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**国药集团**  
SINOPHARM

**CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED**  
**中國中藥控股有限公司**

*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 570)**

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**

The board (the “Board”) of directors (the “Directors”) of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021 (the “Reporting Period” or the “Period”):

	<b>Year ended 31 December</b>		
	<b>2021</b>	<b>2020</b>	<b>Change</b>
	<b>RMB'000</b>	<b>RMB'000</b>	
<b>Segment Revenue</b>			
– Concentrated TCM granules	<b>13,233,868</b>	10,012,956	<b>32.2%</b>
– Finished drugs	<b>3,489,336</b>	3,066,883	<b>13.8%</b>
– TCM decoction pieces	<b>1,417,961</b>	1,237,402	<b>14.6%</b>
– TCM healthcare complex	<b>144,580</b>	106,055	<b>36.3%</b>
– Local TCM integrated operation	<b>767,057</b>	382,872	<b>100.3%</b>
<b>Total</b>	<b>19,052,802</b>	14,806,168	<b>28.7%</b>
Gross profit	<b>11,829,163</b>	9,126,075	<b>29.6%</b>
<b>Profit for the year</b>	<b>2,123,424</b>	1,860,644	<b>14.1%</b>
Profit attributable to the owners of the			
Company	<b>1,932,858</b>	1,663,255	<b>16.2%</b>
Earnings per share (RMB cents)	<b>38.38</b>	33.03	<b>16.2%</b>
Proposed final dividend per share (HK cents)	<b>7.36</b>	–	<b>N/A</b>

## **CHAIRMAN’S STATEMENT**

**Dear shareholders,**

Looking back to 2021, the COVID-19 pandemic was still emerging in all parts of the world, coupled with the emergence of virus variant, the global economy was still shrouded in the haze of the pandemic. However, the global economy in 2021 has gradually entered a new normal stage in the post-pandemic era. Under the new economic pattern of dual cycle, China’s gross domestic product has increased by 8.1% compared with 2020, with the speed of economic recovery ahead of other parts of the world.

In March 2021, the fullset of “14th Five-Year” Plan for National Economic and Social Development of the People’s Republic of China and the Outline of Long-term Goals for 2035” was announced, emphasizing the necessity to comprehensively promote the construction of a “Healthy China” and attach equal importance to traditional Chinese and western medicine and complement each other’s advantages to vigorously develop TCM business, perfect the service system of TCM, and give full play to the unique strengths of TCM in disease prevention, treatment and rehabilitation. The state promotes the inheritance, innovation and development of TCM to the national strategic level, pushing it by placing essence inheritance, pursuit of integrity and innovation, and giving full play to the advantages of the characteristics of TCM into the strategy of “Healthy China” as well as into safeguarding people’s health, improving fulfillment, accessibility and satisfaction of TCM, all of which represents a rare opportunity for the high-quality development of TCM industry.

During the fight against the pandemic, TCM has been proved to effectively reduce the incidence rate, progression-to-severity rate and case fatality rate, improve the recovery rate, and make an important contribution to fighting against the pandemic and protecting people’s lives and health. In January 2022, Mr. Huang Luqi, deputy director of the National Administration of Traditional Chinese Medicine, president of the Chinese Academy of Traditional Medical Sciences and academician of the Chinese Academy of Engineering, led a delegation to visit the headquarters of the World Health Organization and submitted the “Traditional Chinese Medicine in the Fight against COVID-19 Evidence-Based Evaluation Report” to Mr. Tedros, Director-General of the World Health Organization, systematically evaluating the effectiveness and safety of TCM with scientific methods, and further promoted the recognition of TCM by the international community.

## **BUSINESS PERFORMANCE**

In 2021, China’s health care reform policies and implementation rules have been issued intensively, which will help to enhance the standardization of the industry and provide a superior macro environment for the transformation and development in various fields of medicine. In this year, faced with various unforgettable challenges, including the impact of the post-pandemic era on the economy and society, the adjustment of relevant policies of the TCM industry, the increase in the price of Chinese medicinal herbs and the end of the pilot project of concentrated TCM granules, the Group took “practicing national TCM development strategy, leading the high-quality development of TCM industry” as its mission, and “all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industrial group” as its vision, significantly improving the main business indicators, and achieving a high starting point in the “14th Five-Year” Plan period. For the year ended 31 December, 2021, the Group’s revenue amounted to RMB19.053 billion, representing an increase of 28.7% as compared with approximately RMB 14.806 billion in 2020.

## **DIVIDENDS**

The Board is pleased to declare the 2021 final dividend of RMB5.98 cents (i.e. HK7.36 cents) per share, together with an interim dividend of RMB5.54 cents (i.e. HK6.66 cents) per share in October 2021, while the annual dividend is RMB11.52 cents (i.e. HK14.02 cents) per share.

## **STRATEGIC PROGRESS**

The nationwide implementation of the “industry chain of TCM healthcare” represents the Group’s greatest feature and advantage. We believe, with the development of the comprehensive supervision of the TCM industry towards legalization, standardization and normalization, the products are of significant competitiveness and diversities due to our extraordinary research and development capabilities. Only TCM enterprises with perfect sales layout and compliant operation can maintain stronger competitiveness and risk resistance capabilities. During the Reporting Period, in order to make full preparation for new changes in the market, the Group unswervingly implemented the “14th Five-Year” Plan strategic plan, actively optimized and improved various strategic measures, continued to increase investment in scientific research and improve internal governance level with concerted efforts in various business segments, achieving its annual goals and tasks as well as laying a solid foundation for sustainable and high-quality development.

## **SUSTAINABLE DEVELOPMENT**

As the core platform of the modern TCM segment under China National Pharmaceutical Group Corporation (“CNPGC”), we always take satisfying the health needs of the people as our intent and purpose, proactively engage in the construction of “Healthy China”, and deeply practice various key tasks proposed by the central government to the inheritance, innovation and development of the TCM industry, for the purpose of all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain and contribution to advancing and guiding the high-quality development of the TCM industry in China. We are committed to promoting changes and setting a good example in the TCM industry, and are willing to work with all walks of life to jointly promote the sustainable development of the industry and society.

In 2021, we paid more attention to the significance of sustainable development and corporate responsibility to the Group’s strategic implementation, and included environmental, social and governance matters into the scope of responsibilities and authorities of the strategic committee of the Board. Details will be set out in our Environmental, Social and Governance Report 2021, which will be published with the Company’s Annual Report 2021 simultaneously.

## **PROSPECTS**

Leveraging the advantages of the industry chain of TCM healthcare, the Group will continue to resolutely contribute to the construction of the Good Agriculture and Collection Practices for Medicinal Plants (“GACP”) bases for Chinese medicinal herb sources, and effectively enhance the autonomous and controllable capacity of the industry and supply chains in order to promote the effective convergence and coordinated operation of upstream and downstream, production, supply and sales. For the sake of increasing its market share and industry influence, the Group will gradually reverse the current situation of low concentration and Gresham’s Law phenomenon in the decoction pieces industry by means of

comprehensively leveraging the regional advantages of various enterprises which produce decoction pieces and actively summarizing the existing experience and advantages. The Group will grasp the opportunity period after the release of the pilot policy of concentrated TCM granules, and give full play to the unique advantages of professional development, leading market share, outstanding innovation capability, high quality and efficiency, and complete industry chain in order to further consolidate and enhance its leading position in the concentrated TCM granules industry. For actively responding to policy changes such as centralized procurement of TCM finished drugs, the Group will work on reforms of the product structure and sales model for TCM finished drugs. Through summarizing and analyzing consumer needs and purchasing behavior by using big data, the Group will contribute to the segmentation of health products and TCM clinics business as well as targeted market selection, and accurately determine product positioning and the construction of service structure to provide products and services that truly meet the needs in the modern consumer market.

## **ACKNOWLEDGEMENT**

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

We also welcome Mr. CHENG Xueren, who has been president of the Company since 3 September 2021 and subsequently joined the Board on 25 March 2022. Mr. CHENG has been deeply engaged in concentrated TCM granules industry for 30 years and fully recognized our development concept of TCM healthcare industry chain. He will lead the Group to continuously strengthen the ability to implement the strategy and proactively optimize the coordination of various segments and further enhance the ability of resource integration and internal governance, striving to make our contribution to the high-quality development of the TCM industry.

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

**WU XIAN**

*Chairman*

Hong Kong, 25 March 2022

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

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

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

### Business Review

In 2021, the Group focused on the development goal of “all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain to create an industry-leading TCM healthcare industrial group”. Combined with the overall situation of the TCM industry and the subdivisions of the Company’s business, we formulated and comprehensively promoted the

“14th Five-Year” strategic plan, constantly strengthened the capability to implement the strategy as well as consolidated the strengths of manufacturing edges. We introduced more investment in scientific research and innovation, actively optimized the coordination of various sectors, and further enhanced the capability of resource integration, enabling us to move closer to the goal of TCM industry leader.

***I. Comprehensively promote the Group’s mission and vision and decompose the strategic planning of the “14th Five-Year” Plan***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(V) *Fruitful scientific research results*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

## POLICY UPDATES

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

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

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

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

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

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

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

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

## **INVESTMENT PROJECTS**

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

## BUSINESS ANALYSIS

### Sales Analysis by Product

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

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

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

1. Revenue of Chinese medicinal herbs integration business was approximately RMB753,006,000, representing an increase of 73.4% as compared to approximately RMB434,181,000 for the last year and accounting for 4.0% of the total revenue. Local TCM integrated operation companies in different provinces of the Group have actively explored and expanded the operation of authentic Chinese medicinal herbs, significantly increasing its external turnover year on year during the Period, especially Shandong Zhongping. Relying on the local advantage of “the hometown of honeysuckle” of Pingyi City, Shandong Province, it has developed honeysuckle-based processing and sales business of authentic Chinese medicinal herbs, increasing its external turnover by 1 time year on year during the Period.
2. The sales of concentrated TCM granules product increased significantly, with a revenue of approximately RMB13,400,064,000, representing an increase of 33.3% as compared to approximately RMB10,053,933,000 for the last year and accounting for 70.3% of the total revenue. It was mainly because: (1) effective academic promotion of concentrated TCM granules and its advantages of quality controllability and convenience compared with conventional TCM products led to continuous increased market recognition and acceptance of the concentrated TCM granules products as well as increased demand from existing customers; (2) complying with the gradual opening-up market policies and the expansion of the sales scope of concentrated TCM

granules products in medical institutions, the Company relied on the depth and breadth of the original marketing channels to achieve rapid acquisition of new customers; (3) the business linkage of various segments of the Group has achieved initial results, and the business synergy of concentrated TCM granules products in the local TCM integrated operation segment and finished drugs segment has also brought new business growth for the sales of concentrated TCM granules products; and (4) demand for concentrated TCM granules products needed to be satisfied at the initial stage of implementation of the national standards.

3. Revenue of TCM decoction pieces products was approximately RMB1,467,420,000, representing an increase of 28.0% as compared to approximately RMB1,146,080,000 for the last year and accounting for 7.7% of the total revenue. The increase in the revenue of TCM decoction pieces products was because: (1) with the maturity of the operation model of intelligent distribution centre of TCM decoction pieces, the decoction business in medical institutions achieved solid growth during the Period; (2) by fulfilling the growth of market demand for health-promoting products, actively developing ranked medical institutions and primary medical institutions through market penetration during the Period, and expanding the customer base, it led to a year-on-year increase in revenue from paste prescription, TCM decoction pieces and processing fees; and (3) the sales channel expansion of customers in the pharmaceutical industry has achieved initial results, and the sales volume and revenue of pharmaceutical decoction pieces for industrial customers has increased compared with the same period last year.
4. Revenue of Finished drugs was approximately RMB3,194,217,000, representing an increase of 5.9% as compared to approximately RMB3,015,016,000 for the last year and accounting for 16.7% of the total revenue. Among which: (1) by promoting the cultivation plan of large varieties of prescription products specification and deepening the development and promotion of hospital customers, we have created various No. 1 brands with product advantages for the treatment of specific diseases, resulting in the increase of revenue of the main prescription products specification; and (2) sales of OTC products specification continued to decline during the Period due to market regulation, which was mainly attributed to the fact that the sales of the Group's core OTC products, such as Bi Yan Kang Tablets (鼻炎康片), Chongcao Qingfei Capsules (蟲草清肺膠囊) and other respiratory products, were affected by the policy of suspension of the sales of "four categories" drugs by drugstores across the country.

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

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

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

## Profit Analysis of Business Segments

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

### 1. Concentrated TCM Granules

*Key financial indicators for the concentrated TCM granules segment*

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

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

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

## 2. *TCM Finished Drugs*

*Key financial indicators for the TCM finished drugs segment*

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

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

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

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

### 3. TCM Decoction Pieces

*Key financial indicators for the TCM decoction pieces segment*

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

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

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

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



#### 4. *TCM Healthcare Complex*

*Key financial indicators for the TCM healthcare complex*

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

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

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

#### 5. *Local TCM Integrated Operation*

*Key financial indicators for the local TCM integrated operation*

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

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	4	19,052,802	14,806,168
Cost of sales		<u>(7,223,639)</u>	<u>(5,680,093)</u>
Gross profit		11,829,163	9,126,075
Other income	6	205,412	254,556
Other gains and losses	7	(16,785)	8,212
Selling and distribution expenses		(7,581,963)	(5,586,737)
Administrative expenses		(974,449)	(707,278)
Research and development expenses		(694,441)	(550,472)
Impairment losses under expected credit loss model, net of reversal	8	<u>(13,879)</u>	<u>(53,725)</u>
PROFIT FROM OPERATIONS		2,753,058	2,490,631
Finance costs		(222,029)	(244,666)
Share of losses of associates		<u>(10,749)</u>	<u>(15,874)</u>
PROFIT BEFORE TAX		2,520,280	2,230,091
Income tax expense	9	<u>(396,856)</u>	<u>(369,447)</u>
<b>PROFIT FOR THE YEAR</b>	10	<u>2,123,424</u>	<u>1,860,644</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income that may be reclassified to profit or loss in subsequent period:			
Fair value loss on debt instruments measured at fair value through other comprehensive income		3,008	(3,266)
Revised of impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		(200)	405
Income tax relating to items that may be reclassified subsequently		<u>514</u>	<u>(380)</u>
<b>OTHER COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR, NET OF TAX</b>		<u>3,322</u>	<u>(3,241)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>2,126,746</u>	<u>1,857,403</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE YEAR ENDED 31 DECEMBER 2021*

	<i>Notes</i>	<b>2021</b> <b><i>RMB'000</i></b>	2020 <i>RMB'000</i>
Profit for the period attributable to:			
Owners of the Company		<b>1,932,858</b>	1,663,255
Non-controlling interests		<u><b>190,566</b></u>	<u>197,389</u>
		<u><b>2,123,424</b></u>	<u>1,860,644</u>
 Total comprehensive income for the period attributable to:			
Owners of the Company		<b>1,935,921</b>	1,660,000
Non-controlling interests		<u><b>190,825</b></u>	<u>197,403</u>
		<u><b>2,126,746</b></u>	<u>1,857,403</u>
 <b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and Diluted (RMB cents)	<i>12</i>	<u><b>38.38</b></u>	<u>33.03</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

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

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

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

### 2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

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

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

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

## New and amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>2</sup></i>
Amendments to HKFRS 17	<i>Insurance Contracts<sup>2, 5</sup></i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current<sup>2, 4</sup></i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies<sup>2</sup></i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates<sup>2</sup></i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction<sup>2</sup></i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>1</sup></i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>1</sup></i>
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 411

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

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

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

### 3. CHANGE IN SIGNIFICANT ACCOUNTING ESTIMATES

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

The management estimates the useful lives of the production protection rights arising from the acquisition of Jiangyin Tianjiang Group based on the expected lifespan of those production protection rights. The useful lives of the production protection rights could change as a result of change in regulatory, commercial and technological environment.



Before year 2021, the production protection rights were considered by the management of the Group as having an indefinite useful life, taking into account the stable track record of industry of Concentrated Traditional Chinese Medicines (“TCM”) granules and the high barrier on entering into the national TCM granules market in the PRC. The product protection intangible mainly comprised the license for manufacturing and sales of concentrated TCM granules under National Pilot Program and knowhows regarding production technology and processes of various concentrated TCM granules (the “Knowhows”),

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

Considering the above, the Board of Directors of the Company approved the changes in accounting estimates with respect to the useful life of the Group’s product protection intangibles from “indefinite” to “10-year”.

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

#### 4. REVENUE

##### (i) Disaggregation of revenue from contracts with customers

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Types of goods or services</b>		
Concentrated TCM granules	13,400,064	10,053,933
Finished drugs	3,194,217	3,015,016
TCM decoction pieces	1,467,420	1,146,080
TCM great health products	93,515	50,903
TCM clinic comprehensive services	144,580	106,055
Chinese medicinal herbs integration business	753,006	434,181
	<u>19,052,802</u>	<u>14,806,168</u>
Total	<u>19,052,802</u>	<u>14,806,168</u>
<b>Geographical markets</b>		
Mainland China	18,952,171	14,718,867
Hong Kong	14,707	20,018
Overseas and others	85,924	67,283
	<u>19,052,802</u>	<u>14,806,168</u>
Total	<u>19,052,802</u>	<u>14,806,168</u>
<b>Timing of revenue recognition</b>		
A point in time	<u>19,052,802</u>	<u>14,806,168</u>

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

###### *Sales of TCM products (revenue recognised at a point in time)*

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

TCM product sales represent the sales value of goods, less estimated discounts. The provision for deduction of estimated income is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Providing a discount to customers is in accordance with the practice of the TCM industry and prime healthcare industry. The Group records discount provision for sales at the time of sale based on the agreed rate.

The Group regularly reviews the estimates and accordingly adjusts provisions.

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

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

## **5. OPERATING SEGMENTS INFORMATION**

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

- (i) concentrated TCM granules segment engages in the manufacture and sales of concentrated TCM granules products, TCM great health products, and TCM decoction pieces. Majority of the revenue of concentrated TCM granules segment is derived from the sales of concentrated TCM granules.
- (ii) TCM finished drugs segment engages in the manufacture and sale of TCM finished drugs, concentrated TCM granules, TCM great health products and TCM decoction pieces. TCM Majority of the revenue of TCM finished drugs segment is derived from the sales of finished drugs.
- (iii) TCM decoction pieces segment mainly engages in the manufacture and sales of TCM decoction pieces and trading of TCM.
- (iv) TCM healthcare complex segment mainly engages in provision of a variety of Chinese medical related healthcare solutions, including Chinese medical consultation and diagnosis, TCM physiotherapy, and prescription with concentrated TCM granules, TCM decoction pieces and TCM great health products.
- (v) Local TCM integrated operation mainly engages in the manufacture and trading of TCM decoction pieces, TCM healthcare products and concentrated TCM granules sourcing from the oriented plantation zones of Chinese raw herbs.

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

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

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

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

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

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

Year ended 31 December 2021	Concentrated TCM granule RMB'000	Finished drugs RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM Integrated operation RMB'000	Elimination RMB'000	Total RMB'000
External customers	13,233,868	3,489,336	1,417,961	144,580	767,057	-	19,052,802
Inter segment sales	291,735	102,288	1,237,612	1,015	641,843	(2,274,493)	-
Reportable segment revenue	<u>13,525,603</u>	<u>3,591,624</u>	<u>2,655,573</u>	<u>145,595</u>	<u>1,408,900</u>	<u>(2,274,493)</u>	<u>19,052,802</u>
<b>Segment results/Net Profit (loss)</b>	<u><b>2,142,510</b></u>	<u><b>233,698</b></u>	<u><b>(70,335)</b></u>	<u><b>(20,815)</b></u>	<u><b>(161,634)</b></u>	<u><b>-</b></u>	<u><b>2,123,424</b></u>
<b>Other segment information:</b>							
Interest income	18,454	41,382	1,487	547	706	-	62,576
Finance cost	(103,685)	(75,163)	(15,730)	(2,036)	(25,415)	-	(222,029)
Share of profits and losses of associates	24	(5,647)	(2,999)	(2,127)	-	-	(10,749)
Depreciation and amortisation	(416,891)	(190,770)	(108,118)	(23,154)	(110,664)	-	(849,597)
Reversal (write down) of inventories	(13,763)	857	(22,103)	(12)	(2,762)	-	(37,783)
Impairment loss on trade and bills receivables	(4,177)	(4,039)	(1,999)	(198)	(3,466)	-	(13,879)
Impairment loss recognised in respect of							
- goodwill	-	(29,779)	-	-	-	-	(29,779)
- right of use assets	-	-	(1,144)	-	-	-	(1,144)
- other intangible assets	-	(1,674)	(591)	-	-	-	(2,265)
- property, plant and equipment	-	(3,024)	(8,967)	(109)	-	-	(12,100)
<b>Segment assets</b>	<u><b>22,575,059</b></u>	<u><b>9,657,201</b></u>	<u><b>3,720,810</b></u>	<u><b>240,779</b></u>	<u><b>3,236,836</b></u>	<u><b>-</b></u>	<u><b>39,430,685</b></u>
Elimination of inter-segment receivables							(3,251,449)
Deferred tax assets							187,469
Unallocated head office and corporate assets							<u>22,563</u>
<b>Consolidated total assets</b>							<u><b>36,389,268</b></u>
<b>Segment liabilities</b>	<u><b>10,039,021</b></u>	<u><b>1,552,921</b></u>	<u><b>1,803,184</b></u>	<u><b>79,272</b></u>	<u><b>1,651,834</b></u>	<u><b>-</b></u>	<u><b>15,126,232</b></u>
Elimination of inter-segment payables							(3,251,449)
Tax liabilities							153,565
Deferred tax liabilities							1,680,204
Unallocated head office and corporate liabilities							<u>19,787</u>
<b>Consolidated total liabilities</b>							<u><b>13,728,399</b></u>

Year ended 31 December 2020 (restated)	Concentrated TCM granule RMB'000	Finished drugs RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM Integrated operation RMB'000	Elimination RMB'000	Total RMB'000
External customers	10,012,956	3,066,883	1,237,402	106,055	382,872	-	14,806,168
Inter segment sales	234,452	82,030	899,255	1,853	295,111	(1,512,701)	-
Reportable segment revenue	10,247,408	3,148,913	2,136,657	107,908	677,983	(1,512,701)	14,806,168
<b>Segment results/Net Profit (loss)</b>	<b>1,743,271</b>	<b>220,566</b>	<b>(36,490)</b>	<b>(8,151)</b>	<b>(58,552)</b>	<b>-</b>	<b>1,860,644</b>
<b>Other segment information:</b>							
Interest income	24,355	18,103	2,319	104	2,809	-	47,600
Finance cost	(164,170)	(61,369)	(10,189)	(1,738)	(7,200)	-	(244,666)
Share of profits and losses of associates	6	(12,711)	(2,086)	(1,083)	-	-	(15,874)
Depreciation and amortisation	(331,855)	(186,751)	(87,761)	(17,389)	(60,323)	-	(684,079)
Reversal/(write down) of inventories	10,040	(12,186)	(8,224)	(20)	(4,943)	-	(15,333)
Impairment loss on trade and bills receivables	(45,027)	(385)	(3,196)	(92)	(5,025)	-	(53,725)
Impairment loss recognised in respect of - goodwill	-	(5,390)	(11,447)	-	-	-	(16,837)
<b>Segment assets</b>	<b>22,331,527</b>	<b>6,355,934</b>	<b>4,229,574</b>	<b>289,822</b>	<b>3,206,802</b>	<b>-</b>	<b>36,413,659</b>
Elimination of inter-segment receivables							(3,515,057)
Deferred tax assets							170,307
Unallocated head office and corporate assets							19,474
<b>Consolidated total assets</b>							<b>33,088,383</b>
<b>Segment liabilities</b>	<b>7,051,430</b>	<b>2,154,857</b>	<b>2,720,889</b>	<b>91,128</b>	<b>1,509,813</b>	<b>-</b>	<b>13,528,117</b>
Elimination of inter-segment payables							(3,515,057)
Tax liabilities							150,828
Deferred tax liabilities							1,710,376
Unallocated head office and corporate liabilities							317,698
<b>Consolidated total liabilities</b>							<b>12,191,962</b>

**(ii) Geographical information and information about major customers**

Analysis of the Group's non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

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

## 6. OTHER INCOME

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

### Notes:

- (i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy.
- (ii) Including government grants and subsidies have been received to compensate for the Group's research and development expenditures, which relate to future costs to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants are recognised in profit or loss when related costs are subsequently incurred and the Group receives government acknowledge of compliance. Other government grants have been received to compensate for the construction of the production line. The subsidies are recognised in profit or loss over the useful lives of the relevant assets.

## 7. OTHER GAINS AND LOSSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Impairment loss recognised in respect of		
– goodwill ( <i>note 13</i> )	(29,779)	(16,837)
– right of use assets	(1,144)	–
– other intangible assets	(2,265)	–
– property, plant and equipment	(12,100)	–
Gain on disposal of property, plant and equipment	24,569	318
Loss on disposal of other intangible assets	(40)	(233)
Fair value changes on financial assets at FVTPL	–	553
Net foreign exchange gain (loss)	765	(1,337)
Others	3,209	25,748
	<u>3,209</u>	<u>25,748</u>
Gains/(losses)	<u>(16,785)</u>	<u>8,212</u>

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

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

## 9. INCOME TAX EXPENSE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax (“EIT”)	431,369	400,933
Underprovision in prior years	<u>12,308</u>	<u>21,783</u>
	443,677	422,716
Deferred tax credit	<u>(46,821)</u>	<u>(53,269)</u>
	<u><b>396,856</b></u>	<u><b>369,447</b></u>

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

## 10. PROFIT FOR THE YEAR

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

\* The write-down of inventories to net realisable valued is included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.



## 11. DIVIDENDS

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Proposed final – HK7.36 cents (2020: Nil) per ordinary share	<u>301,141</u>	<u>–</u>

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

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

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

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

## 12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owner of the Company is based on the following data:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit attributable to the owners of the Company	<u>1,932,858</u>	<u>1,663,255</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>5,035,801</u>	<u>5,035,801</u>

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

### 13. GOODWILL

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

### 14. TRADE AND OTHER RECEIVABLES

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

The Group allows a credit period ranging from 180 to 365 days to trade customers including distributors, hospitals and medical institutions.

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

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

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

## 15. INVENTORIES

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

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

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Carrying amount of inventories sold	<b>7,185,856</b>	5,664,760
Write down of inventories	<b>37,783</b>	15,333
	<b><u>7,223,639</u></b>	<u>5,680,093</u>

## 16. TRADE AND OTHER PAYABLES

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

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

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

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

## **FINANCIAL REVIEW**

### **Other income**

For the twelve months ended 31 December 2021, the Group's other income was approximately RMB205,412,000, representing a decrease of 19.3% from approximately RMB254,556,000 for the previous year. Such decrease was mainly because the Group received government grants of approximately RMB127,971,000 during the Period, representing a decrease of 35.1% from approximately RMB197,067,000 over the previous year. For details, please refer to note 6 under "Notes to the Consolidated Financial Statements".

### **Other gains and losses**

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

### **Impairment losses under expected credit loss model, net of reversal**

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

## **Selling and distribution costs**

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

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

## **Administrative expenses**

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

## **Research and development expenses**

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

## **Finance costs**

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

## **Share of results of associates**

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

## **Profit for the year**

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

## **Earnings per share**

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

## **Liquidity and financial resources**

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

## **Bank and other borrowings and pledge of assets**

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

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

## **Capital sources**

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



## **Capital expenditure**

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

## **Financing capacity**

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

## **Contingent liabilities**

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

## **Financial risk**

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

## **Employees and remuneration policies**

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

## **FINAL DIVIDEND**

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

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company (the “AGM”) will be held at Conference Room, 4th Floor, Winteam Plaza, 6 Kuiqi Second Road, Chancheng District, Foshan City, Guangdong Province, China, on Friday, 24 June 2022 at 2:30 p.m.

## **CLOSURE OF REGISTER OF MEMBERS**

To ascertain the shareholders’ entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 21 June 2022 to Friday, 24 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 20 June 2022.

To ascertain the shareholders’ entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 1 July 2022 to Wednesday, 6 July 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 30 June 2022.

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

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

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2021.

## **COMPLIANCE WITH THE MODEL CODE**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the required standard of Model Code throughout Reporting Period.

## **REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS**

The figures in respect of the Group's results for the year ended 31 December 2021 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors 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 Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

## **AUDIT COMMITTEE**

The primary duties of the audit committee (the "Audit Committee") are to review and supervise the financial reporting process, internal control system and risk management of the Group and to provide advice and comments to the Board. As at the date of this announcement, the Audit Committee comprises five members, four of whom are independent non-executive Directors and one of whom is non-executive Director, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling, Mr. LI Weidong and Mr. YANG Shanhua, and Mr. XIE Rong who has appropriate professional qualifications and experience in accounting matters was appointed as the chairman of the Audit Committee. The Audit Committee has met with the Group's senior management and the auditors to review the Group's audited annual results and the financial statements for the year ended 31 December 2021.

## **PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement is published on the Company's website ([www.china-tcm.com.cn](http://www.china-tcm.com.cn)) and the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The Company's 2021 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the Company's website ([www.china-tcm.com.cn](http://www.china-tcm.com.cn)) and the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

By order of the Board  
**China Traditional Chinese Medicine Holdings Co. Limited**  
**WU Xian**  
*Chairman*

Hong Kong, 25 March 2022

*As at the date of this announcement, the Board comprises twelve Directors, of which Mr. WU Xian and Mr. YANG Wenming are executive Directors; Mr. WANG Xiaochun, Mr. YANG Shanhua, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. KUI Kaipin are non-executive Directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive Directors.*