947,015)
Share of profits and losses of:			
Associates		**1,069,173**	985,562
Joint ventures		**695**	1,901
		1,069,868	987,463
Profit before tax		**17,003,162**	15,598,096
Income tax expense	*11*	**(3,938,389)**	(3,500,805)
Profit for the year		**13,064,773**	12,097,291

	Notes	**2021**	2020
Attributable to:			
Owners of the parent		**7,758,646**	7,187,278
Non-controlling interests		**5,306,127**	4,910,013
		13,064,773	12,097,291
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	*12*	**2.49**	2.31
– Diluted	*12*	**2.49**	2.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousand unless otherwise stated)

YEAR ENDED 31 DECEMBER 2021

	Notes	**2021**	**2020**
Profit for the year		**13,064,773**	12,097,291
Other comprehensive income/(loss):			
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements of post-employment benefit obligations	*11*	**(8,943)**	(20,043)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	*11*	**(4,994)**	20,443
Income tax effect	*11*	**1,248**	(5,111)
Fair value changes on financial asset, net of tax		**(3,746)**	15,332
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(12,689)**	(4,711)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**3,049**	8,595
Share of other comprehensive loss of associates		**(2,061)**	(1,967)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**988**	6,628
Other comprehensive income/(loss) for the year, net of tax		**(11,701)**	1,917
Total comprehensive income for the year		**13,053,072**	12,099,208
Attributable to:			
– Owners of the parent		**7,750,366**	7,188,059
– Non-controlling interests		**5,302,706**	4,911,149
		13,053,072	12,099,208

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi thousand unless otherwise stated)

31 DECEMBER 2021

	Notes	**2021**	2020
ASSETS			
Non-current assets			
Right-of-use assets		**6,983,410**	6,828,091
Investment properties		**588,366**	634,050
Property, plant and equipment		**12,424,342**	12,067,755
Intangible assets		**10,391,727**	10,729,302
Investments in joint ventures		**27,002**	35,341
Investments in associates		**8,387,677**	7,735,431
Equity investments designated at fair value through other comprehensive income		**81,045**	87,353
Financial assets at fair value through profit or loss		**688,555**	614,750
Finance lease receivables		**11,816**	33,504
Deferred tax assets		**1,787,093**	1,601,660
Other non-current assets		**3,119,147**	3,259,496
Total non-current assets		**44,490,180**	43,626,733
Current assets			
Inventories		**51,499,625**	47,085,450
Trade and bills receivables	*13*	**171,389,603**	145,336,963
Contract assets		**1,184,017**	711,114
Prepayments, other receivables and other assets		**13,611,275**	14,208,872
Financial assets at fair value through profit or loss		**11,749**	39,141
Finance lease receivables		**1,915**	1,130
Pledged deposits and restricted cash		**9,694,529**	10,029,693
Cash and cash equivalents		**43,529,428**	50,178,265
Non-current assets held for sale		**–**	19,345
Total current assets		**290,922,141**	267,609,973
Total assets		**335,412,321**	311,236,706

	Notes	2021	2020
EQUITY			
Equity attributable to owners of the parent			
Share capital		**3,120,656**	3,120,656
Treasury shares held for share incentive scheme		**(3,838)**	(3,838)
Reserves		**58,769,197**	53,242,027
		61,886,015	56,358,845
Non-controlling interests		**37,767,920**	33,588,476
Total equity		**99,653,935**	89,947,321
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**8,418,680**	8,918,726
Lease liabilities		**3,249,870**	3,243,011
Deferred tax liabilities		**1,022,792**	1,111,742
Post-employment benefit obligations		**387,697**	396,417
Contract liabilities		**56,750**	51,459
Other non-current liabilities		**3,316,048**	3,590,931
Total non-current liabilities		**16,451,837**	17,312,286
Current liabilities			
Interest-bearing bank and other borrowings		**55,151,650**	54,958,954
Lease liabilities		**1,548,046**	1,406,139
Trade and bills payables	*14*	**128,431,227**	112,632,393
Contract liabilities		**6,085,953**	7,323,794
Accruals and other payables		**26,229,755**	25,969,087
Dividends payable		**246,214**	216,891
Tax payable		**1,613,704**	1,469,841
Total current liabilities		**219,306,549**	203,977,099
Total liabilities		**235,758,386**	221,289,385
Total equity and liabilities		**335,412,321**	311,236,706

NOTES:

(All amounts in Renminbi thousand unless otherwise stated)

1 GENERAL INFORMATION

Sinopharm Group Co. Ltd. (the "**Company**") was established in the People's Republic of China (the "**PRC**") on 8 January 2003 as a company with limited liability under the PRC Company Law.

On 6 October 2008, the Company was converted into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as at 30 September 2007 with the proportion of 1:0.8699 into 1,637,037,451 shares of RMB1 each. In September 2009, the Company issued overseas-listed foreign-invested shares ("**H Shares**"), which were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") on 23 September 2009. The Company issued 204,561,102 domestic shares to China National Pharmaceutical Group Co., Ltd. ("**CNPGC**") under general mandate at the issue price of RMB24.97 per consideration share on 13 December 2018. On 23 January 2020, the Company placed and issued 149,000,000 new H shares at the price of HKD27.30 per H share. The actual net proceeds of the placing were HKD4,026,710,000, equivalent to RMB3,567,383,000.

The address of the Company's registered office is 1st Floor, No.385 East Longhua Road, Huangpu District, Shanghai, the PRC.

The Company and its subsidiaries (together, the "**Group**") are mainly engaged in: (1) the distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics, (2) the operation of chain pharmacy stores, (3) distribution of medical devices, and (4) the distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

The ultimate holding company of the Company is CNPGC, which was established in the PRC.

These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 18 March 2022.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

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

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

The nature and the impact of the revised HKFRSs are described below:

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

    The Group had no interest-bearing bank borrowings based on the Hong Kong Interbank Offered Rate, the London Interbank Offered Rate or other Interbank Offered Rates as at 31 December 2021. The Group expects the above amendment will not have any material impact on the financial position and performance of the Group.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

    The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the year ended 31 December 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. A reduction in the lease payments arising from the rent concessions of RMB4,132,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 31 December 2021. There was no impact on the opening balance of equity as at 1 January 2021.

3 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating committee (comprising the CEO and the executives at the CEO office) that are used to make strategic decisions. The operating committee considers the business from a business type perspective. The reportable operating segments derive their revenue primarily from the following four business types in the PRC:

(i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;

(ii) Medical devices – distribution of medical devices, and installation and maintenance services;

(iii) Retail pharmacy – operation of chain pharmacy stores;

(iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

Although the retail pharmacy segment does not meet the quantitative thresholds required by HKFRS 8 *Operating Segments*, management has concluded that this segment should be reported, as it is closely monitored by the operating committee as a potential growth segment and is expected to materially contribute to group revenue in the future.

Segment assets are those operating assets that are employed by a segment in its operating activities. Segment assets consist primarily of right-of-use assets, investment properties, property, plant and equipment, intangible assets, investments in associates and joint ventures, inventories, receivables and operating cash.

Segment liabilities are those operating liabilities that result from the operating activities of a segment. Segment liabilities do not include borrowings, deferred tax liabilities and other liabilities that are incurred for financing rather than operating purposes.

Unallocated assets mainly represent deferred tax assets. Unallocated liabilities mainly represent corporate borrowings and deferred tax liabilities.

Capital expenditure comprises mainly additions to right-of-use assets, investment properties, property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Inter-segment revenues are conducted at prices and on terms mutually agreed upon amongst those business segments. The revenue from external parties reported to the operating committee is measured in a manner consistent with that in the consolidated statement of profit or loss.

The segment information provided to the operating committee is as follows:

(i) Years ended 31 December 2021 and 2020

	Pharmaceutical distribution *RMB'000*	Medical devices *RMB'000*	Retail pharmacy *RMB'000*	Other business *RMB'000*	Eliminations *RMB'000*	Group *RMB'000*
Year ended 31 December 2021						
Segment results						
External segment revenue	377,100,149	107,412,327	28,574,252	7,964,507	–	521,051,235
Inter-segment revenue	12,854,640	716,881	484,998	1,856,460	(15,912,979)	–
Revenue	389,954,789	108,129,208	29,059,250	9,820,967	(15,912,979)	521,051,235
Operating profit	13,799,603	4,477,708	610,724	1,195,213	(371,272)	19,711,976
Other gains – net	190,105	7,718	12,748	7,849	–	218,420
Other expenses	(305,736)	(125,778)	–	(162,719)	–	(594,233)
Share of profits and losses of associates and joint ventures	24,997	(12,530)	1,976	1,055,425	–	1,069,868
	13,708,969	4,347,118	625,448	2,095,768	(371,272)	20,406,031
Finance costs – net						(3,402,869)
Profit before tax						17,003,162
Income tax expense						(3,938,389)
Profit for the year						13,064,773
Other segment items included in the consolidated statement of profit or loss						
Provision/(reversal of provision) for impairment of financial and contract assets	327,981	271,708	(1,873)	662		598,478
Provision/(reversal of provision) for prepayment	17,202	(29,876)	16	29		(12,629)
Provision/(Reversal of provision) for impairment of inventories	46,944	(15,088)	(2,623)	1,201		30,434
Provision for impairment of property, plant and equipment	2,633	–	–	–		2,633
Provision for impairment of intangible assets	201,341	168,831	236,690	–		606,862
Depreciation of property, plant and equipment	1,139,552	268,131	180,695	30,120		1,618,498
Depreciation of investment properties	25,112	22,196	1,134	2,670		51,112
Depreciation of right-of-use assets	598,810	253,881	967,438	50,646		1,870,775
Amortisation of intangible assets	345,881	–	35,597	195		381,673
Capital expenditures	1,745,248	594,081	433,527	34,413		2,807,269

(i) Years ended 31 December 2021 and 2020 (continued)

	Pharmaceutical distribution *RMB'000*	Medical devices *RMB'000*	Retail pharmacy *RMB'000*	Other business *RMB'000*	Eliminations *RMB'000*	Group *RMB'000*
Year ended 31 December 2020						
Segment results						
External segment revenue	338,611,186	87,978,460	23,742,115	6,082,850	–	456,414,611
Inter-segment revenue	9,683,196	1,423,786	422,224	1,568,829	(13,098,035)	–
Revenue	348,294,382	89,402,246	24,164,339	7,651,679	(13,098,035)	456,414,611
Operating profit	12,288,233	4,305,677	676,880	806,605	(317,420)	17,759,975
Other gains – net	201,165	(66,999)	(8,181)	12,895	–	138,880
Other expenses	(234,828)	(106,379)	–	–	–	(341,207)
Share of profits and losses of associates and joint ventures	16,326	(12,189)	3,141	980,185	–	987,463
	12,270,896	4,120,110	671,840	1,799,685	(317,420)	18,545,111
Finance costs – net						(2,947,015)
Profit before tax						15,598,096
Income tax expense						(3,500,805)
Profit for the year						12,097,291
Other segment items included in the consolidated statement of profit or loss						
Provision for impairment of financial and contract assets	533,462	200,161	13,451	3,150		750,224
Provision/(reversal of provision) for prepayment	(1,433)	77,663	–	–		76,230
Provision/(Reversal of provision) for impairment of inventories	36,469	30,123	2,601	(537)		68,656
Provision for impairment of property, plant and equipment	123	–	–	–		123
Provision for impairment of intangible assets	236,261	28,716	–	–		264,977
Depreciation of property, plant and equipment	999,556	260,211	180,695	28,734		1,469,196
Depreciation of investment properties	21,889	22,196	1,134	2,695		47,914
Depreciation of right-of-use assets	574,752	245,732	813,564	55,922		1,689,970
Amortisation of intangible assets	354,242	–	35,597	195		390,034
Capital expenditures	1,879,875	641,699	2,033,890	29,778		4,585,242

(ii) As at 31 December 2021 and 2020

	Pharmaceutical distribution *RMB'000*	Medical devices *RMB'000*	Retail pharmacy *RMB'000*	Other business *RMB'000*	Eliminations *RMB'000*	Group *RMB'000*
As at 31 December 2021						
Segment assets and liabilities						
Segment assets	**245,710,000**	**70,506,523**	**15,728,086**	**19,806,913**	**(18,126,294)**	**333,625,228**
Segment assets include:						
Investments in associates and joint ventures	**280,446**	**105,892**	**25,097**	**8,003,244**	**–**	**8,414,679**
Unallocated assets – Deferred tax assets						**1,787,093**
Total assets						**335,412,321**
Segment liabilities	**120,319,819**	**50,490,205**	**13,213,469**	**5,812,660**	**(18,670,889)**	**171,165,264**
Unallocated liabilities – Deferred tax liabilities and borrowings						**64,593,122**
Total liabilities						**235,758,386**
As at 31 December 2020						
Segment assets and liabilities						
Segment assets	233,447,454	60,062,154	13,618,173	18,055,657	(15,548,392)	309,635,046
Segment assets include:						
Investments in associates and joint ventures	300,074	129,743	26,312	7,314,643	–	7,770,772
Unallocated assets – Deferred tax assets						1,601,660
Total assets						311,236,706
Segment liabilities	115,094,500	41,696,886	9,419,158	5,306,920	(15,217,501)	156,299,963
Unallocated liabilities – Deferred tax liabilities and borrowings						64,989,422
Total liabilities						221,289,385

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

Information about major customers

No revenue from a singular customer in each Reporting Period individually contributed to over 10% of the total revenue of the Group.

4 REVENUE

An analysis of revenue is as follows:

	2021	2020
Revenue from contracts with customers		
Sales of goods	**518,392,214**	454,252,490
Consulting income	**980,020**	809,352
Logistics service income	**914,603**	578,028
Franchise fee and other service fee	**181,507**	129,933
Import agency income	**64,307**	71,789
Others	**254,024**	314,179
Revenue from other sources		
Operating lease income	**264,560**	258,840
	521,051,235	456,414,611

Revenue from contracts with customers

Disaggregated revenue information

For the year end 31 December 2021

Segments	Pharmaceutical distribution	Medical devices	Retail pharmacy	Others	Total
Type of goods or services					
Sale of goods	375,801,206	107,011,096	27,664,536	7,915,376	518,392,214
Services and others	1,298,943	401,231	645,156	49,131	2,394,461
Total revenue from contracts with customers	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675
Market					
China	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675
Timing of revenue recognition					
Recognised at a point in time	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675

For the year end 31 December 2020

Segments	Pharmaceutical distribution	Medical devices	Retail pharmacy	Others	Total
Type of goods or services					
Sale of goods	337,497,819	87,690,600	23,009,583	6,054,488	454,252,490
Services and others	1,113,367	287,860	473,692	28,362	1,903,281
Total revenue from contracts with customers	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771
Market					
China	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771
Timing of revenue recognition					
Recognised at a point in time	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771

Revenue included in the contract liability at the beginning of the Reporting Period will be recognised from performance obligations satisfied in previous periods. RMB7,323,794,000 (2020: RMB4,537,222,000) is recognised in the current year by delivering products and services.

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

Revenue is recognised when control of the goods has transferred and payment is generally due within 30 to 210 days from delivery.

Services and others

The performance obligation is satisfied upon completion of services and payment is generally due within 30 to 210 days from completion.

5 OTHER INCOME

	2021	2020
Government grants	**589,193**	652,002

Government grants mainly represented subsidy income received from various government authorities as incentives to certain members of the Group.

6 IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2021	2020
Impairment of financial and contract assets – net:		
Trade and bills receivables	**428,185**	660,705
Contract assets	**17,587**	9,132
Other receivables	**101,617**	72,650
Other non-current assets	**38,722**	7,517
Finance lease receivables	**12,367**	220
	598,478	750,224

7 OTHER GAINS, NET/OTHER EXPENSES

	2021	2020
Write-back of certain liabilities	**88,713**	68,744
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiaries	**1,479**	113,576
Gain on disposal of an investment in an associate	**1,639**	17,771
Gain on disposal of investment properties, property, plant and equipment and intangible assets	**1,709**	24,238
Gain on disposal of non-current assets held for sale	**37,534**	–
Gain on disposal of right-of-use assets	**25,144**	15,146
Foreign exchange gain/(loss) – net	**(10,506)**	11,809
Donation	**(45,552)**	(96,091)
Interest income from asset-backed securities	**–**	2,826
Dividend income from:		
Equity investments at fair value through other comprehensive income	**947**	1,001
Equity investments at fair value through profit or loss	**31,038**	31,411
Fair value gains/(loss) on financial assets at fair value through profit or loss	**35,521**	(63,903)
Provision for impairment of property, plant and equipment	**(2,633)**	(123)
Provision for impairment of an investment in an associate	**(3,018)**	–
Others – net	**56,405**	12,475
	218,420	138,880
Provision for impairment of intangible assets	**(606,862)**	(264,977)
Reversal/(provision) for impairment of prepayment	**12,629**	(76,230)
	(594,233)	(341,207)

8 EXPENSES BY NATURE

	2021	2020
Raw materials and trading merchandise consumed	**475,026,060**	415,415,993
Changes in inventories of finished goods and work in progress	**45,394**	(139,377)
Employee benefit expenses *(Note 9)*	**13,445,639**	11,375,429
Impairment of inventories – net	**30,434**	68,656
Lease payments not included in the measurement of lease liabilities	**651,763**	619,973
Depreciation of property, plant and equipment	**1,618,498**	1,469,196
Depreciation of investment properties	**51,112**	47,914
Depreciation of right-of-use assets	**1,870,775**	1,689,970
Amortisation of intangible assets	**381,673**	390,034
Auditor's remuneration		
– statutory audit services	**54,948**	48,690
– non-statutory audit services	**2,956**	3,560
– non-audit services	**80**	37
Advisory and consulting fees	**400,957**	379,486
Transportation expenses	**2,023,979**	1,408,258
Travel expenses	**320,010**	341,116
Market development and business promotion expenses	**3,092,649**	2,737,673
Utilities	**249,804**	215,202
Others	**932,422**	1,211,043
Total cost of sales, selling and distribution expenses, and administrative expenses	**500,199,153**	437,282,853

9 EMPLOYEE BENEFIT EXPENSES

	2021	2020
Salaries, wages, allowances and bonuses	**10,631,027**	9,527,887
Contributions to pension plans *(i)*	**1,091,520**	431,048
Post-employment benefits	**7,295**	1,629
Housing benefits *(ii)*	**469,257**	409,674
Share incentive expenses	**–**	(18,569)
Other benefits *(iii)*	**1,246,540**	1,023,760
	13,445,639	11,375,429

Notes:

(i) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 8% (2020: 8%) of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 12% to 20% (2020: 12% to 20%) of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Due to the severe impact of COVID-19, the Ministry of Human Resources and Social Security issued Decree No.11 and Decree No.49 to reduce all entities' contribution to the retirement schemes during the period from February 2020 to June 2020. The range of the deduction varies from 50% to 100%.

Contributions totaling RMB10,127,000 (31 December 2020: RMB13,104,000) were payable to the fund at the year ended 31 December 2021.

(ii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.

(iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

10 FINANCE INCOME AND COSTS

	2021	2020
Interest expense:		
– Interest-bearing bank and other borrowings	**2,874,743**	2,608,142
– Discount of bills receivable	**690,232**	614,428
– Net interest on net defined benefit liability	**11,739**	11,832
– Lease liabilities	**195,670**	193,707
Gross interest expense	**3,772,384**	3,428,109
Bank charges	**204,596**	195,791
Less: capitalised interest expense	**(15,549)**	(3,353)
Finance costs	**3,961,431**	3,620,547
Finance income:		
– Interest income on deposits in banks and other financial institutions	**(473,850)**	(584,832)
– Interest income on long-term deposits	**(84,712)**	(88,700)
	(558,562)	(673,532)
Net finance costs	**3,402,869**	2,947,015

11 TAXATION

	2021	2020
Current income tax	**4,237,217**	3,715,646
Deferred income tax	**(298,828)**	(214,841)
	3,938,389	3,500,805

A reconciliation of the tax charge applicable to profit before tax using the applicable rate for the jurisdiction in which the Company and its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2021	2020
Profit before tax	**17,003,162**	15,598,096
Less: Share of profits and losses of associates and joint ventures	**(1,069,868)**	(987,463)
	15,933,294	14,610,633
Tax calculated at the applicable tax rate	**3,983,324**	3,652,658
Impact of lower tax rates enacted by local authority	**(305,511)**	(278,984)
Expenses not deductible for tax purposes	**251,868**	152,262
Income not subject to tax	**(13,586)**	(8,718)
Tax losses not recognised	**56,207**	29,094
Tax losses utilised from previous periods	**(6,207)**	(8,795)
Impact of change in the applicable income tax rate on deferred tax	**(3,130)**	(594)
Adjustments in respect of current tax of previous periods	**(24,576)**	(36,118)
Income tax expense	**3,938,389**	3,500,805

Note:

(i) During 2021, enterprises incorporated in the PRC are normally subject to enterprise income tax ("**EIT**") at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.

(ii) Two of the Group's subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2020/2021. The first HK$2,000,000 (2020: HK$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The tax credit/(charge) relating to components of other comprehensive loss is as follows:

	2021			2020		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax credit	After tax
Equity investments at fair value through other comprehensive income	**(4,994)**	**1,248**	**(3,746)**	20,443	(5,111)	15,332
Remeasurement of post-employment benefit obligations	**(11,784)**	**2,841**	**(8,943)**	(26,210)	6,167	(20,043)
Total	**(16,778)**	**4,089**	**(12,689)**	(5,767)	1,056	(4,711)

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent excluding the cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future as at the end of the Reporting Period and the weighted average number of ordinary shares of 3,120,656,000 (31 December 2020: 3,111,293,000) in issue excluding restricted shares at the end of the Reporting Period.

The calculation of the amounts of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjust to reflect the cash dividends on the restricted shares expected to be unlocked in the future. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year as used in the basic earnings per share calculation, and included the number of restricted shares expected to be unlocked in the future.

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

	2021	2020
Earnings		
Profit attributable to ordinary equity holders of the parent	**7,758,646**	7,187,278
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	**–**	(74)
Profit attributable to equity holders of the parent used in the basic earnings per share calculation	**7,758,646**	7,187,204
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *('000)*	**3,120,656**	3,111,169
Effect of dilution – Restricted shares *('000)*	**–**	124
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *('000)*	**3,120,656**	3,111,293
Basic earnings per share *(RMB per share)*	**2.49**	2.31
Diluted earnings per share *(RMB per share)*	**2.49**	2.31

13 TRADE AND BILLS RECEIVABLES

	2021	2020
Trade receivables	**161,397,269**	136,340,084
Bills receivable	**12,688,236**	11,267,761
	174,085,505	147,607,845
Less: Provision for impairment	**(2,695,902)**	(2,270,882)
	171,389,603	145,336,963

The fair value of trade and bills receivables approximates to their carrying amount.

Retail sales at the Group's medicine chain stores are generally made in cash or by debit or credit cards. For medicine distribution, medical devices distribution and medicine manufacturing businesses, sales are made on credit terms ranging from 30 to 210 days. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the Reporting Period, is as follows:

	2021	2020
Within 1 year	**155,827,980**	130,854,340
1 to 2 years	**2,296,149**	2,952,952
Over 2 years	**618,576**	312,690
	158,742,705	134,119,982

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and bills receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing.

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

	2021	**2020**
At beginning of year	**2,270,882**	1,582,512
Acquisition of subsidiaries	**4,802**	27,937
Provision for impairment – net	**428,185**	660,705
Write-off	**(7,967)**	(272)
At end of year	**2,695,902**	**2,270,882**

As at 31 December 2021, bills receivable of RMB684,104,000 (2020: RMB305,282,000) and trade receivable of RMB1,426,548,000 (2020: RMB2,118,934,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2021, bills receivable of RMB225,011,000 (2020: RMB131,860,000) were pledged as collateral for the Group's bills payable.

As at 31 December 2021, outstanding trade receivables of RMB32,501,098,000 (2020: RMB31,948,573,000) were derecognised under the trade receivables factoring programs without recourse. The ageing of these derecognised trade receivables was basically within one year. As at 31 December 2021, the collection of such trade receivables on behalf of banks amounting to RMB3,298,853,000 (2020: RMB2,876,436,000) and the collection of such trade receivables on behalf of related parties amounting to RMB1,136,794,000 (2020: RMB1,222,736,000) was recorded in other payables.

14 TRADE AND BILLS PAYABLES

	2021	2020
Trade payables	**91,836,652**	78,687,419
Bills payable	**36,594,575**	33,944,974
	128,431,227	112,632,393

The trade and bills payables are non-interest-bearing and are normally settled on 90-day terms. The fair value of trade and bills payables approximates to their carrying amount.

An aged analysis of the trade and bills payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	2021	2020
Within 3 months	**96,353,160**	84,477,049
3 to 6 months	**20,324,578**	18,497,256
6 months to 1 year	**8,121,952**	5,902,758
1 to 2 years	**2,199,483**	2,343,031
Over 2 years	**1,432,054**	1,412,299
	128,431,227	112,632,393

The Group's trade and bills payables are denominated in the following currencies:

	2021	2020
RMB	**128,347,607**	111,721,945
USD	**79,941**	897,938
EUR	**2,067**	12,510
JPY	**1,612**	–
	128,431,227	112,632,393

The Group has accounts payable financing program with certain banks whereby the banks repaid accounts payable on behalf of the Group with an equivalent sum drawn as borrowings. Such drawdown of borrowings is a non-cash transaction while repayment of the borrowings in cash is accounted for as financing cash outflows.

During the year ended 31 December 2021, accounts payable of RMB2,936,445,000 (2020: RMB1,645,919,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2021, the balance of bank borrowings related to this program was RMB513,435,000 (2020: RMB347,192,000).

15 DIVIDENDS

The final dividend for the year 2020 of RMB0.69 per share (tax inclusive), amounting to RMB2,153,253,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 19 March 2021.

A final dividend for the year ended 31 December 2021 of RMB0.75 (tax inclusive) per ordinary share, totalling approximately RMB2,340,492,000 is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 18 March 2022. These financial statements have not reflected this proposed dividend.

	2021	2020
Proposed final dividend	2,340,492	2,153,253

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

The economy runs smoothly and orderly, and boasts sustainable and resilient growth

In 2021, against the backdrop of complex and volatile international politics, the rising trend of counter-globalization and the COVID-19 pandemic, China's economy bucked the trend and achieved growth beyond expectations, demonstrating the huge potential and strong resilience of the Chinese economy. The annual gross domestic product (GDP) surpassed RMB114 trillion, up 8.1% year-on-year, with a two-year average growth of 5.1%, making the economic growth rank at the top of the world's major economies.

By quarter, GDP in the first quarter grew 18.3% year-on-year, the second quarter grew 7.9% year-on-year, the third quarter grew 4.9% year-on-year, and the fourth quarter grew 4.0% year-on-year. From the first quarter to the fourth quarter in the year, GDP recorded a two-year average growth of 4.9%, 5.5%, 4.9% and 5.2%, respectively. The economy runs in a generally stable manner, and the main growth targets were fully achieved.

Health care reform policies continue to be implemented, boosting the sector transformation and renovation

In 2021, with the Healthy China initiative, the pharmaceutical distribution industry continued to transform and upgrade as the reform of the medical insurance system continued to deepen. With the steady sales growth in the pharmaceutical distribution market in China from Q1 to Q3 in 2021, the development trend of the pharmaceutical distribution industry towards national integration and intensification continued to emerge, and the retail pharmacy business as well as the medical service model continued to evolve. The whole industry saw a steady growth after the pandemic, and continued to maintain a higher growth rate over the macroeconomic growth.

According to data from the Pharmaceutical Distribution Statistics System of the Ministry of Commerce, the total sales of seven major categories of pharmaceutical commodities nationwide in the first 3 quarters of 2021 amounted to RMB1,896.5 billion (including taxes), up 10.60% year-on-year excluding non-comparable factors, with a growth increasing by 10.91 percentage points year-on-year. It is 8.69% higher than that of the same period of 2019, with a two-year average growth of 5.00% (calculated based on the numbers of the corresponding period of 2019 using geometric average method). Among which, the revenue from core business of pharmaceutical distribution enterprises reported directly reached RMB1,409.8 billion (excluding taxes), up 11.37% year-on-year excluding non-comparable factors, with an average gross margin of 7.77%, down 0.34 percentage points year-on-year.

In the context of the pandemic, retail pharmacies proved its value in promoting the medication accessibilities and facilitating the Healthy China initiative. Prescription outflow and medical insurance connection to pharmacies is conducive to the continuous transformation and upgrading of the out-of-hospital retail industry. In 2021, the "dual channel" policy promulgated by the state and the policy of “designated retail pharmacies for special and chronic diseases to enjoy medical insurance reimbursement” have been introduced, opening up the demand for prescription medications, especially special and chronic medications at the retail end, which expanded growth space for the retail industry. Sales amount in the pharmaceutical retail market in the first 3 quarters of 2021 reached RMB399 billion, up 8.33% year-on-year and up 14.98% over the same period of 2019.

Business Review

The year 2021 is the first year of the “14th Five-Year” development plan for the Company. Under the leadership of the Board of Directors and the management, the Group made efforts to promote business transformation, service renovation and technology upgrade in the face of the complex situation of recurring pandemic, deepening medical insurance reform and industry transformation and adjustment. Various development targets for the year have been achieved, recording a good start of the “14th Five-Year”.

In 2021, the Company recorded business revenue of RMB521.051 billion, representing an increase of 14.16% year-on-year, with growth significantly higher than the industry average, with the market share continued to expand.

The Group grasped the business transformation opportunities, absorbing the impact of the declining prices of drugs and medical devices brought about by the continuous expansion of the volume-based procurement (“**VBP**”) of drugs and medical devices. The net profit for the year reached RMB13.065 billion, up 8.00% year-on-year, and the net profit attributable to the owner of the parent reached RMB7.759 billion, up 7.95% year-on-year.

The medical device and retail pharmacy segments effectively followed the Company’s development strategy. The Company continued to maintain a relatively high growth trend during the Reporting Period, and the overall business structure of the Company was further diversified and optimized. In 2021, the percentage of the revenue from the pharmaceutical distribution segment decreased by 1.56 percentage points year-on-year to 72.62%, while the percentages of the revenue from the medical device and retail pharmacy segments increased by 1.1 percentage points and 0.26 percentage point year-on-year to 20.14% and 5.41%, respectively.

Leveraging on the business scalability, promoted the service transformation and cooperation stickiness

With the routine and institutionalized reform of VBP of drugs, the market-based pricing mechanism has been gradually improved, guiding enterprises to continuously strengthen quality and cost control and step into the track of high-quality development through innovation and services upgrading. According to data from the National Healthy Security Administration, as of the end of 2021, total six batches of VBP of drugs have been carried out in China, with a total of 234 drugs included, involving an amount accounting for 30% of the total annual drug procurement amount of public medical institutions.

During the Reporting Period, the Group firmly grasped the industry transformation trend brought about by the volume-based procurement and continued to lead the industry growth. By continuing to tap the scale advantage of its distribution network, the Group has won the market share of products related to VBP and promoted the transformation of pharmaceutical distribution to nationalized and intensive services. In 2021, the Group recorded a revenue of RMB389.955 billion from pharmaceutical distribution business, representing a year-on-year growth of 11.96%, of which the business in grassroots market continued to expand, with terminal network coverage in provinces, cities and autonomous regions exceeding 500,000. Benefiting from the endogenous business expansion and network sinking, the percentages of the revenue from the Group's direct sales business and the revenue from non-provincial cities continued to increase.

Along with the continuous transformation of the industry landscape, the Group, on the top of the distribution business, has been actively coordinating its business resources to enhance the service capabilities of the supply chain to better serve the distribution life cycle. Through the derivation and expansion of its service model, the Group provided early services such as medication supervision and inspection before the products launching, and provided DTP and near-by hospital pharmacies management services through wholesale and retail collaboration after the product approval, and fully utilized its network layout to promote the integrated access management through its subsidiaries and associates in conjunction with the progress of medical insurance negotiations of products to help manufacturers accelerate the acquisition of hospital access nationwide. Our extended service model helps us to strengthen the business relationship with suppliers and promote the sustainable and steady growth of distribution services.

Maintained high growth rate with business layout gradually expanded

In 2021, the state organized the value-based procurement of high-value medical consumables, which has already become a routine situation. The heart stents VBP has been steadily enforced, and the VBP of orthopedics has also been launched. As more and more supporting policies and guarantee mechanisms are in place and optimized, leading companies see competitive advantages with network scale and innovative services, and the entire medical device distribution industry has been transforming towards scale and intensification.

During the Reporting Period, the Group actively responded to industry changes in medical device sector and thus realized rapid business development while securing growth and preventing risks. The revenue from the medical device distribution business has grown by approximately RMB20 billion for two consecutive years. In 2021, the sales revenue from medical device business achieved RMB108.129 billion and the proportion of revenue to the overall has been increasing, from 19.04% in 2020 to 20.14% in 2021, representing an increase of 1.10 percentage points year-on-year. As of the end of the Reporting Period, the medical device business of the Group has covered 335 cities above the prefecture level, and the revenue from direct sales to medical institutions has exceeded RMB100 billion, with market share consistently ranking at the forefront of the medical device distribution industry.

In addition, the Group has continued to rely on its network coverage and service advantages to promote the rapid growth of innovative services such as centralized distribution, in-hospital logistics management and smart logistics. As of the end of 2021, the Group's total number of centralized distribution and SPD projects increased by 103 and 92 respectively compared with the end of 2020, of which 8 new hospital consortium and medical community service projects were added. Leveraging on the increasing digital capabilities, we have gradually to optimize our consulting services of in-hospital lean management with big data analysis and collection, while gradually expanding our ability to coordinate and allocate IVDs and medical devices, drugs and medical devices and other cross-category business based on our coverage and resouring capabilities, reforming our service model and enhancing the depth of cooperation with end customers.

The manufacturing of medical devices is an important driving force for the Group's medium- to long-term stable development. During the Reporting Period, as the Group continued to enhance exploration and expansion of medical device manufacturing business, relevant products manufactured by the Group has gradually extended from over one hundred standard varieties in the medical consumables to medical equipment categories with high technology barriers, including medical endoscopy systems, by deepening cooperation with leading industry partners. The Group is actively responding to the development trend of domestic substitution, seeking to establish and promote its own brand, and steadily building its own service capability covering the "whole life cycle" of products in the medical device business.

Pharmacies exceeded 10,000 with professional pharmaceutical care deepened the competition barrier

In 2021, the "dual channel" policy for retail pharmacies jointly promulgated by the National Healthcare Security Administration and the National Health Commission further promoted prescription medications and innovative medications outflow from hospitals to retail pharmacies. This has a profound impact on reshaping the development pattern of the pharmaceutical industry. To adapt to the new development trend of the industry, the Group has continued to promote the high growth of the retail pharmacy segment by leveraging its strong supply chain integration capability of "wholesale-retail integration", deepening the coordination and deployment of procurement and logistics resources nationwide and actively exploring business transformation. During the Reporting Period, the Group's revenue from retail pharmacy business totalled RMB29.059 billion, representing a year-on-year increase of 20.26%, far higher than average industry growth rate. The percentage of revenue from retail pharmacy business reached 5.41%, with an increase of 0.26 percentage point year-on-year.

In 2021, the Group fully utilized the business advantages of synergy between professional pharmacies and traditional pharmacies and, while continuously improving the network layout of retail pharmacies, focused on the expansion of pharmacies qualified as "social medicare pharmacies" and "dual channel" pharmacies, and strived to enhance the specialty pharmacy and marketing services capacities of retail stores. By the end of 2021, the total number of retail stores of the Group reached 10,259 with an increase of 1,282 from the end of the previous year. Among them, 8,798 stores were Guo Da Drug Stores, with an increase of 1,138 from the end of the previous year; 1,461 stores were professional pharmacies, with an increase of 144 from the end of the previous year. As at the end of 2021, the total number of the Group's "dual channel" pharmacies reached 403 covering 25 provinces in China. The Group also made significant efforts to integrate and restructure the retail pharmacy to solve "non-competition" concern within the Group, and focused and strengthened the business positioning, with regional competitive advantages gradually emerging.

Innovation and transformation vigorously promoted, the development pattern broaded in a diversified manner

As the changes in the pharmaceutical industry are accelerating, the Group has vigorously promoted high-quality business transformation and development, realized coordinated utilization of business resources and enhanced efficient synergies across business segments, thus seeking innovation and upgrading of business models and tapping new growth driving forces.

On top of the traditional distribution business, the Group actively explored marketing models covering all life cycles of products during the Reporting Period, and gradually expanded its professional service capabilities in tiered markets such as county area and community and segments such as retail services and basic medications on the solid basis of its existing marketing staff and service teams to build a nationwide integrated marketing service capacities according to tailored product demand. During the Reporting Period, the Group actively promoted the optimization of service categories, and provided personalized marketing and promotion solutions for a number of leading pharmaceutical companies, including Novartis and Gilead. In the face of the VBP of consumables, the Group has actively reorganized its business structure, systematically formulated the national business standards and operational specifications, and explored the promotion of new marketing services for medical device categories.

In addition, in order to adapt to the transformation of the industry and the rapid changes in market demand, the Group formally established the Innovation Center during the Reporting Period to coordinate and lead the development of innovative businesses involving commercial insurance services and Internet hospitals within the Group, and to promote the construction of a comprehensive service platform of "medical, drug, patient, insurance". During the Reporting Period, the Innovation Center and the distribution subsidiaries jointly undertook the business of Huimin Insurance in several major cities and provinces, and made significant progress in the related business. For the online business, the license for the Group's self-operated Internet hospital (Sinopharm cloud hospital) was formally approved, and many subsidiaries and associates actively carried out various cooperation projects with local Internet hospitals, exploring pilot projects of whole-course management and post-operative management of critical illnesses, and promoting the vertical extension of "Internet+medical+insurance" services.

In the face of the new demand for supply chain services, the Group's logistics business, which serves its independent third party clients, also continued to expand. On the basis of distribution services, the Group extended the capacities of supply chain services from demand sides including legal supervision, quality assurance, functional expansion and data analysis, providing full cycle services covering import customs clearance, medication inspection, warehousing and transportation, terminal distribution, especially relying on the industry's leading professional cold chain distribution capability, to comprehensively enhance the professional service capability and market competitive advantage of the Group's logistics business.

Technology empowerment boosted synergy, operational quality and efficiency both improved

In order to respond to the latest development trend of the industry and enhance the adaptation and service capability of its business entities under the complex situation, the Group has accelerated the strategic planning and top-level design of business integration and digital transformation during the Reporting Period. We are actively carrying out digital transformation projects involving various areas such as retail, logistics, data and control, further eliminating regional barriers and subject restrictions between various businesses, and building digital operational capabilities to match the development of innovative services in a comprehensive manner by constructing a cross-disciplinary integration and synergy mechanism. At the same time, the Group has actively utilized leading IT technologies to transform and enhance traditional operational processes, and has significantly increased the application scenarios and scope of programmed processing modules, which now cover a number of core business areas such as finance, human resources, procurement, sales and warehouse management, to improve the operational efficiency and quality of its business.

The Group has actively strengthened management and control measures of various business and implemented effective supervision in business control, financial control and investment control to improve governance capabilities. Through continuously refined financial evaluation and performance assessment, the Company has promoted optimizaion and improvement of operational efficiency, steadily improved the operating cash flows and asset leverage, and guarded its bottom line for risk control. As of the end of 2021, the Group's selling and administration expense ratio was 4.45%, down 0.19 percentage point year-on-year; the annual finance expense ratio was 0.65%, keeping flat as compared with 2020.

Future Plan

Looking ahead to 2022, the recurring pandemic and the continuous expansion of medical insurance reform will still make the distribution industry face severe challenges and great opportunities. The state will continue to implement "VBP", "medical insurance negotiations", "payment by diseases" and other medical reform policies. This will not only lead to a series of industry challenges such as declining prices of drugs and medical devices, slowing growth of traditional business and pressure on gross margins, but will also comprehensively drive the transformation of industry service demand and reconstruction of allocation mechanism, which will in turn stimulate a new market competition pattern and diversified opportunities for innovative development.

Integrating with the development progress, the Group will build comprehensive technology-based and innovative-driven service capabilities and establish forward-looking competitive advantages and barriers by taking "high-quality development" as its strategic goal to finally promote the supply chain innovation and business transformation.

Increase market share and product categories, tap potential with business transformation

The Group will further promote endogenous business growth, expand terminal network coverage, and continue to increase the share of direct sales business to medical institutions and retail pharmacies, thus consolidating its leading position in the market.

At the same time, with strong terminal coverage in medical institutions, the Group will actively enrich the category structure, and deeply explore the opportunities of primary medical institutions, out-of-hospital market and non-medical insurance expenditures by focusing on the demand for agents and services for innovative drugs, new drugs in the medical insurance catalog and varieties of high clinical value.

Respond to changes and integrate market resources, deepen services and improve layout

The Group will comprehensively refine the measures in response to policies such as the VBP of consumables, accelerate the effective coverage of top-level hospitals while increasing green and smart supply chain services around the needs of medical institutions and community in-home healthcare services, and rapidly increase its market share through regionalized and centralized distribution programs by promoting "drug-device synergic development" and "retail-device integration".

During the "14th Five-Year" period, the Group will also improve the industrial layout of upstream industry and downstream services through a combination of outward mergers and acquisitions and endogenous growth, strengthen the service capability of supply chain covering the entire life cycle of medical device categories, and meet the demand of comprehensive services of the industry in multiple dimensions.

Enhance positioning and diversify business, promote synergy through technology empowerment

The implementation of the "dual channel" policy will bring huge development opportunities to the retail business. The Group will set up more "dual channel" and "social medicare" pharmacies with strong professional pharmacy services to take advantage of the prescription outflow opportunities.

Meanwhile, in the face of technological upgrades and iterations in the physical business, with innovative technologies such as AI assistive consultation and online service capacity, we will professionalize the in-store pharmaceutical services, explore multi-channel retail business scenarios, and optimize terminal service capabilities, thus promoting the synergistic growth of online platforms and offline physical business, and satisfying the demand for chronic, serious and special disease services in grassroots communities.

Accelerate technological innovation, solidify the potential for continuous development

In order to further promote high-quality business transformation, the Group will continuously make investments in digital and intelligent upgrade. In accordance with the established digital transformation roadmap, the Group will accelerate project execution to simultaneously carry out digital transformation implementation in the four business segments of pharmaceuticals, medical devices, retail and logistics. The Group will further promote the transformation and upgrade of business segments to "professional natinalwide integrated services" by refining and restructuring business processes and data assets.

The Group will also further accelerate innovation exploration, enhance the cultivation of existing high-tech enterprises within the Group while continuing to strengthen business empowerment by deepening the cooperation with research institutes and science and technology innovation enterprises within and outside the Group by leveraging the its good brand reputation and industry positioning, thus accelerating the commercialization process of relevant products with domestic substitution and technological advantages in key areas, and tapping the growth potential of upstream and downstream business synergy.

In 2022, under the leadership of the Board of Directors and the management, the Group will actively respond to the trend of industry transformation to promote the primary goal of "high-quality transformation and development", and also maintain stable growth in the main operations as well as diversify and optimize the industrial structure. The Group will further aim to reform and upgrade governance model, and accelerate the integration of science and technology innovation to provide high-quality products and services, and ultimately contribute to the "Health China 2030" strategic plan.

Financial Summary

The financial summary set out below is extracted from the audited financial statements of the Group for the Reporting Period which were prepared in accordance with the HKFRSs:

During the Reporting Period, the Group recorded a revenue of RMB521,051.24 million, representing an increase of RMB64,636.62 million or 14.16% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a profit of RMB13,064.77 million, representing an increase of RMB967.48 million or 8.00% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB7,758.65 million, representing an increase of RMB571.37 million or 7.95% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB2.49, representing an increase of 7.79% as compared with the corresponding period of last year.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB521,051.24 million, representing an increase of 14.16% as compared with RMB456,414.61 million for the twelve months ended 31 December 2020, which was primarily due to the increase in revenue from the Group's pharmaceutical distribution business, retail pharmacy business and medical device business, and the Group's revenue grew faster than the average level of development of pharmaceutical market in China.

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB389,954.79 million, which accounted for 72.62% of the total revenue of the Group and represented an increase of 11.96% as compared with RMB348,294.38 million for the twelve months ended 31 December 2020. The increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of its distribution network of the Group.

- Medical device segment: during the Reporting Period, the revenue from medical device of the Group was RMB108,129.21 million, which accounted for 20.14% of the total revenue of the Group and represented an increase of 20.95% as compared with RMB89,402.25 million for the twelve months ended 31 December 2020. The increase was primarily due to the expansion through acquisition and business growth of the medical device business of the Group.

- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB29,059.25 million, which accounted for 5.41% of the total revenue of the Group and represented an increase of 20.26% as compared with RMB24,164.34 million for the twelve months ended 31 December 2020. The increase was primarily due to the growth of the retail pharmaceutical market and the expansion of network of the Group's retail pharmacy.

- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB9,820.97 million, representing an increase of 28.35% as compared with RMB7,651.68 million for the twelve months ended 31 December 2020.

Cost of Sales

During the Reporting Period, the cost of sales of the Group was RMB477,000.63 million, representing an increase of 14.64% as compared with RMB416,091.30 million for the twelve months ended 31 December 2020. The increase was primarily due to the increase in the sales revenue of the Group.

Gross Profit

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB44,050.61 million, representing an increase of 9.24% as compared with RMB40,323.31 million for the twelve months ended 31 December 2020. The gross profit margin of the Group for the twelve months ended 31 December 2020 and 2021 were 8.83% and 8.45%, respectively.

Other Income

During the Reporting Period, other income of the Group was RMB589.19 million, representing a decrease of 9.63% as compared with RMB652.00 million for the twelve months ended 31 December 2020. The decrease was primarily due to the decrease in subsidies obtained by the Group from the central and local governments.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were RMB15,437.53 million, representing an increase of 9.16% as compared with RMB14,141.74 million for the twelve months ended 31 December 2020. The increase in selling and distribution expenses was primarily attributable to the Group's enlarged operation scale, business development and its expansion of the coverage of distribution networks through new set-ups and acquisitions of companies and businesses, etc.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group were RMB7,760.99 million, representing an increase of 10.09% as compared with RMB7,049.81 million for the twelve months ended 31 December 2020. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

Operating Profit

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB19,711.98 million, representing an increase of 10.99% from RMB17,759.98 million for the twelve months ended 31 December 2020.

Other Gains – Net

During the Reporting Period, the other net gains of the Group increased to RMB218.42 million from RMB138.88 million for the twelve months ended 31 December 2020. The increase was primarily due to the increase in the gain on disposal of subsidiaries by the Group and fair value remeasurement of existing equity.

Other Expenses

During the Reporting Period, the other expenses of the Group amounted to RMB594.23 million, representing an increase of RMB253.03 million as compared with RMB341.21 million for the twelve months ended 31 December 2020, which was due to the increase of the provision for impairment of intangible assets during the year.

Finance Costs – Net

During the Reporting Period, the finance costs of the Group was RMB3,402.87 million, representing an increase of 15.47% as compared with RMB2,947.02 million for the twelve months ended 31 December 2020. The increase was primarily due to the increase in interest rates under current macroeconomic condition.

Share of Profits and Losses of Associates

During the Reporting Period, the Group's share of profits and losses of associates was RMB1,069.17 million, representing an increase of 8.48% as compared with RMB985.56 million for the twelve months ended 31 December 2020.

Share of Profits and Losses of Joint Ventures

During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB0.70 million, representing a decrease of 63.44% as compared with RMB1.90 million for the twelve months ended 31 December 2020.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were RMB3,938.39 million, representing an increase of RMB437.58 million as compared with RMB3,500.81 million for the twelve months ended 31 December 2020. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate increased to 23.16% during the Reporting Period from 22.44% for the twelve months ended 31 December 2020.

Profit for the Year

As a result of the above-mentioned factors, the profit of the Group for the year of 2021 was RMB13,064.77 million, representing an increase of 8.00% as compared with RMB12,097.29 million for the twelve months ended 31 December 2020. The profit margin of the Group for the twelve months ended 31 December 2021 and 2020 were 2.51% and 2.65%, respectively.

Profit Attributable to Owners of the Parent

During the Reporting Period, profit attributable to owners of the parent was RMB7,758.65 million, representing an increase of 7.95% or RMB571.37 million from RMB7,187.28 million for the twelve months ended 31 December 2020.

Profit Attributable to Non-controlling Interests

During the Reporting Period, profit attributable to non-controlling interests was RMB5,306.13 million, representing an increase of 8.07% or RMB396.11 million from RMB4,910.01 million for the twelve months ended 31 December 2020.

Liquidity and Capital Resources

Working capital

During the Reporting Period, the Group had commercial banking facilities of RMB262,049.14 million, of which approximately RMB151,062.18 million were not yet utilized. As at 31 December 2021, the Group had cash and cash equivalents of RMB43,529.43 million, which primarily comprise cash, bank deposits and income from current operating activities.

Cash flow

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2021 and 2020, respectively:

	2021	2020
	RMB million	*RMB million*
Net cash generated from operating activities	**9,308.09**	11,154.61
Net cash used in investing activities	**(1,266.96)**	(2,202.76)
Net cash generated from/(used in) financing activities	**(14,693.01)**	2,025.85
Increase/(decrease) in cash and cash equivalents	**(6,651.88)**	10,977.70
Cash and cash equivalents at the beginning of the year	**50,178.27**	39,191.97
Foreign exchange gain and loss	**3.04**	8.60
Cash and cash equivalents at the end of the year	**43,529.43**	50,178.27

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy, medical device and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB9,308.09 million, representing a decrease of RMB1,846.52 million from RMB11,154.61 million for the twelve months ended 31 December 2020.

Net cash used in investing activities

During the Reporting Period, the net cash used in investment activities of the Group was RMB1,266.96 million, representing a decrease of RMB935.80 million as compared with RMB2,202.76 million for the twelve months ended 31 December 2020.

Net cash generated from/(used in) financing activities

During the Reporting Period, the net cash used in financing activities of the Group was RMB14,693.01 million. The net cash generated from financing activities of the Group for the twelve months ended 31 December 2020 was RMB2,025.85 million.

Capital Expenditure

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improvement of the level of informatization. The Group's capital expenditures amounted to RMB2,807.27 million and RMB4,585.24 million for the year ended 31 December 2021 and 2020, respectively.

The Group's current plans with respect to its capital expenditures may be modified according to the progress of its operation plans (including changes in market conditions, competition and other factors). As the Group continues to develop, it may incur additional capital expenditure. The Group's ability to obtain additional funding in future is subject to a variety of factors, including its future operational results, financial condition and cash flows, economic, political and other conditions in the mainland China and Hong Kong, and the PRC Government's policies relating to foreign currency borrowings, etc.

Capital Structure

Fiscal resources

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of corporate bonds and super short-term commercial papers, the Group obtained approximately RMB4.00 billion and RMB17.00 billion respectively for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2021, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in United States Dollars ("**USD**") and Hong Kong Dollars ("**HKD**"), and small amount denominated in Euro ("**EUR**"), Australian Dollars ("**AUD**"), Great Britain Pound ("**GBP**"), Swiss Franc ("**CHF**") and Japanese Yen ("**JPY**").

Indebtedness

As at 31 December 2021, the Group had aggregated banking facilities of RMB262,049.14 million, of which RMB151,062.18 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2021, RMB55,151.65 million will be due within one year and RMB8,418.68 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

Gearing ratio

As at 31 December 2021, the Group's gearing ratio was 70.29% (31 December 2020: 71.10%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2021.

Foreign Exchange Risks

The Group's operations are mainly located in the PRC and most of its transactions are denominated and settled in RMB. However, the Group is exposed to foreign exchange risks to some extend on certain cash and cash equivalents, prepayments and other receivables, trade payables and accrued expenses and other payables denominated in foreign currencies, the majority of which are USD, HKD and EUR. During the Reporting Period, the Group has no corresponding hedging arrangements.

Pledge of Assets

As at 31 December 2021, part of the Group's borrowings and bills payable were secured by bank deposits of RMB9,694.53 million, right-of-use assets with book value of RMB7.30 million, investment properties with book value of RMB0.02 million, properties, plant and equipment with book value of RMB17.01 million and trade and bills receivables with book value of RMB2,335.66 million.

Major Acquisitions and Disposals

During the Reporting Period, the Group had no major acquisitions and disposals with respect to subsidiaries, associates and joint ventures.

Major Investment

During the Reporting Period, the Group did not make any major investment.

Going Concern

Based on the current financial forecast and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a going concern basis.

Contingent Liabilities and Material Litigations

As at 31 December 2021, the Group neither had any material contingent liability, nor had any material litigation.

Human Resources

As at 31 December 2021, the Group had a total of 113,234 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of the talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group also conducts periodic performance reviews on its employees and adjusts their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

For remuneration and performance, the Group has established a normative salary management system based on the principle of "performance-oriented compensation, prioritizing efficiency and considering fairness". The Group implements top-down performance assessment to establish a compensation system with position and ability as basis and performance as the cornerstone. The employee remunerations include basic salary, performance remuneration, bonus and piece rate wage. Remuneration is adjusted based on factors such as the results of the corporation, work performance and capability as well as job responsibilities of employees.

The Group follows the performance-oriented principle while giving consideration to balance. The Group adopts a diversified structure and makes dynamic adjustments. For the value created, we distribute the incremental value. We share benefits and risks with our employees. Based on the principle of aligning with market benchmarks and international standards, the Group has adopted a combination of short-term and medium- and long-term incentives to determine Directors' remuneration incentive policies, and designed a compensation structure comprising "basic remuneration, performance-based remuneration, and medium- and long-term incentives". The basic annual salary is the basic fixed income; the performance-based annual salary is the immediate floating income based on the completion of the annual performance goals, which is paid after evaluation; the "medium and long-term incentive" is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share risks with shareholders.

DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 18 March 2022 to propose to distribute a final dividend of RMB0.75 per share (tax inclusive) for the year ended 31 December 2021 (the "**Final Dividend**"), totalling approximately RMB2,340,492,000. If the proposal of profit distribution is approved by shareholders at the 2021 annual general meeting to be held on Thursday, 23 June 2022 (the "**AGM**"), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Monday, 4 July 2022 no later than 23 August 2022.

According to the Articles of Association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen

Hong Kong Stock Connect (the "**Southbound Trading**") (the "**Southbound Trading Shareholders**") will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the calendar week prior to 23 June 2022 (being the date of declaration of the Final Dividend).

For the Southbound Trading Shareholders, the Company will enter into the Agreement on Distribution of Cash Dividends of H Shares for Southbound Trading (港股通H股股票現金紅利派發協議) with China Securities Depository and Clearing Corporation Limited, pursuant to which, the Shanghai Branch and Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, each of which as a nominee of the holders of H shares for Southbound Trading, will receive all the Final Dividend distributed by the Company and distribute the Final Dividend to the relevant Southbound Trading Shareholders through their depositary and clearing systems.

Pursuant to the Enterprise Income Tax Law of the PRC and its implementing regulations (hereinafter collectively referred to as the "**EIT Law**"), the tax rate of the enterprise income tax applicable to the income of non-resident enterprise deriving from the PRC is 10%. For this purpose, any H shares registered under the name of non-individual enterprise, including the H shares registered under the name of HKSCC Nominees Limited, other nominees or trustees, or other organizations or entities, shall be deemed as shares held by non-resident enterprise shareholders as defined under the EIT Law. The Company will distribute the Final Dividend to non-resident enterprise shareholders subject to a deduction of 10% enterprise income tax withheld and paid by the Company on their behalf.

Any resident enterprise as defined under the EIT Law which has been legally incorporated in the PRC or which has established effective administrative entities in the PRC pursuant to the laws of foreign countries (regions) and whose name appears on the register of the members of H shares of the Company should deliver a legal opinion ascertaining its status as a resident enterprise furnished by a PRC lawyer (with the official chop of the issuing law firm affixed thereon) and relevant documents to Computershare Hong Kong Investor Services Limited in due course, if they do not wish to have the 10% enterprise income tax withheld and paid on their behalf by the Company.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document (the "**Notice**") issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Monday, 4 July 2022, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice. If individual H Share shareholders consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, after receiving the dividends, they may proceed with the subsequent tax related treatment in person or through proxy with competent tax authorities of the Company in accordance with requirements under the tax treaties.

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the China Securities Regulatory Commission, for dividends derived by Mainland individual investors from investing in H-share listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware of any shareholders who have waived or agreed to waive any dividends.

DIVIDEND POLICY

The Company has established a dividend policy. Under the PRC Company Law and the Articles of Association, all of our shareholders have equal rights to dividends and distribution. The declaration of dividends is subject to the discretion of the Board and the approval of the shareholders, which the Company expect will take into account factors such as the following:

(i) the Company's financial results;

(ii) the Company's shareholders' interests;

(iii) general business conditions and strategies;

(iv) the Company's capital requirements;

(v) contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;

(vi) taxation considerations;

(vii) possible effects on the Company's credit worthiness;

(viii) statutory and regulatory restrictions; and

(ix) any other factors the Board may deem relevant.

The allocations to the statutory common reserve fund are currently determined to be 10% of the Company's after-tax profit attributable to equity holders of the Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve fund reach 50% of the Company's registered capital, the Company will no longer be required to make allowances for allocation to the statutory common reserve fund.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 June 2022 to Thursday, 23 June 2022 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 17 June 2022. Shareholders whose names appear on the register of members of the Company on Monday, 20 June 2022 shall be entitled to attend the AGM.

The register of members of the Company will be closed from Wednesday, 29 June 2022 to Monday, 4 July 2022 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to receive the Final Dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 28 June 2022. Shareholders whose names appear on the register of members of the Company on Monday, 4 July 2022 shall be entitled to receive the Final Dividend.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company currently consists of five directors: including three independent non-executive directors being Mr. Wu Tak Lung, Mr. Zhuo Fumin and Mr. Li Peiyu and two non-executive directors being Mr. Deng Jindong and Mr. Li Dongjiu. Mr. Wu Tak Lung currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information, reporting process for financial information and risk management and internal control system. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2021.

SCOPE OF WORK OF ERNST & YOUNG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2021 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2021. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CORPORATE GOVERNANCE CODE") SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has adopted all code provisions of the Corporate Governance Code as the code of corporate governance of the Company.

During the Reporting Period, the Company had complied with the code provisions as set out in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE") SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Board has adopted the Model Code as the code of practice for directors and supervisors in respect of their trading in the listed securities of the Company. After making specific enquires with the directors and supervisors, all of them confirmed that they had complied with the requirements for securities trading of directors and supervisors set out in the Model Code during the Reporting Period.

DISCLOSURE OF INFORMATION

The 2021 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://ir.sinopharmgroup.com.cn).

By order of the Board of
Sinopharm Group Co. Ltd.
Yu Qingming
Chairman

Shanghai, the PRC
18 March 2022

As at the date of this announcement, the executive directors of the Company are Mr. Yu Qingming and Mr. Liu Yong; the non-executive directors of the Company are Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Mr. Li Dongjiu and Ms. Feng Rongli; and the independent non-executive directors of the Company are Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr.Wu Tak Lung and Mr. Yu Weifeng.

* *The Company is registered as a non-Hong Kong company under the Hong Kong Companies Ordinance under its Chinese name and the English name "Sinopharm Group Co. Ltd.".*