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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 2022**

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 2022 (the “Reporting Period” or the “Period”):

**RESULTS HIGHLIGHTS**

	Year ended 31 December		Change
	2022	2021	
	RMB'000	RMB'000	
<b>Revenue</b>			
Chinese medicinal herbs integration business	1,272,761	753,006	69.0%
TCM decoction pieces	1,933,386	1,467,420	31.8%
Concentrated TCM granules	7,710,933	13,400,064	-42.5%
TCM finished drugs	3,121,636	3,194,217	-2.3%
TCM great health products	134,202	93,515	43.5%
TCM medical institutions	131,324	144,580	-9.2%
<b>Total</b>	<b>14,304,242</b>	<b>19,052,802</b>	<b>-24.9%</b>
Gross Profit	7,198,452	11,829,163	-39.1%
<b>Profit for the year</b>	<b>720,752</b>	<b>2,123,424</b>	<b>-66.1%</b>
Basic earnings per share (RMB cents)	15.18	38.38	-60.4%
Proposed final dividend per share (HK cents)	5.18	7.36	-29.6%

## CHAIRMAN'S STATEMENT

Dear shareholders,

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

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

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

## **BUSINESS PERFORMANCE**

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

While the industry as a whole is facing with tremendous downward pressure, the Group's key business indicators have declined compared with that of the previous year due to the effect of the policy on the subdivision of concentrated TCM granules. For the year ended 31 December 2022, the revenue was RMB 14.304 billion, representing a decrease of 24.9% compared with RMB19.053 billion in 2021. However, comparing the first half with the second half of the year, the revenue in the second half of 2022 increased by 42.0% compared with the first half of 2022, indicating that the decline trend has been significantly curbed.

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

## **STRATEGIC PROGRESS**

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

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

## **SUSTAINABLE DEVELOPMENT**

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

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

## **PROSPECTS**

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

## **ACKNOWLEDGEMENT**

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

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

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

**CHEN Yinglong**

*Chairman*

Hong Kong, 24 March 2023

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

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

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

## **BUSINESS REVIEW**

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*(I) Continue to invest more in scientific research*

During the Reporting Period, the Group continued to increase its investment in scientific research, with scientific research fund amounted to approximately RMB 612 million, accounting for 4.3% of the revenue in the same period, and exceeding industry average level.

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

As of 31 December 2022, the Group's R&D team has a total of 1,309 employees, including 3 experts entitled with special government allowances from the State Council, 1 leader in science and technology innovation from the "Ten Thousand Talent Plan" of China; 29 professional and technical talents with senior title and 106 professional and technical talents with vice-senior title; 3 postdoctorates, 11 doctors and 164 masters.

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

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

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

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

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

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

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

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

(V) *Fruitful scientific research and innovation results*

During the Reporting Period, the Group’s scientific research and innovation projects yielded fruitful results. The “Formulation of National Standard System of Concentrated TCM Granules and Innovation and Application of Key Technologies” jointly completed by Guangdong Yifang, Jiangyin Tianjiang, Guangdong Medi-World, Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd., Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. and scientific research institutes won the first prize of Sci-Tech Advancement Award of Guangdong Province (廣東省科技進步一等獎). The “Accurate Analysis and Quality Control Key Technologies and Industrialization of the Whole Chain of Lingnan (South of the Five Ridges) Famous and Quality TCM” jointly participated by Guangdong Yifang and Feng Liao Xing Pharmaceutical won the second prize of Scientific Advancement Award of Guangdong Province (廣東省科學進步獎二等獎). The “Construction and Application of High Quality Fuzi (Radix Aconiti) Standardized Production Technology System” participated and completed by Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited won the second prize of Sci-Tech Advancement Award of Sichuan Province (四川省科技進步二等獎). The “Interpretation and Application of the Scientific Connotation of Different Treatment of Raw and Stewed Rheum Officinale” participated by Jiangyin Tianjiang won the second prize of Jiangsu Science and Technology Award of TCM. The invention patent “Nifedipin Extended-release Preparation and its Preparation Method” independently developed by Guangdong Medi-World won the Outstanding Award of the 23rd Patent Awards of China. Guangdong Yifang’s “Key Technologies for the Industrialization of Concentrated TCM Granules” was included in the Leading Technology (biomedical sector) List of “Innovation China”.

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

## OPPORTUNITIES AND CHALLENGES

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

### I. On Chinese medicinal herbs integration business

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

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

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

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

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

## II. On TCM decoction pieces

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

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

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

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

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

### **III. On concentrated TCM granules**

On 10 February 2021, National Medical Products Administration and other three departments jointly issued the “Announcement on Ending the Pilot Scheme of Concentrated TCM Granules” (《關於結束中藥配方顆粒試點工作的公告》), which was officially implemented on 1 November of the same year. The document clearly stipulated the regulatory principles of concentrated TCM granules, qualification of production enterprises, requirements for the use of Chinese medicinal herbs, product processing technology and quality standards, sales scope, medical insurance policy and other aspects, guiding the industry to have a healthy and orderly development.

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

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

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

#### **IV. On TCM finished drugs**

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

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

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

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

## V. On TCM great health products and TCM medical institutions

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

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

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

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

## MAJOR MEASURES IN 2023

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

1. Expand the scale of Chinese medicinal herbs plantation base to ensure Chinese medicinal herbs supply of major products, improve the resources management and control system for Chinese medicinal herbs and comprehensively promote the construction of traceability system;
2. Speed up the market development of the TCM decoction pieces and comprehensively enhance regional market share and competitiveness of the decoction pieces;
3. Systematically accomplish the standard transition of concentrated TCM granules, reinforce its position as a leader in concentrated TCM granules industry with regard to technology research and development, standards transition, techniques improvement, cost control, sales management and other fields;
4. Enhance the management of the synergy mechanism of production and marketing, deepen management reform, enhance medical end-market development and promote the development of OTC, online and new retail business;
5. Strengthen the development and innovation of diversified TCM healthcare products, identify products business models with characteristic to stimulate sales volume growth and brand value promotion;
6. Accelerate in-depth integration of the three business lines, strengthen the construction of specialized departments for specific diseases with regional characteristics, and speed up development of new TCM medical institution project in areas with better TCM basic conditions;
7. Integrate scientific research resources across the industry chain, continue to increase investment in scientific research, and bring into play the leading role of technological innovation;
8. Firmly implement digital transformation strategy, promote the implementation of digitalization and informatization construction projects in the concept of data integration across fields;
9. Continue to optimize Talent Development System with TCM characteristic and improve employer brand influence and exposure, and enhance the ability to attract talents of external market;
10. Enhance brand reputation, and gradually establish strong brand recognition of “Dragon Seal Sino-TCM” that stands for “high-quality Chinese medicinal herbs from main production areas” and “national brand”.

## INVESTMENT PROJECTS

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



## BUSINESS ANALYSIS

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

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

### 1. Chinese medicinal herbs integration business

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

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

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

## 2. TCM decoction pieces

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

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

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

## 3. Concentrated TCM granules

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

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

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

#### 4. TCM finished drugs

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

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

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

## 5. TCM great health products

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

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

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

## 6. TCM medical institutions

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

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

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

*FOR THE YEAR ENDED 31 DECEMBER 2022*

	<i>Notes</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
REVENUE	3	<b>14,304,242</b>	19,052,802
Cost of sales		<u><b>(7,105,790)</b></u>	<u>(7,223,639)</u>
Gross profit		<b>7,198,452</b>	11,829,163
Other income	5	<b>230,010</b>	205,412
Other gains and losses	6	<b>(193,773)</b>	(16,785)
Selling and distribution expenses		<b>(4,604,098)</b>	(7,581,963)
Administrative expenses		<b>(944,404)</b>	(974,449)
Research and development expenses		<b>(611,831)</b>	(694,441)
Impairment losses under the expected credit loss model, net of reversal	7	<u><b>(10,073)</b></u>	<u>(13,879)</u>
<b>PROFIT FROM OPERATIONS</b>		<b>1,064,283</b>	2,753,058
Finance costs		<b>(220,695)</b>	(222,029)
Share of losses of associates		<u><b>(3,479)</b></u>	<u>(10,749)</u>
<b>PROFIT BEFORE TAX</b>		<b>840,109</b>	2,520,280
Income tax expense	8	<u><b>(119,357)</b></u>	<u>(396,856)</u>
<b>PROFIT FOR THE YEAR</b>	9	<u><b>720,752</b></u>	<u>2,123,424</u>

	<i>Notes</i>	<b>2022</b> <b>RMB'000</b>	2021 RMB'000
<b>OTHER COMPREHENSIVE INCOME</b>			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit plan		<u>1,274</u>	<u>—</u>
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Fair value gain on debt instruments measured at fair value through other comprehensive income		<b>10,791</b>	3,008
Impairment loss reversed for debt instruments at fair value through other comprehensive income included in profit or loss		<b>(939)</b>	(200)
Income tax relating to items that may be reclassified subsequently		<u><b>(1,556)</b></u>	<u>514</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<u><b>9,570</b></u>	<u>3,322</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><b>730,322</b></u>	<u>2,126,746</u>
Profit attributable to:			
Owners of the parent		<b>764,266</b>	1,932,858
Non-controlling interests		<u><b>(43,514)</b></u>	<u>190,566</u>
		<u><b>720,752</b></u>	<u>2,123,424</u>
Total comprehensive income attributable to:			
Owners of the parent		<b>773,114</b>	1,935,921
Non-controlling interests		<u><b>(42,792)</b></u>	<u>190,825</u>
		<u><b>730,322</b></u>	<u>2,126,746</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and Diluted (RMB cents)	<i>11</i>	<u><b>15.18</b></u>	<u>38.38</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>6,764,445</b>	6,659,985
Investment properties		<b>89,751</b>	268,768
Right-of-use assets		<b>1,159,821</b>	1,205,766
Goodwill	<i>12</i>	<b>3,456,313</b>	3,492,184
Other intangible assets		<b>5,874,634</b>	6,257,809
Investments in associates		<b>15,353</b>	18,006
Deposits and prepayments		<b>107,919</b>	96,235
Deferred tax assets		<b>185,029</b>	187,469
		<hr/>	<hr/>
Total non-current assets		<b>17,653,265</b>	18,186,222
<b>CURRENT ASSETS</b>			
Trade and other receivables	<i>13</i>	<b>8,141,891</b>	8,904,939
Inventories	<i>14</i>	<b>6,039,880</b>	5,042,890
Debt instruments at fair value through other comprehensive income (“FVTOCI”)		<b>605,122</b>	1,240,756
Time deposits		–	5,000
Pledged bank deposits		<b>114,729</b>	114,704
Cash and cash equivalents		<b>3,065,054</b>	2,894,757
		<hr/>	<hr/>
Total current assets		<b>17,966,676</b>	18,203,046
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>15</i>	<b>5,232,179</b>	6,236,167
Lease liabilities		<b>16,764</b>	14,996
Contract liabilities		<b>290,677</b>	204,079
Interest-bearing bank and other borrowings		<b>1,255,268</b>	1,140,495
Unsecured notes		<b>3,241,610</b>	1,015,226
Tax payable		<b>66,286</b>	153,565
		<hr/>	<hr/>
Total current liabilities		<b>10,102,784</b>	8,764,528
<b>NET CURRENT ASSETS</b>		<b>7,863,892</b>	9,438,518
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>25,517,157</b>	27,624,740
		<hr/> <hr/>	<hr/> <hr/>

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



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

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

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

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

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

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

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

<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

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

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

### 3. REVENUE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Types of goods or services</b>		
Concentrated TCM granules	7,710,933	13,400,064
TCM finished drugs	3,121,636	3,194,217
TCM decoction pieces	1,933,386	1,467,420
Chinese medicinal herbs integration business	1,272,761	753,006
TCM great health products	134,202	93,515
TCM medical institutions	131,324	144,580
	<u>14,304,242</u>	<u>19,052,802</u>
Total	<u>14,304,242</u>	<u>19,052,802</u>
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Geographical markets</b>		
Chinese Mainland	14,173,919	18,952,171
Hong Kong	26,333	14,707
Overseas and others	103,990	85,924
	<u>14,304,242</u>	<u>19,052,802</u>
Total	<u>14,304,242</u>	<u>19,052,802</u>
<b>Timing of revenue recognition</b>		
At point in time	<u>14,304,242</u>	<u>19,052,802</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 assets are transferred to the customers, the customers have full discretion to use the healthcare products, and there is no unfulfilled obligation that could affect the customers' acceptance of the healthcare products. Transactions are settled by payment from commercial insurance, government's insurance scheme, third-party payment platforms, or directly paid by bank cards or cash from customers.

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

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

The Group regularly reviews the estimates and accordingly adjusts provisions.

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

The Group provides medical diagnosis and health examination services.

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

## **4. OPERATING SEGMENTS INFORMATION**

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

- i. Yi Fang segment mainly engages in the manufacture and sales of concentrated TCM granules ("CTCMG"), TCM healthcare products, and TCM decoction pieces under "Yi Fang" brand. Majority of the revenue of Yi Fang segment is derived from the sales of CTCMG.
- ii. Tian Jiang segment mainly engages in the manufacture and sales of CTCMG, TCM decoction pieces, and TCM healthcare products under "Tian Jiang" brand. The Tianjiang segment also provides a variety of Chinese medical related healthcare solutions, including Chinese medical consultation and diagnosis, TCM physiotherapy, and prescription with concentrated TCM granules, TCM decoction pieces and TCM healthcare product (the "TCM Healthcare Solutions"), through its offline medical institutions under "Tian Jiang" brand. Majority of the revenue of Tian Jiang segment is derived from the sales of CTCMG.
- iii. Tong Ji Tang segment mainly engages in the manufacture and sale of CTCMG, TCM decoction pieces and TCM finished drugs under "Tong Ji Tang" brand. The Tong Ji Tang segment also engages in the manufacture and sale of a wide range of healthcare products in great health industry.
- iv. Medi-World segment mainly engages in the manufacture and sales of TCM finished drugs under various brands, including but not limited to "Medi-world", "De Zhong" and "Feng Liao Xing"; and provision of a variety of TCM Healthcare Solutions through its offline medical institutions under "Feng Liao Xing" brand.

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

Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit or loss from the continuing operations. Adjusted profit or loss from the continuing operations is measured consistently with the Group's profit after tax from continuing operations except that corporate expenses in head office are excluded from such measurement. Revenue, cost of sales, other gains and losses and all types of expenses are allocated to the reportable segments with reference to the transactions incurred by those segments or allocated on a reasonable basis.

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

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

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

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

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

Year ended 31 December 2022	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
<b>Segment revenue</b>						
External customers	5,559,073	4,145,173	1,419,925	3,180,071	-	14,304,242
Intersegment sales	366,410	340,564	336,129	1,263,669	(2,306,772)	-
	<u>5,925,483</u>	<u>4,485,737</u>	<u>1,756,054</u>	<u>4,443,740</u>	<u>(2,306,772)</u>	<u>14,304,242</u>
<b>Segment results</b>	<u><b>300,242</b></u>	<u><b>340,906</b></u>	<u><b>98,862</b></u>	<u><b>17,373</b></u>	<u><b>-</b></u>	<u><b>757,383</b></u>
Reconciliation:						
Other unallocated head office and corporate expenses						(36,631)
<b>Profit for the year</b>						<b>720,752</b>
<b>Other segment information:</b>						
Interest income	17,976	3,392	4,310	41,591	-	67,269
Finance cost	(89,954)	(70,034)	13,881	(74,588)	-	(220,695)
Share of profits and losses of associates	-	25	-	(3,504)	-	(3,479)
Depreciation and amortisation	(457,261)	(372,188)	(105,544)	(164,404)	-	(1,099,397)
Write-down of inventories	1,736	(9,970)	(10,792)	(5,606)	-	(24,632)
Impairment losses under the expected credit loss model, net of reversal	4,587	(15,678)	(1,323)	2,341	-	(10,073)
Impairment loss recognised in respect of						
- goodwill	-	-	-	(35,871)	-	(35,871)
- right of use assets	(12,451)	-	-	-	-	(12,451)
- other intangible assets	(1)	-	-	-	-	(1)
- property, plant and equipment	(134,674)	(401)	-	-	-	(135,075)
<b>As at 31 December 2022</b>						
<b>Segment assets</b>	<u><b>16,480,031</b></u>	<u><b>11,831,102</b></u>	<u><b>5,418,427</b></u>	<u><b>6,787,526</b></u>	<u><b>-</b></u>	<u><b>40,517,086</b></u>
Reconciliation:						
Elimination of intersegment receivables						(6,242,297)
Deferred tax assets						185,029
Corporate and other unallocated assets						<u>1,160,123</u>
<b>Total assets</b>						<u><b>35,619,941</b></u>
<b>Segment liabilities</b>	<u><b>5,951,364</b></u>	<u><b>4,188,718</b></u>	<u><b>1,105,203</b></u>	<u><b>5,002,874</b></u>	<u><b>-</b></u>	<u><b>16,248,159</b></u>
Reconciliation:						
Elimination of inter-segment payables						(6,242,297)
Tax liabilities						66,286
Deferred tax liabilities						1,603,784
Corporate and other unallocated liabilities						<u>997,407</u>
<b>Total liabilities</b>						<u><b>12,673,339</b></u>

<b>Year ended 31 December 2021 (restated)</b>	<b>Yifang RMB'000</b>	<b>Tian Jiang RMB'000</b>	<b>Tong Ji Tang RMB'000</b>	<b>Medi-World RMB'000</b>	<b>Elimination RMB'000</b>	<b>Total RMB'000</b>
<b>Segment revenue</b>						
External customers	8,241,394	6,387,879	1,449,371	2,974,158	–	19,052,802
Intersegment sales	<u>322,548</u>	<u>144,103</u>	<u>336,771</u>	<u>1,210,886</u>	<u>(2,014,308)</u>	<u>–</u>
	<u>8,563,942</u>	<u>6,531,982</u>	<u>1,786,142</u>	<u>4,185,044</u>	<u>(2,014,308)</u>	<u>19,052,802</u>
<b>Segment results</b>	<u><u>1,214,209</u></u>	<u><u>820,241</u></u>	<u><u>140,007</u></u>	<u><u>13,391</u></u>	<u><u>–</u></u>	<u><u>2,187,848</u></u>
Reconciliation:						
<b>Other unallocated head office and corporate expenses</b>						(64,424)
<b>Profit for the period</b>						2,123,424
<b>Other segment information:</b>						
Interest income	14,311	5,144	3,888	39,233	–	62,576
Finance cost	(88,118)	(67,543)	11,579	(77,947)	–	(222,029)
Share of profits and losses of associates	–	24	–	(10,773)	–	(10,749)
Depreciation and amortisation	(344,428)	(275,895)	(96,724)	(132,550)	–	(849,597)
Write-down of inventories	(10,161)	(8,807)	(2,583)	(16,232)	–	(37,783)
Impairment losses under the expected credit loss model, net of reversal	4,020	(15,227)	1,890	(4,562)	–	(13,879)
Impairment loss recognised in respect of						
– goodwill	–	–	(18,558)	(11,221)	–	(29,779)
– right of use assets	–	–	–	(1,144)	–	(1,144)
– other intangible assets	–	–	–	(2,265)	–	(2,265)
– property, plant and equipment	–	(1,539)	–	(10,561)	–	(12,100)
<b>As at 31 December 2021 (restated)</b>						
<b>Segment assets</b>	<u>17,032,686</u>	<u>12,156,638</u>	<u>5,271,859</u>	<u>6,769,331</u>	<u>–</u>	<u>41,230,514</u>
Reconciliation:						
Elimination of intersegment receivables						(5,713,420)
Deferred tax assets						187,469
Corporate and other unallocated assets						<u>684,705</u>
<b>Total assets</b>						<u><u>36,389,268</u></u>
<b>Segment liabilities</b>	<u>6,280,154</u>	<u>4,507,458</u>	<u>1,043,606</u>	<u>5,056,694</u>	<u>–</u>	<u>16,887,912</u>
Reconciliation:						
Elimination of inter-segment payables						(5,713,420)
Tax liabilities						153,565
Deferred tax liabilities						1,680,204
Corporate and other unallocated liabilities						<u>720,078</u>
<b>Total liabilities</b>						<u><u>13,728,339</u></u>

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

Analysis of the Group's non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in Chinese mainland, no geographical information as required by HKFRS 8 Operating Segments is presented.

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2022 and 2021.

**5. OTHER INCOME**

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

*Notes:*

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



## 6. OTHER GAINS AND LOSSES

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

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

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

## 8. INCOME TAX EXPENSE

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current tax:		
Enterprise income tax (“EIT”)	189,400	431,369
Underprovision in prior year	5,493	12,308
	<u>194,893</u>	<u>443,677</u>
Deferred tax credit	(75,536)	(46,821)
	<u>119,357</u>	<u>396,856</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.

## 9. PROFIT FOR THE YEAR

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

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

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

## 10. DIVIDENDS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Proposed final – HK 5.18 cents (2021: HK7.36 cents) per ordinary share	<u>229,280</u>	<u>301,141</u>

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

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

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

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

## 11. EARNINGS PER SHARE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit attributable to ordinary equity holders of the parent	<u>764,266</u>	<u>1,932,858</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 2022 and 2021 were presented as there were no potential ordinary shares in issue for both 2022 and 2021.

## 12. GOODWILL

	2022 <i>RMB'000</i>	2021 <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	(76,800)	(47,021)
Impairment loss recognised for the year	<u>(35,871)</u>	<u>(29,779)</u>
At 31 December	<u>(112,671)</u>	<u>(76,800)</u>
<b>CARRYING VALUES</b>		
At 31 December	<u>3,456,313</u>	<u>3,492,184</u>

## 13. TRADE AND OTHER RECEIVABLES

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

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

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

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

#### 14. INVENTORIES

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

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

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Carrying amount of inventories sold	<b>7,081,158</b>	7,185,856
Write down of inventories	<b>24,632</b>	37,783
	<b><u>7,105,790</u></b>	<u>7,223,639</u>

## 15. TRADE AND OTHER PAYABLES

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

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

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

## **FINANCIAL REVIEW**

### **Other income**

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

### **Other gains and losses**

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

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

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

### **Selling and distribution costs**

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

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

## **Administrative expenses**

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

## **Research and development expenses**

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

## **Finance costs**

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

## **Share of results of associates**

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



## **Profit for the year**

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

## **Earnings per share**

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

## **Liquidity and financial resources**

As at 31 December 2022, the Group's current assets amounted to approximately RMB17,966,676,000 (31 December 2021: approximately RMB18,203,046,000), which included cash, cash equivalents and bank deposits of approximately RMB3,179,783,000 (31 December 2021: approximately RMB3,014,461,000), of which the pledged bank deposits amounted to approximately RMB14,729,000, mainly for bills payable security (31 December 2021: approximately RMB14,704,000). Trade and other receivables amounted to approximately RMB8,141,891,000 (31 December 2021: approximately RMB8,904,939,000). Current liabilities amounted to approximately RMB10,102,784,000, representing an increase as compared with approximately RMB8,764,528,000 as at 31 December 2021, which was mainly due to the reclassification of approximately RMB2,239,344,000 in three-year medium-term notes due within one year into current liabilities; and the year-on-year decrease of approximately RMB1,003,988,000 in trade and other payables resulting from the year-on-year decrease in sales scale. Net current assets aggregated to approximately RMB7,863,892,000 (31 December 2021: approximately RMB9,438,518,000). The Group's current ratio was 1.8 (31 December 2021: 2.1). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity holders of the Company) decreased from 25.2% as at 31 December 2021 to 24.6%.

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

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

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

## **Capital sources**

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

## **Capital expenditure**

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

## **Financing capacity**

As at 31 December 2022, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB153,576,000 (31 December 2021: approximately RMB1,008,011,000). Such capital commitments were mainly used for the construction of plants and purchase of production facilities. The Group is of the view that with available cash balance, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and recognition and support from major financial institutions, it will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

## **Contingent liabilities**

The Group did not have any material contingent liabilities as at 31 December 2022 (31 December 2021: nil).

## **Financial risk**

The Group mainly operates in Chinese mainland, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 31 December 2022, the Group had no Hong Kong Dollar bank borrowings. As at 31 December 2022, the Group did not hold or enter into new forward foreign exchange contracts. In the future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

## **Employees and remuneration policies**

As at 31 December 2022, the Group had a total of 17,662 (31 December 2021: 17,098) employees, including Directors, of which 6,155 were sales staff, 7,008 were manufacturing staff, and 4,499 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration for the Reporting Period was approximately RMB2,168,604,000 (twelve months ended 31 December 2021: RMB2,067,452,000).

## **FINAL DIVIDEND**

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

## **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 Tuesday, 30 May 2023 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 Wednesday, 24 May 2023 to Tuesday, 30 May 2023, 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 Tuesday, 23 May 2023.

To ascertain the shareholders’ entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 6 June 2023 to Wednesday, Thursday, 8 June 2023, 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 Monday, 5 June 2023.

## **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 2022.

## **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 2022 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 four members who are independent non-executive Directors, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong, 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 2022.

## **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 2022 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**  
**CHEN Yinglong**  
*Chairman*

Hong Kong, 24 March 2023

*As at the date of this announcement, the Board comprises twelve Directors, of which Mr. CHEN Yinglong, Mr. CHENG Xueren and Mr. YANG Wenming are executive Directors; Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan, Mr. MENG Qingxin 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.*