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# 國藥控股股份有限公司 SINOPHARM GROUP CO. LTD.\*

*(A joint stock limited company incorporated in the People's Republic of China with limited liability and carrying on business in Hong Kong as 國控股份有限公司)*  
(Stock Code: 01099)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “**Board**”) of Sinopharm Group Co. Ltd. (the “**Company**” or “**Sinopharm**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) prepared under the Hong Kong Financial Reporting Standards (“**HKFRSs**”) for the year ended 31 December 2022 (the “**Reporting Period**”).

### CHAIRMAN’S STATEMENT

The much-watched National People’s Congress (NPC) and Chinese People’s Political Consultative Conference (CPPCC) have just concluded, and the government has drawn a blueprint for China’s economic development in the post-pandemic era, New emerging industries such as biopharmaceuticals, high-end equipment, modern logistics are elevated to new heights in the Report on the Work of the Government (2023). With the overall improvement of the pandemic prevention and control situation and the smooth and regular management of measures against the “Class B infectious diseases” in China, we believe that the pharmaceutical industry will enter the road of rapid development, and China’s economy will also usher in a more stable development.

In 2022, the China’s economy had made extraordinary achievements. It was also a year in which everyone in the Group was united, faced difficulties, courageously shouldered missions as one, and moved forward under pressure. We focused on the annual goals and tasks, overcame difficulties and took the initiative to maintain a good trend of overall stable operation and steady growth of scale and benefits. The Group’s annual revenue exceeded RMB550 billion, with both net profit and net profit attributable to the parent company achieving nearly 10% growth, successfully achieving all annual performance targets and steadily increasing its market share. In 2022, the Group was ranked 24th on the Fortune 500 China list, ranking first in the pharmaceutical industry and further consolidating its leading position in the industry.

**We have come a long way and encountered countless challenges along the way.** As a pioneer and practitioner of mixed-ownership reform, we have always played an exemplary and leading role in the pharmaceutical distribution industry in China and provided our shareholders with continuous and steady development and growth. Looking back to the past 20 years, we have weathered the storms and overcome the obstacles of profound changes and policy adjustments in the pharmaceutical industry as well as the painful period of reform, we embraced changes and created a new situation. Since our revenue exceeded RMB100 billion in 2011, we have jumped four consecutive steps of RMB100 billion to the current level of over RMB550 billion in just 10 years, fully demonstrating the Group's tremendous growth potential and development momentum. As of the end of the Reporting Period, the Group's net profit exceeded RMB14 billion, and we are insisting on sharing the results of corporate development with our investors.

**By sticking to our original beliefs consistently, we are sure to succeed in the end.** All for health, health for all, and putting people first and life first, is our noble mission, and also our original intention. As a central government-owned enterprise and a major enterprise in the pharmaceutical industry, in 2022, the Group vigorously promoted entrepreneurship and undertook the mission of pandemic prevention and control. As a central medical reserve entity, we have fully utilized the advantages of having "strong distribution sites and a smooth distribution network covering the whole country", coordinated trans-provincial allocation of key medical materials, and supported areas suffering from severe pandemics in a timely manner. More than 10,000 retail pharmacies across the country has supplied pandemic prevention materials at stable prices, the Group have supplied more than 4 billion pieces of pandemic prevention materials for the whole country, building a strong line of defense against the pandemic. Besides, the Group actively responds to the national call for "green development" and always insists on innovative development, green development and high-quality development. With outstanding performance, the Group's governance achievement in the field of sustainable development was highly recognized by international authoritative index agencies as well as domestic government agencies and financial and economic media in 2022, and received a number of authoritative awards in ESG areas, the Group's green development has ushered in new opportunities while brand reputation has continued to improve.

**The one who understands the trend and who masters the trend wins and achieves the goals.** The Group keeps pace with the development of China's pharmaceutical industry and actively carries out benchmarking world-class management and improvement actions. We focus on the Healthy China initiative, firmly grasp the primary task of high-quality development, continuously promote the optimization of our business structure, with the leading scale of medical device distribution and retail pharmacy in China. We have further increased investment in research and innovation, made new breakthroughs in industrial development, and accelerated and upgraded digital transformation. We have implemented organizational changes around key businesses to optimize our vertical management and control model. We have accelerated resource integration and deepened regional integration to lay a solid foundation for sustainable high-quality development of enterprises. The Board of Directors of the Group fully plays its role in "setting strategy, making decisions and preventing risks", highlights top-level design, and continues to strengthen the strategic research and judgment of specialized segments such as logistics, medical device, retail pharmacy, chemical reagent and comprehensive health, in order to grasp the development trend. The Group focuses on the independent role of independent non-executive directors and strives build a board team of "specialization and diversity" and a board culture

of “equality and respect, harmony and independent opinions”, and the level of corporate governance continues to improve. The market-oriented operation mechanism of the Group has been continuously improved, the tenure system and contractual management of management members have been carried out in an orderly manner, the construction of talent team has continued to be strengthened and the talent planning system has been further improved. In the future, the motivation for Sinopharm the Group to transform and upgrade would be even stronger.

In 2023, on the occasion of the 20th anniversary of the establishment of the Group, the complex and changeable external environment puts forward higher requirements for the Group’s operating quality and risk resistance capacity. The Group will continue to adhere to taking the “14th Five-Year Plan” development strategy as a guide, benchmark the world-class enterprises, and build a leading brand of modern pharmaceutical listed companies with the general idea of focusing on the main business, value enhancement, technology empowerment, innovation-driven and high-quality development.

**Great accomplishments require ambition and tireless effort.** In 2023, we will focus on high position, broader perspective and high standards, take value creation as the key starting point, deeply study the strategic layout of retail pharmacy, medical device, logistics, chemical reagent, comprehensive health and other segments, give play to the leading advantage of the Company in the pharmaceutical circulation industry, and continuously enhance the Company’s value creativity and international competitiveness. We will accelerate the green transformation, actively respond to the national strategy of “carbon neutrality and carbon emission peaking”, and strive to promote the coordination and unity of economic development and environmental friendliness. We will continue to pay attention to the effectiveness of the integration of the concept of sustainable development with the Company’s strategy and governance system, and promote the green development strategy of logistics. We will persist in innovation-driven, unswervingly run through the goal of high-quality development, continue to strengthen the main business, intensify the scientific research and development, deepen the construction of innovative systems and mechanisms, increase the introduction of high-level talents, promote the innovation of business models, and strive to create the new industrial advantages. We will further promote the digital transformation, build the Company’s core competitiveness, aim at building the brand-new pharmaceutical and healthcare digital industry ecology, empower pharmaceutical services in a digital way, and stimulate the Company’s vitality and potential. We will continue to strengthen risk prevention, ensure the safety of funds, promote operations in compliance with laws and regulations, strictly control the lifeline of quality and accelerate the Company’s high-quality development.

**Striving for 20 years, the Group is full of vigor and vitality.** The year 2023 is not only a milestone in the development history of the Group, but also a new starting point for the further development of the Group’s people. I would like to express my heartfelt gratitude to all shareholders and members from all walks of life for your long-term trust and support to Sinopharm on behalf of the Board of Directors and all employees of the Company. We will surely lead all management and employees of the Group to forge ahead, make progress and fully sprint with more enthusiasm, high morale and sufficient energy, and make full efforts to repay shareholders, customers, society and employees with sustainable, healthy and high-quality enterprise development in the future. Look forward to working with you to witness every step of the growth of the Group!

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***(All amounts in Renminbi thousand unless otherwise stated)***YEAR ENDED 31 DECEMBER 2022**

	<i>Notes</i>	<b>2022</b>	2021
Revenue	4	<b>552,147,550</b>	521,051,235
Cost of sales	8	<u><b>(504,713,490)</b></u>	<u>(477,000,627)</u>
<b>Gross profit</b>		<b>47,434,060</b>	44,050,608
Other income	5	<b>676,163</b>	589,193
Selling and distribution expenses	8	<b>(16,719,561)</b>	(15,437,533)
Administrative expenses	8	<b>(8,183,559)</b>	(7,760,993)
Impairment losses on financial and contract assets	6	<b>(666,467)</b>	(598,478)
Losses on disposal of financial assets measured at amortised cost		<u><b>(1,936,170)</b></u>	<u>(1,130,821)</u>
<b>Operating profit</b>		<b>20,604,466</b>	19,711,976
Other gains – net	7	<b>122,198</b>	218,420
Other expenses	7	<b>(39,920)</b>	(594,233)
Finance income		<b>542,767</b>	558,562
Finance costs		<b>(3,732,759)</b>	(3,961,431)
Finance costs – net	10	<b>(3,189,992)</b>	(3,402,869)
Share of profits and losses of:			
Associates		<b>1,064,155</b>	1,069,173
Joint ventures		<u><b>2,912</b></u>	<u>695</u>
		<b>1,067,067</b>	1,069,868
<b>Profit before tax</b>		<b>18,563,819</b>	17,003,162
Income tax expense	11	<u><b>(4,218,377)</b></u>	<u>(3,938,389)</u>
<b>Profit for the year</b>		<u><b>14,345,442</b></u>	<u>13,064,773</u>

	<i>Notes</i>	<b>2022</b>	2021
<b>Attributable to:</b>			
Owners of the parent		<b>8,525,655</b>	7,758,646
Non-controlling interests		<u><b>5,819,787</b></u>	<u>5,306,127</u>
		<u><b>14,345,442</b></u>	<u>13,064,773</u>
<b>Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)</b>			
– Basic and diluted	<i>12</i>	<u><b>2.73</b></u>	<u>2.49</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi thousand unless otherwise stated)

YEAR ENDED 31 DECEMBER 2022

	Notes	2022	2021
<b>Profit for the year</b>		<b>14,345,442</b>	13,064,773
<b>Other comprehensive income/(loss):</b>			
<i>Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurements of post-employment benefit obligations	11	(10,478)	(8,943)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value	11	(13,694)	(4,994)
Income tax effect	11	<u>3,388</u>	<u>1,248</u>
Fair value changes on financial asset, net of tax		(10,306)	(3,746)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(20,784)	(12,689)
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		11,513	3,049
Share of other comprehensive income/(loss) of associates		<u>3,226</u>	<u>(2,061)</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		<u>14,739</u>	<u>988</u>
<b>Other comprehensive loss for the year, net of tax</b>		<u>(6,045)</u>	<u>(11,701)</u>
<b>Total comprehensive income for the year</b>		<u><b>14,339,397</b></u>	<u>13,053,072</u>
<b>Attributable to:</b>			
– Owners of the parent		8,524,434	7,750,366
– Non-controlling interests		<u>5,814,963</u>	<u>5,302,706</u>
		<u><b>14,339,397</b></u>	<u>13,053,072</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in Renminbi thousand unless otherwise stated)

31 DECEMBER 2022

	Notes	2022	2021
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets		7,030,398	6,983,410
Investment properties		538,338	588,366
Property, plant and equipment		12,616,766	12,424,342
Intangible assets		10,170,919	10,391,727
Investments in joint ventures		20,233	27,002
Investments in associates		8,967,418	8,387,677
Equity investments designated at fair value through other comprehensive income		57,381	81,045
Financial assets at fair value through profit or loss		795,428	688,555
Finance lease receivables		5,862	11,816
Deferred tax assets		1,979,743	1,787,093
Other non-current assets		3,186,266	3,119,147
Total non-current assets		45,368,752	44,490,180
<b>Current assets</b>			
Inventories		60,925,831	51,499,625
Trade and bills receivables	13	169,753,132	171,389,603
Contract assets		1,447,162	1,184,017
Prepayments, other receivables and other assets		20,016,358	13,611,275
Financial assets at fair value through profit or loss		498	11,749
Finance lease receivables		3,778	1,915
Pledged deposits and restricted cash		12,037,999	9,694,529
Cash and cash equivalents		55,221,624	43,529,428
Total current assets		319,406,382	290,922,141
<b>Total assets</b>		<b>364,775,134</b>	<b>335,412,321</b>

	<i>Notes</i>	<b>2022</b>	2021
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		<b>3,120,656</b>	3,120,656
Treasury shares held for share incentive scheme		<b>(3,838)</b>	(3,838)
Reserves		<b>64,951,741</b>	58,769,197
		<b>68,068,559</b>	61,886,015
<b>Non-controlling interests</b>		<b>42,000,631</b>	37,767,920
<b>Total equity</b>		<b>110,069,190</b>	99,653,935
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest-bearing bank and other borrowings		<b>11,750,433</b>	8,418,680
Lease liabilities		<b>3,206,560</b>	3,249,870
Deferred tax liabilities		<b>936,744</b>	1,022,792
Post-employment benefit obligations		<b>380,713</b>	387,697
Contract liabilities		<b>96,418</b>	56,750
Other non-current liabilities		<b>3,372,119</b>	3,316,048
<b>Total non-current liabilities</b>		<b>19,742,987</b>	16,451,837
<b>Current liabilities</b>			
Interest-bearing bank and other borrowings		<b>52,997,246</b>	55,151,650
Lease liabilities		<b>1,635,947</b>	1,548,046
Trade and bills payables	<i>14</i>	<b>137,085,061</b>	128,431,227
Contract liabilities		<b>10,396,326</b>	6,085,953
Accruals and other payables		<b>30,889,733</b>	26,229,755
Dividends payable		<b>255,386</b>	246,214
Tax payable		<b>1,703,258</b>	1,613,704
<b>Total current liabilities</b>		<b>234,962,957</b>	219,306,549
<b>Total liabilities</b>		<b>254,705,944</b>	235,758,386
<b>Total equity and liabilities</b>		<b>364,775,134</b>	335,412,321



## NOTES:

*(All amounts in Renminbi thousand unless otherwise stated)*

### 1 GENERAL INFORMATION

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

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

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

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

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

These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand, unless otherwise stated. These financial statements were approved for issue by the Board of Directors on 24 March 2023.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets which have been measured at fair value.

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments 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>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the “**Conceptual Framework**”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

- (d) Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that is applicable to the Group are as follows:

Amendments to HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

### 3 SEGMENT INFORMATION

Management has determined the operating segments based on the Group's business types, overall strategic planning, internal organisational structure and management requirements. The reportable operating segments derive their revenue primarily from the following four business types:

- (i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;
- (ii) Medical device – distribution of medical devices, and installation and maintenance services;
- (iii) Retail pharmacy – operation of chain pharmacy stores;
- (iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

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

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

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

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

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

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

The segment information is as follows:

**(i) Years ended 31 December 2022 and 2021**

	Pharmaceutical distribution RMB'000	Medical device RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
<b>Year ended 31 December 2022</b>						
<b>Segment results</b>						
External segment revenue	391,779,322	119,606,321	32,402,986	8,358,921	-	552,147,550
Inter-segment revenue	<u>14,824,211</u>	<u>1,245,158</u>	<u>576,350</u>	<u>1,850,203</u>	<u>(18,495,922)</u>	<u>-</u>
Revenue	<u>406,603,533</u>	<u>120,851,479</u>	<u>32,979,336</u>	<u>10,209,124</u>	<u>(18,495,922)</u>	<u>552,147,550</u>
Operating profit	12,937,862	5,082,860	816,622	1,783,247	(16,125)	20,604,466
Other gains – net	113,681	3,087	(342)	5,772	-	122,198
Other expenses	(6,527)	5,558	-	(38,951)	-	(39,920)
Share of profits and losses of associates and joint ventures	<u>28,313</u>	<u>(5,191)</u>	<u>2,058</u>	<u>1,041,887</u>	<u>-</u>	<u>1,067,067</u>
	<u>13,073,329</u>	<u>5,086,314</u>	<u>818,338</u>	<u>2,791,955</u>	<u>(16,125)</u>	<u>21,753,811</u>
Finance costs – net						<u>(3,189,992)</u>
Profit before tax						18,563,819
Income tax expense						<u>(4,218,377)</u>
Profit for the year						<u>14,345,442</u>
<b>Other segment items included in the consolidated statement of profit or loss</b>						
Provision for impairment of financial and contract assets	321,484	302,844	41,144	995		666,467
Provision/(reversal of provision) for prepayment	(11,463)	(4,388)	14	(29)		(15,866)
Provision for impairment of inventories	5,773	5,432	9,971	232		21,408
Provision for impairment of property, plant and equipment	2,019	-	-	-		2,019
Provision for impairment of intangible assets	40,270	99	15,417	-		55,786
Depreciation of property, plant and equipment	1,154,290	316,839	241,979	31,290		1,744,398
Depreciation of investment properties	14,717	22,211	1,158	2,658		40,744
Depreciation of right-of-use assets	683,890	282,504	967,361	55,461		1,989,216
Amortisation of intangible assets	<u>343,194</u>	<u>-</u>	<u>47,324</u>	<u>143</u>		<u>390,661</u>
Capital expenditures	<u>1,452,420</u>	<u>667,084</u>	<u>255,812</u>	<u>107,119</u>		<u>2,482,435</u>

**(i) Years ended 31 December 2022 and 2021 (continued)**

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

**(ii) As at 31 December 2022 and 2021**

	Pharmaceutical distribution RMB'000	Medical device RMB'000	Retail pharmacy RMB'000	Other business RMB'000	Eliminations RMB'000	Group RMB'000
<b>As at 31 December 2022</b>						
<b>Segment assets and liabilities</b>						
Segment assets	259,104,636	85,760,800	16,335,878	20,677,359	(19,083,282)	362,795,391
Segment assets include:						
Investments in associates and joint ventures	291,640	100,688	25,153	8,570,170	-	8,987,651
Unallocated assets – Deferred tax assets						<u>1,979,743</u>
Total assets						<u><u>364,775,134</u></u>
Segment liabilities	<u>122,666,554</u>	<u>67,358,860</u>	<u>13,265,540</u>	<u>5,370,788</u>	<u>(19,640,221)</u>	<u>189,021,521</u>
Unallocated liabilities – Deferred tax liabilities and borrowings						<u>65,684,423</u>
Total liabilities						<u><u>254,705,944</u></u>
<b>As at 31 December 2021</b>						
<b>Segment assets and liabilities</b>						
Segment assets	245,710,000	70,506,523	15,728,086	19,806,913	(18,126,294)	333,625,228
Segment assets include:						
Investments in associates and joint ventures	280,446	105,892	25,097	8,003,244	-	8,414,679
Unallocated assets – Deferred tax assets						<u>1,787,093</u>
Total assets						<u><u>335,412,321</u></u>
Segment liabilities	<u>120,319,819</u>	<u>50,490,205</u>	<u>13,213,469</u>	<u>5,812,660</u>	<u>(18,670,889)</u>	<u>171,165,264</u>
Unallocated liabilities – Deferred tax liabilities and borrowings						<u>64,593,122</u>
Total liabilities						<u><u>235,758,386</u></u>

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

## Information about major customers

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

### 4 REVENUE

An analysis of revenue is as follows:

	2022	2021
<i>Revenue from contracts with customers</i>		
Sales of goods	548,707,089	518,392,214
Consulting income	1,171,419	980,020
Logistics service income	1,446,497	914,603
Franchise fee and other service fee	161,860	181,507
Import agency income	82,284	64,307
Others	310,094	254,024
<i>Revenue from other sources</i>		
Operating lease income	268,307	264,560
	<u>552,147,550</u>	<u>521,051,235</u>

#### Revenue from contracts with customers

#### *Disaggregated revenue information*

For the year end 31 December 2022

Segments	Pharmaceutical distribution	Medical device	Retail pharmacy	Others	Total
<b>Type of goods or services</b>					
Sale of goods	389,877,781	119,131,232	31,439,720	8,258,356	548,707,089
Services and others	<u>1,901,541</u>	<u>475,089</u>	<u>694,959</u>	<u>100,565</u>	<u>3,172,154</u>
Total revenue from contracts with customers	<u>391,779,322</u>	<u>119,606,321</u>	<u>32,134,679</u>	<u>8,358,921</u>	<u>551,879,243</u>
<b>Market</b>					
China	<u>391,779,322</u>	<u>119,606,321</u>	<u>32,134,679</u>	<u>8,358,921</u>	<u>551,879,243</u>
<b>Timing of revenue recognition</b>					
Recognised at a point in time	<u>391,779,322</u>	<u>119,606,321</u>	<u>32,134,679</u>	<u>8,358,921</u>	<u>551,879,243</u>

For the year end 31 December 2021

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

Revenue included in the contract liability at the beginning of the Reporting Period will be recognised from performance obligations satisfied in previous periods. RMB6,085,953,000 (2021: RMB7,323,794,000) is recognised in the current year by delivering products and services.

### **Performance obligations**

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

#### ***Sale of goods***

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

#### ***Services and others***

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

## **5 OTHER INCOME**

	2022	2021
Government grants	<u>676,163</u>	<u>589,193</u>

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



## 6 IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS

	2022	2021
Impairment of financial and contract assets – net:		
Trade and bills receivables	<b>393,902</b>	428,185
Contract assets	<b>37,981</b>	17,587
Other receivables	<b>196,725</b>	101,617
Other non-current assets	<b>37,899</b>	38,722
Finance lease receivables	<b>(40)</b>	12,367
	<u><b>666,467</b></u>	<u>598,478</u>

## 7 OTHER GAINS, NET/OTHER EXPENSES

	2022	2021
Write-back of certain liabilities	<b>97,806</b>	88,713
(Loss)/gain on disposal of subsidiaries	<b>(36,376)</b>	1,479
Gain on disposal of investment in an associate	<b>30,479</b>	1,639
Gain on disposal of investment properties, property, plant and equipment and intangible assets	<b>17,217</b>	1,709
Gain on disposal of non-current assets held for sale	–	37,534
Gain on disposal of right-of-use assets	<b>22,265</b>	25,144
Foreign exchange loss – net	<b>(2,388)</b>	(10,506)
Donation	<b>(62,085)</b>	(45,552)
Dividend income from:		
Equity investments at fair value through other comprehensive income	<b>535</b>	947
Equity investments at fair value through profit or loss	<b>12,516</b>	31,038
Fair value gains on financial assets at fair value through profit or loss	<b>13,184</b>	35,521
Others – net	<b>29,045</b>	50,754
	<u><b>122,198</b></u>	<u>218,420</u>
Provision for impairment of intangible assets	<b>(55,786)</b>	(606,862)
Reversal for impairment of prepayment	<b>15,866</b>	12,629
	<u><b>(39,920)</b></u>	<u>(594,233)</u>

## 8 EXPENSES BY NATURE

	2022	2021
Raw materials and trading merchandise consumed	502,621,769	475,026,060
Changes in inventories of finished goods and work in progress	(9,601)	45,394
Employee benefit expenses ( <i>Note 9</i> )	14,714,377	13,445,639
Impairment of inventories – net	21,408	30,434
Lease payments not included in the measurement of lease liabilities	666,358	651,763
Depreciation of property, plant and equipment	1,744,398	1,618,498
Depreciation of investment properties	40,744	51,112
Depreciation of right-of-use assets	1,989,216	1,870,775
Amortisation of intangible assets	390,661	381,673
Auditor’s remuneration		
– statutory audit services	48,846	54,948
– non-statutory audit services	2,322	2,956
– non-audit services	–	80
Advisory and consulting fees	401,976	400,957
Transportation expenses	2,268,813	2,023,979
Travel expenses	229,597	320,010
Market development and business promotion expenses	3,240,758	3,092,649
Utilities	292,982	249,804
Others	951,986	932,422
	<u>529,616,610</u>	<u>500,199,153</u>

## 9 EMPLOYEE BENEFIT EXPENSES

	2022	2021
Salaries, wages, allowances and bonuses	11,528,515	10,631,027
Contributions to pension plans ( <i>i</i> )	1,270,492	1,091,520
Post-employment benefits	6,217	7,295
Housing benefits ( <i>ii</i> )	531,682	469,257
Other benefits ( <i>iii</i> )	1,377,471	1,246,540
	<u>14,714,377</u>	<u>13,445,639</u>

Notes:

- (i) As stipulated by the related regulations in the PRC, the Group makes contributions to state-sponsored retirement schemes for its employees in Mainland China. The Group has also made contributions to another retirement scheme managed by an insurance company from 2011 for its employees of the Company and certain subsidiaries. The Group's employees make monthly contributions to the schemes at approximately 8% (2021: 8%) of the relevant income (comprising wages, salaries, allowances and bonus, and subject to maximum caps), while the Group makes contributions of 12% to 20% (2021: 12% to 20%) of such relevant income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. These retirement schemes are responsible for the entire post-retirement benefit obligations to the retired employees.

Contributions totaling RMB32,572,000 (31 December 2021: RMB10,127,000) were payable to the fund at the year ended 31 December 2022.

There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

- (ii) Housing benefits represent contributions to the government-supervised housing funds in Mainland China at rates ranging from 5% to 12% of the employees' basic salary.
- (iii) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.

## 10 FINANCE INCOME AND COSTS

	2022	2021
Interest expense:		
– Interest-bearing bank and other borrowings	2,738,251	2,874,743
– Discount of bills receivable	593,263	690,232
– Net interest on net defined benefit liability	11,047	11,739
– Lease liabilities	199,303	195,670
	<u>3,541,864</u>	<u>3,772,384</u>
Gross interest expense	3,541,864	3,772,384
Bank charges	212,433	204,596
Less: capitalised interest expense	<u>(21,538)</u>	<u>(15,549)</u>
	<u>3,732,759</u>	<u>3,961,431</u>
Finance costs	<u>3,732,759</u>	<u>3,961,431</u>
Finance income:		
– Interest income on deposits in banks and other financial institutions	(468,209)	(473,850)
– Interest income on long-term deposits	(74,558)	(84,712)
	<u>(542,767)</u>	<u>(558,562)</u>
Net finance costs	<u><u>3,189,992</u></u>	<u><u>3,402,869</u></u>

## 11 TAXATION

	2022	2021
Current income tax	4,479,835	4,237,217
Deferred income tax	<u>(261,458)</u>	<u>(298,828)</u>
	<u><b>4,218,377</b></u>	<u><b>3,938,389</b></u>

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

	2022	2021
Profit before tax	18,563,819	17,003,162
Less: Share of profits and losses of associates and joint ventures	<u>(1,067,067)</u>	<u>(1,069,868)</u>
	<u><b>17,496,752</b></u>	<u><b>15,933,294</b></u>
Tax calculated at the applicable tax rate	4,374,188	3,983,324
Impact of lower tax rates enacted by local authority	(355,064)	(305,511)
Expenses not deductible for tax purposes	196,118	251,868
Income not subject to tax	(9,721)	(13,586)
Tax losses not recognised	39,207	56,207
Tax losses utilised from previous periods	(5,983)	(6,207)
Impact of change in the applicable income tax rate on deferred tax	(2,463)	(3,130)
Adjustments in respect of current tax of previous periods	<u>(17,905)</u>	<u>(24,576)</u>
Income tax expense	<u><b>4,218,377</b></u>	<u><b>3,938,389</b></u>

*Note:*

- (i) During 2022, enterprises incorporated in the PRC are normally subject to enterprise income tax (“EIT”) at the rate of 25%, while certain subsidiaries enjoy preferential EIT at a rate of 15% as approved by the relevant tax authorities or due to their operation in designated areas with preferential EIT policies.
- (ii) Two of the Group’s subsidiaries are subject to Hong Kong profits tax at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2021/2022. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

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

	2022			2021		
	Before tax	Tax credit	After tax	Before tax	Tax credit	After tax
Equity investments at fair value through other comprehensive income	(13,694)	3,388	(10,306)	(4,994)	1,248	(3,746)
Remeasurement of post-employment benefit obligations	<u>(14,125)</u>	<u>3,647</u>	<u>(10,478)</u>	<u>(11,784)</u>	<u>2,841</u>	<u>(8,943)</u>
Total	<u>(27,819)</u>	<u>7,035</u>	<u>(20,784)</u>	<u>(16,778)</u>	<u>4,089</u>	<u>(12,689)</u>

## 12 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares of the Company in issue during the year.

The Group had no potentially dilutive ordinary shares in issue for the years ended 31 December 2022 and 2021.

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

	2022	2021
<b>Earnings</b>		
Profit attributable to equity holders of the parent used in the basic and diluted earnings per share calculation	<u>8,525,655</u>	<u>7,758,646</u>
	<b>Number of shares</b>	
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation ('000)	<u>3,120,656</u>	<u>3,120,656</u>
Basic and diluted earnings per share (RMB per share)	<u>2.73</u>	<u>2.49</u>

### 13 TRADE AND BILLS RECEIVABLES

	2022	2021
Trade receivables	<b>155,578,573</b>	161,397,269
Bills receivable	<u>17,248,559</u>	<u>12,688,236</u>
	<b>172,827,132</b>	174,085,505
Less: Provision for impairment	<u>(3,074,000)</u>	<u>(2,695,902)</u>
	<u><b>169,753,132</b></u>	<u>171,389,603</u>

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

The term of bills receivable are all less than 12 months. Retail sales at the Group's pharmaceutical chain stores are generally made in cash or by debit or credit cards. For pharmaceutical distribution, medical device distribution and pharmaceutical manufacturing businesses, sales are made on credit terms ranging from 30 to 210 days. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the Reporting Period, is as follows:

	2022	2021
Within 1 year	<b>147,857,116</b>	155,827,980
1 to 2 years	<b>4,045,001</b>	2,296,149
Over 2 years	<u>682,725</u>	<u>618,576</u>
	<u><b>152,584,842</b></u>	<u>158,742,705</u>

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

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

	2022	2021
At beginning of year	2,695,902	2,270,882
Acquisition of subsidiaries	38	4,802
Provision for impairment – net	393,902	428,185
Disposal of subsidiaries	(11,633)	–
Amount written off as uncollectible	(4,209)	(7,967)
	<u>3,074,000</u>	<u>2,695,902</u>
At end of year	<u>3,074,000</u>	<u>2,695,902</u>

As at 31 December 2022, bills receivable of RMB121,964,000 (2021: RMB684,104,000) and trade receivable of RMB1,972,621,000 (2021: RMB1,426,548,000) were pledged as collateral for the Group's bank borrowings.

As at 31 December 2022, bills receivable of RMB270,427,000 (2021: RMB225,011,000) were pledged as collateral for the Group's bills payable.

As at 31 December 2022, outstanding trade receivables of RMB59,585,086,000 (2021: RMB32,501,098,000) were derecognised under the trade receivables factoring programs without recourse. The ageing of these derecognised trade receivables was basically within one year. As at 31 December 2022, the collection of such trade receivables on behalf of banks amounting to RMB6,047,315,000 (2021: RMB3,298,853,000) and the collection of such trade receivables on behalf of related parties amounting to RMB1,484,315,000 (2021: RMB1,136,794,000) was recorded in other payables.

#### 14 TRADE AND BILLS PAYABLES

	2022	2021
Trade payables	99,451,067	91,836,652
Bills payable	37,633,994	36,594,575
	<u>137,085,061</u>	<u>128,431,227</u>

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

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

	2022	2021
Within 3 months	98,405,927	96,353,160
3 to 6 months	20,372,122	20,324,578
6 months to 1 year	9,066,377	8,121,952
1 to 2 years	7,104,143	2,199,483
Over 2 years	<u>2,136,492</u>	<u>1,432,054</u>
	<u><b>137,085,061</b></u>	<u>128,431,227</u>

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

	2022	2021
RMB	137,081,555	128,347,607
USD	–	79,941
EUR	221	2,067
JPY	<u>3,285</u>	<u>1,612</u>
	<u><b>137,085,061</b></u>	<u>128,431,227</u>

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

In 2022, accounts payable of RMB577,016,000 (2021: RMB2,936,445,000) were repaid by the banks under this program with the equivalent amount drawn as borrowings. As at 31 December 2022, the balance of bank borrowings related to this program was RMB458,739,000 (2021: RMB513,435,000).

## 15 DIVIDENDS

A final dividend for the year 2021 of RMB0.75 (tax inclusive) per share, based on the total share capital of the Company of 3,120,656,191 ordinary shares, amounting to RMB2,340,492,000 in total, was approved by the shareholders at the annual general meeting of the Company held on 23 June 2022. A final dividend for the year ended 31 December 2022 of RMB0.82 (tax inclusive) per share, based on the total share capital of the Company of 3,120,656,191 ordinary shares, totalling approximately RMB2,558,938,000, is to be proposed at the upcoming annual general meeting according to the resolution passed at the Board meeting held on 24 March 2023. These financial statements have not reflected this proposed dividend.

	2022	2021
Proposed final dividend - RMB0.82 (2021: RMB0.75) per ordinary share	<u><b>2,558,938</b></u>	<u>2,340,492</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

#### *Actively overcame the challenges arising from the pandemic and the macro-economy turned to recovery*

In 2022, facing the challenges brought by the increasingly complicated international environment and pandemic situation, China's economy developed continuously and steadily and completed various difficult domestic reform and development tasks. The economic aggregate of China reached a new level. According to the data released by the National Bureau of Statistics of China, the annual gross domestic product (GDP) in 2022 exceeded RMB121 trillion, up 3.0% compared with 2021.

On a quarterly basis, as compare with same period of last year, GDP in the first quarter grew 4.8%, the second quarter grew 0.4%, the third quarter grew 3.9%, and the fourth quarter grew 2.9%. When compared with the previous quarter, the growth of GDP in the fourth quarter was in line with that of the third quarter. China's economy sustained development against the pressure. After the pandemic was under control in the first half of the year, it showed a reverse recovery, and its economic growth potential and resilience were constantly emerging.

#### *The deepening medical reform promoted the transformation and the industry recovery maintained a sound momentum*

In 2022, with the continuous adjustment and optimization of pandemic prevention and control measures in China, the impact on pharmaceutical and medical device distribution and retail pharmacy business resulting from the recurring outbreak of the pandemic has been gradually mitigated. Under the background of a huge population base, accelerating trend of population aging, medical technology innovation and deepening reform of medical system, the growing demand of the people for pharmaceutical and healthcare services has promoted the overall stabilization and recovery of the pharmaceutical and healthcare industry and accelerated the release of the potential of China's medical and healthcare industry.

With the expansion and deepening of the medical reform policy and the improvement of the concentration of the pharmaceutical circulation industry, the importance of the core competitiveness and operational efficiency of enterprises has also been continuously improved, and the demand for highly viscous and customized business has accelerated to grow, promoting the continuous transformation and innovation of the service model of pharmaceutical circulation enterprises.

## **Review on Business Highlights**

In 2022, the changes in the environment such as the recurring and continuous outbreak of the COVID-19 pandemic and the increasing uncertainty of the economic operation brought severe challenges to the Group's business development. Under the leadership of the Board and the management, the Group actively followed the national strategy, firmly grasped the primary task of high-quality development, efficiently coordinated pandemic prevention and control and business development, encouraged business transformation and innovation while sparing no effort on guaranteeing the steady growth of various businesses to ensure that the various development targets can be achieved progressively. In 2022, the Group's economies of scale continued to emerge, with its operating income reaching RMB552,147.55 million, representing a year-on-year increase of 5.97%, and its market share accelerated to increase, so as to continuously consolidated its leading position in the industry.

The outbreak of the pandemic and further implementation of the medical insurance reform exerted pressure on the growth rate and the profitability of the pharmaceutical distribution business. During the Reporting Period, the Group courageously responded to the challenges. While striving to improve the economies of scale of distribution business, the Group actively promoted the optimization of the business structure, which successfully resisted the negative impact of the decline in selling prices and profitability brought about by the expansion of the volume-based procurement ("VBP") of drugs and medical device. The gross profit margin increased by 0.14 percentage point from 2021 to 8.59%. The net profit and net profit attributable to owners of the parent company achieved double growth. The net profit for the year reached RMB14,345.44 million, representing a year-on-year increase of 9.80%, and the net profit attributable to owners of the parent company reached RMB8,525.66 million, representing a year-on-year increase of 9.89%.

During the Reporting Period, the medical device and retail pharmacy segments continued to maintain a relatively high growth trend, and the business structure was further diversified and balanced. As of the end of 2022, the percentage of the revenue from the pharmaceutical distribution segment decreased by 1.37 percentage points on a year-on-year basis to 71.25%, while the percentages of the revenue from the medical device and retail pharmacy segments increased by 1.04 percentage points and 0.37 percentage point on a year-on-year basis to 21.18% and 5.78%, respectively. Meanwhile, the Group's network coverage ability continued to be strengthened, its terminal layout has been improved and optimized, and the proportion of direct sales business to primary health services institutions and retail pharmacies increased steadily.

Since 2020, the Company actively practiced the sustainability concept and strengthened its business governance capabilities. The Group maintains a leading position among its peers in terms of the ESG ratings of MSCI and S&P. Our MSCI rating has been upgraded to Grade A for two consecutive years, and we have also been listed in the Central Enterprises ESG Governance • Vanguard 50 Index by the SASAC. The effectiveness of ESG governance has been recognized by professional institutions at home and abroad. With the Group's excellent experience and influence in strategic planning, network construction, supply chain management and innovation of pharmaceutical supply chain, the Group was awarded as "National Supply Chain Innovation and Application Model Enterprises", and is the sole model enterprise in the pharmaceutical circulation industry among 106 national model enterprises.

***Pharmaceutical Distribution: constantly consolidated the leading advantages and steadily increased the market share***

As of the end of 2022, the National Healthcare Security Administration had carried out seven batches of centralized VBP, with a total of 294 drugs included in centralized VBP. The bidding prices recorded an average decrease of more than 50%. Provinces (autonomous regions and municipalities) have also adopted the inter-provincial alliance mode or the individual provincial VBP mode to successively explore the VBP projects. Relevant policies continue to promote the mode transformation of pharmaceutical circulation services to national integration and scale.

During the Reporting Period, the revenue from the pharmaceutical distribution segment reached RMB406,603.53 million, representing a year-on-year increase of 4.27%. The Group actively complied with the industry transformation trend, strengthened its service capability of distribution network, and ensured the steady growth of key regions and markets while continuously improving the coverage and penetration ratio of business network. Our growth and revenue share in key regions such as Guangdong, Guangxi, Central China, Yangtze River Delta and North China have been further improved, and the regional competitive advantage has been continuously enhanced, which improved the Group's leading position in the pharmaceutical circulation market.

In addition, the Group accelerated to promote the innovation of supply chain model and service transformation to expand new growth points. The Group gradually improved a service ecology of "medical, medicine, patient, insurance" and "wholesale-retail integration" by deepening the cooperation with manufacturers. For innovative and original research products, we formulated personalized marketing promotion programs to create innovative drug marketing systems with our own characteristics. As of the end of the Reporting Period, we have signed strategic cooperation agreements with several well-known domestic and foreign enterprises, such as Novartis China, Santen Pharmaceutical, Pfizer and Boehringer. During the Reporting Period, the sales revenue of various agent varieties (including Novartis's four anti-tumor drugs) increased by more than 40% year on year, which continued to promote the growth of service revenue.

Facing the shift in demand, the Group accelerated the construction of a national integrated import network platform and created an efficient multi-port linkage import service mode to form a national integrated import network platform centered on Shanghai, supplemented by Beijing, Tianjin, Guangzhou and other cities, which actively expanded the Group's import and agency service capabilities and enriched the import category structure. During the pandemic period, Molnupiravir Capsule, an anti-Covid-19 oral drug, obtained the emergency conditional approval from the National Medical Products Administration of China in December 2022, and it took only about 5 hours to complete the emergency supply assurance from "import declaration" to "port delivery" and then to "goods warehousing", ensuring the timely and successful launch in China market, and subsidiaries across various regions also cooperated to achieve synchronous supply efficiently. The Group's supply chain service capability has been verified by the market and recognized by its partners, the leading edge of the supply chain service model is obvious.

***Medical Device: consolidated the advantages of network coverage and accelerated the expansion of intergrated services***

In 2022, the VBP of medical devices continued to "accelerate and expand". Following the implementation of coronary stents and artificial joints VBP, the medical consumables VBP for orthopedic spine was officially launched. At present, the state organizes the alliance procurement of high-value medical consumables, which has already become a routine situation. With the continuous innovation and improvement of the VBP rules, the bidding scheme is becoming more and more mature, and the price reduction of the winning products tends to be moderate.

Facing the impacts and challenges of the outbreak of pandemic in many places and the acceleration and expansion of the VBP, the Group fully utilized its advantages of "covering the whole country" logistics network, actively expanded derivative services while safeguarding pandemic prevention supplies, and further enhanced the market share. During the Reporting Period, the revenue from the medical device segment amounted to RMB120,851.48 million, representing a year-on-year increase of 11.77%. It has increased by more than 10% for three consecutive years. The demand for anti-pandemic supplies promoted the increase in the proportion of revenue from in-vitro diagnostic reagents and consumables. Benefiting from the growth in demand for first-aid equipment products, and the positive role of the special re-loan policy for equipment replacement and upgrading in promoting the sinking of high-quality medical resources, the replacement and upgrading of medical device and other fields, the sales growth rate and proportion of medical device business in the fourth quarter also improved.

Relying on its network coverage and service advantages, the Group actively focused on the transformation of the B-end market operation mode, accelerated the expansion of its comprehensive service advantages, and consolidated its barriers to competition. During the Reporting Period, the Group actively implemented the development strategy of "oriented to meet service needs", responded to the governance needs of hospitals to improve efficiency and reduce costs, and made efforts to enhance the expansion capacity of regional hospital consortium and medical community projects to promote the high-speed growth of the "one-stop" smart supply chain service project such as centralized distribution, in-hospital logistics management and smart logistics. During the year, the Group's SPD projects increased by 72, which helped the Group to gradually expand hospital trusteeship and service projects while achieving steady growth in project income. The SPD projects with the deep involvement of China National Pharmaceutical

Group Southwest Shandong Medical Device Co., Ltd. (國藥集團山東魯西南醫療器械有限公司) and Sinopharm Holding Lingshang Hospital Management Services (Shanghai) Co., Ltd. (國藥控股菱商醫院管理服務(上海)有限公司) won the first prize in the national awards, respectively, which highlighted the leading advantages of the Group in SPD and supply chain services in the industry.

During the Reporting Period, our research and development project of device industry made a new breakthrough and the commercial arrangement has been advanced in an orderly manner. In order to follow the development trend of domestic substitution, Sinopharm Xinguang Medical Technology Co., Ltd. (國藥新光醫療科技有限公司), a high-end medical device R&D and manufacturing enterprise of the Group, focused on the research and development and upgrading of ultra-high definition endoscope system, 3D imaging system, artificial intelligence and minimally invasive surgical instruments, and has completed the research and development and design of 4K defogging endoscope system, 4K fluorescent endoscope system and digital surgical diagnosis and treatment interactive platform at present. It lays a solid foundation for the Group to establish its own brand in the field of device industry, steadily establish service capabilities covering the “entire life cycle” of products and build a manufacturing system with industrial synergy and independent control.

***Retail Pharmacy: new growth opportunities brought by policies and the network coverage constantly replenished and expanded***

In 2022, the pandemic outbreak had a great impact on the normal business development and sales categories of retail pharmacies. However, as the “Notice on Further Optimizing the Implementation of COVID-19 Pandemic Prevention and Control Measures (《關於進一步優化落實新冠肺炎疫情防控措施的通知》)”, namely the “New Ten Rules”, issued by the Joint Prevention and Control Mechanism of the State Council in Response to the Novel Coronavirus Pneumonia (國務院應對新型冠狀病毒肺炎疫情聯防聯控機制綜合組) in December 2022, the pandemic prevention and control policy was gradually optimized and adjusted, the consumers at stores and the sales of four categories drugs were greatly increased, the needs for anti-pandemic drugs and supplies significantly increased and the retail pharmacy business income achieved rapid growth in that month. Meanwhile, the orderly liberalization of qualification of pharmacy social pooling account connection promoted the process of prescription outflow, which brought incremental consumers and incremental markets to the retail pharmacy to promote the sustained and healthy development of the industry.

During the Reporting Period, the Group actively responded to the national strategy, undertook the new transformation and demand of separation of medical services and pharmaceutical sales, increased the allocation of resources, and made great efforts to promote the balanced development of professional pharmacies and traditional pharmacies. As at the end of 2022, the Group’s revenue from retail pharmacy business reached RMB32,979.34 million, representing a year-on-year increase of 13.49%, continuously higher than the average growth of the industry. The proportion of business income from the retail pharmacy segment reached 5.78%, representing a year-on-year increase of 0.37 percentage point.

The Group continued to strengthen the network layout and regional coverage of retail pharmacy segment, focusing on improving the coverage of cities in China without operating business and hospital-oriented businesses. Through deep research on the market situation such as the development trend of retail industry and competitive landscape of local pharmacies in retail industries, the Group accurately sifted the blank regions, improved the network layout and continuously strengthened the governance assessment on regulatory indicators such as store breakeven and business operation efficiency. As of the end of the Reporting Period, there were 494 new stores in the retail pharmacy segment, among which the number of SPS+ professional pharmacies decreased by 21, and the number of Guoda Drug Stores increased by 515.

During the Reporting Period, the Group strengthened communication with regulatory agencies, continuously optimized category structure, and accelerated the acquisition of medical insurance coordination qualifications such as “dual channels” based on its sound brand reputation and well-established internal control system. As of the end of the Reporting Period, the total number of “dual-channel” qualified stores of the Group reached 883, representing an increase of approximately 120% compared with the end of 2021, including 309 Guoda Drug Stores and 574 professional pharmacies, with a net increase of 480 during the Reporting Period, covering about 90% of cities and regions in China that have opened the “dual-channel” business qualification.

***Reform and Innovation: vigorously promoted service transformation and actively tapped growth potential***

During the Reporting Period, the Group vigorously promoted the transformation of organizational operation model, tapped new driving forces and created new core competitive advantages. We reorganized and optimized the business management system involving retail pharmacy, medical device distribution and logistics services by optimizing and adjusting the governance system and organizational structure. Through the vertical management and transformation on business as well as the integration of business links and management processes, the Group optimized the integrated operation of provincial companies, improved the overall coordination ability for comprehensive services and formed cross-regional and cross-business collaborative advantages to promote the further transformation and upgrading of the Group’s comprehensive supply chain service capabilities.

Meanwhile, taking Sinopharm Innovation Center as the carrier, the Group actively took customer demand as the guide and vigorously promoted supply chain model innovation and service transformation to expand new business growth points. During the Reporting Period, our business volume and revenue contribution from supply chain services, third-party logistics and innovative payment services continued to grow, and the ability to provide professional and specific innovative supply chain services has been gradually improved. Through empowering relevant stakeholders, the consistency and depth of cooperation between the Group and its business partners has been enhanced effectively.

***Business Governance: the digital transformation has been advanced in an orderly manner and operational quality and efficiency was accelerated to improve***

Based on previous years' initiation of digital transformation, the Group invited experts from well-known external enterprises and universities and established the Sinopharm Expert Decision Committee for Digital Transformation to accelerate the digital capacity building of the Group and provide professional technical support for business data governance, infrastructure construction and other fields. In addition, the Group also further promoted various digital transformation projects on schedule, accelerated the analysis and migration of business data, expanded the implementation and application of business scenarios, and gradually improved an integrated data processing system. Combining with the establishment progress of online, middle and back office business management system, we vigorously promoted and applied the developed application platform, improved the quality and processing capacity of business data, and optimized the management level and operational efficiency of the Group.

Relying on the digital capacity building, the Group accelerated the synergistic development of business and finance, enhanced the business statistics and assessment level of sub-segments, strengthened the supervision and assessment on expenses of different businesses, improved the overall funds arrangement ability, and constantly optimized various expense ratios and financial indicators. As of the end of the Reporting Period, the Group's overall expense ratio decreased by 0.02 percentage point year-on-year to 5.09%, among which, the selling and administration expansion ratio was 4.51%, representing a year-on-year increase of 0.06 percentage point. The annual finance expense ratio (excluding factoring) was 0.58%, representing a year-on-year decrease of 0.08 percentage point. As at the end of the Reporting Period, the receivables turnover days of the Group remained largely stable compared to the same period of last year, and the annual operating cash flow indicator further improved in the second half of the year. The net cash inflow from operations reached RMB20,963.78 million, up RMB11,655.69 million year-on-year, and the gearing ratio was 69.83%, down 0.46 percentage point compared with the same period of last year.

***Practiced the anti-pandemic spirit and demonstrated the enterprise's responsibility***

In 2022, facing the ever-recurring pandemic, the Group actively participated in pandemic prevention and control and fulfilled its special mission as a central medical supplies reserve company. Facing the pandemic outbreaks in many places, the subsidiaries at all levels effectively guaranteed the supply of various medical supplies and played an important role in fighting against the pandemic. In 2022, the Group distributed and guaranteed nearly 4 billion pieces of anti-pandemic supplies, effectively realizing the increase in sales revenue from relevant categories while practicing social responsibility.

In the face of the rare and severe test caused by the COVID-19 pandemic, the Group overcame many difficulties in the pandemic prevention and control work by virtue of its strong supply chain system covering the whole country and its ability to coordinate resources, and successfully completed various emergency support work, which was widely recognized and highly praised by the government departments at all levels, medical institutions and consumers, which not only demonstrated the Group's excellent risk resistance ability and operational security advantages, but also greatly enhanced the Company's brand image and industry position, laying a solid foundation for the Group to continuously carry out and deepen business cooperation.

## **Future Plans**

In 2023, the deepening and expansion of medical insurance reform, especially the implementation of the VBP, national insurance negotiations and DRGs/DIP payment method and potential uncertainties of the pandemic, will still bring challenges to the sales revenue and profitability of pharmaceutical distribution and medical device. Facing the pressure and opportunity of industry transformation, the Group will continue to strengthen the strategic guidance of the Board and take sustainable high-quality development as its primary task. Based on the new starting point of the Company's 20th anniversary, the Group will increase market share, optimize service capacity, improve operational efficiency and strictly control business risks, accelerate to promote business transformation and upgrading, thereby facilitating the Group into a brand new development stage.

### ***Continue to expand terminal network and consolidate the leading position of distribution***

The pharmaceutical distribution business will continue to focus on key and core areas of pharmaceutical distribution, further increase the market share, expand the primary medical care, out-of-hospital market and non-medical insurance payment market, deepen terminal network coverage, and enhance professional service ability through the project for "increasing distribution channels". The Group will actively undertake VBP distribution projects, direct distribution projects of pharmaceutical manufacturing enterprises and primary medical service projects, enhance the sales share of hospitals at all levels, and supplement and improve the business layout of medical institutions at prefecture and county levels.

In addition, the Group will further enhance its governance capacity of the middle and back office business, establish a professional marketing platform, develop differentiated marketing systems for special medicines and generic medicines and foster new profit growth points. The Group will gradually improve the construction of a team in terms of in-depth distribution, professional promotion and market access. The Group will enhance comprehensive competitiveness and exert the coverage and service advantages of terminal networks to jointly promote the transformation and upgrading of service models.



### ***Expand value-added service projects and strengthen the service extension capacity***

The device distribution business will continue to adjust and optimize various measures in response to policies such as the VBP of consumables. In combination with the promotion of the current hospital consortium and medical community projects, the Group will vigorously expand green and smart supply chain services projects such as SPD and centralized distribution, strengthen the construction of professional service capabilities, and continuously expand value-added service projects to promote the increase in the market share.

Meanwhile, the Group will also explore new opportunities for business transformation, further extend the layout of device supply chain through independent exploration and external mergers and acquisitions and other ways, expand innovative businesses such as device manufacturing, intelligent management of medical assets and third-party supporting services, and accelerate to improve the service capability of supply chain covering the entire life cycle of medical device categories.

### ***Continue to expand the network layout and improve the retail operation efficiency***

The retail pharmacy business will continue to improve the pharmacy network layout and management and control system. Relying on the advantages of the wholesale and retail synergistic development and the medical insurance coordination policy such as “dual-channel”, the Group will accelerate to undertake the prescription circulation needs through business such as “Sinopharm Post Station” and the out-of-hospital SPD pharmacy, continuously promote the improvement of the coordination capacity of retail services and supply chain and build a comprehensive national pharmaceutical retail platform based on the principle of patient-centered.

The Group will continuously improve its online and offline integrated service capabilities, gradually develop and upgrade various digital management tools and online business platforms, strengthen its supply chain management and operational governance capabilities, actively promote private domain traffic conversion of the business, and improve operational efficiency to boost profitability.

### ***Accelerate the construction of innovative service capabilities and explore new potential for industry chain integration***

The Group will further accelerate the construction of a comprehensive service platform, develop service capabilities in the three fields of medical, medicine and insurance, and gradually integrate service system with patients as the center to establish a new service ecology.

Meanwhile, the Group will continue to promote its business expansion, strengthen the construction of scientific research management system, accelerate the research and development and manufacturing of self-owned brand products, and explore the assessment and incentive mechanism suitable for the current business development to fully mobilize the entrepreneurial enthusiasm of core persons and officers of innovative business, accelerate the construction of research and development and manufacturing capabilities of related products with domestic substitution and key technical advantages and further explore the growth momentum of upstream and downstream business synergy.

In 2023, we will closely focus on the “Healthy China” initiative and firmly seized the economic recovery and development opportunities in the post-pandemic period, constantly give play to our brand reputation and leading advantages in the pharmaceutical industry, continuously strengthen its integration and cooperation with scientific research institutes, universities and technology-based enterprises, enhance its strategic cooperation with the world’s leading enterprises in the field of pharmaceutical and medical device, and guide and promote the transformation and innovation of the industrial chain and supply chain. While guaranteeing the steady growth of main business, the Group accelerates the transformation and upgrading to a comprehensive service provider in the drugs and medical device supply chain, optimizes the development quality and operating indicators, so as to continuously create investment value and improve returns for shareholders.

## **Financial Summary**

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

During the Reporting Period, the Group recorded a revenue of RMB552,147.55 million, representing an increase of RMB31,096.31 million or 5.97% as compared with the corresponding period of last year.

During the Reporting Period, the Group recorded a profit of RMB14,345.44 million, representing an increase of RMB1,280.67 million or 9.80% as compared with the corresponding period of last year. Profit attributable to owners of the parent amounted to RMB8,525.66 million, representing an increase of RMB767.01 million or 9.89% as compared with the corresponding period of last year.

During the Reporting Period, basic earnings per share of the Company amounted to RMB2.73, representing an increase of 9.64% as compared with the corresponding period of last year.

## ***Revenue***

During the Reporting Period, the Group recorded a revenue of RMB552,147.55 million, representing an increase of 5.97% as compared with RMB521,051.24 million for the twelve months ended 31 December 2021, which was primarily due to the increase in revenue from the Group’s pharmaceutical distribution business, retail pharmacy business and medical device business.

- **Pharmaceutical distribution segment:** during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB406,603.53 million, which accounted for 71.25% of the total revenue of the Group and represented an increase of 4.27% as compared with RMB389,954.79 million for the twelve months ended 31 December 2021. Such increase was mainly due to the increase in the distribution scale of retail pharmacies and the growth of the acquisition rate of the varieties involved in VBP.

- Medical device segment: during the Reporting Period, the revenue from medical device of the Group was RMB120,851.48 million, which accounted for 21.18% of the total revenue of the Group and represented an increase of 11.77% as compared with RMB108,129.21 million for the twelve months ended 31 December 2021. The increase was primarily due to the expansion of agency territories, the addition of new agency products and the growth of winning customers.
- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB32,979.34 million, which accounted for 5.78% of the total revenue of the Group and represented an increase of 13.49% as compared with RMB29,059.25 million for the twelve months ended 31 December 2021. The increase was primarily due to the growth in prescription drug sales and the expansion of the Group's network of retail pharmacies.
- Other business segments: during the Reporting Period, the revenue from other business of the Group was RMB10,209.12 million, representing an increase of 3.95% as compared with RMB9,820.97 million for the twelve months ended 31 December 2021. The increase was primarily due to the growth in revenue from chemical reagents and pharmaceutical manufacturing business.

### ***Cost of Sales***

During the Reporting Period, the cost of sales of the Group was RMB504,713.49 million, representing an increase of 5.81% as compared with RMB477,000.63 million for the twelve months ended 31 December 2021. The increase was primarily due to the increase in the sales revenue of the Group.

### ***Gross Profit***

As a result of the above-mentioned factors, the gross profit of the Group during the Reporting Period was RMB47,434.06 million, representing an increase of 7.68% as compared with RMB44,050.61 million for the twelve months ended 31 December 2021. The gross profit margin of the Group for the twelve months ended 31 December 2021 and 2022 were 8.45% and 8.59%, respectively.

### ***Other Income***

During the Reporting Period, other income of the Group was RMB676.16 million, representing an increase of 14.76% as compared with RMB589.19 million for the twelve months ended 31 December 2021. The increase was primarily due to the increase in subsidies obtained by the Group from the central and local governments.

### ***Selling and Distribution Expenses***

During the Reporting Period, the selling and distribution expenses of the Group were RMB16,719.56 million, representing an increase of 8.30% as compared with RMB15,437.53 million for the twelve months ended 31 December 2021. The increase in selling and distribution expenses was primarily attributable to the purchase of promotion services from third parties, the enlarged operation scale of the Group, the business exploration and the expansion of distribution network coverage through new set-ups of companies.

### ***Administrative Expenses***

During the Reporting Period, the administrative expenses of the Group were RMB8,183.56 million, representing an increase of 5.44% as compared with RMB7,760.99 million for the twelve months ended 31 December 2021. The increase in administrative expenses was primarily attributable to the increase in administrative costs incurred by the expansion of network scale and business growth of the Group.

### ***Operating Profit***

As a result of the above-mentioned factors, the operating profit of the Group during the Reporting Period was RMB20,604.47 million, representing an increase of 4.53% from RMB19,711.98 million for the twelve months ended 31 December 2021.

### ***Other Gains – Net***

During the Reporting Period, the other net gains of the Group decreased to RMB122.20 million from RMB218.42 million for the twelve months ended 31 December 2021. The decrease was primarily due to the decrease in the gain on disposal of other non-current financial assets, fair value changes on financial assets and loss on disposal of subsidiaries by the Group.

### ***Other Expenses***

During the Reporting Period, the other expenses of the Group amounted to RMB39.92 million, representing a decrease of RMB554.31 million as compared with RMB594.23 million for the twelve months ended 31 December 2021, which was due to the decrease of the provision for impairment loss of intangible assets during the year.

### ***Finance Costs – Net***

During the Reporting Period, the finance costs of the Group was RMB3,189.99 million, representing a decrease of 6.26% as compared with RMB3,402.87 million for the twelve months ended 31 December 2021. The decrease was primarily due to the decrease in interest expense of borrowings and bonds and discount of bills receivable.

### ***Share of Profits and Losses of Associates***

During the Reporting Period, the Group's share of profits and losses of associates was RMB1,064.16 million, representing a decrease of 0.47% as compared with RMB1,069.17 million for the twelve months ended 31 December 2021.

### ***Share of Profits and Losses of Joint Ventures***

During the Reporting Period, the Group's share of profits and losses of joint ventures was RMB2.91 million, representing an increase of 318.99% as compared with RMB0.70 million for the twelve months ended 31 December 2021.

### ***Income Tax Expenses***

During the Reporting Period, the Group's income tax expenses were RMB4,218.38 million, representing an increase of RMB279.99 million as compared with RMB3,938.39 million for the twelve months ended 31 December 2021. The increase was primarily due to the increase in profits of the Group, which led to a corresponding increase in income tax expenses. The Group's actual income tax rate decreased to 22.72% during the Reporting Period from 23.16% for the twelve months ended 31 December 2021.

### ***Profit for the Year***

As a result of the above-mentioned factors, the profit of the Group for the year of 2022 was RMB14,345.44 million, representing an increase of 9.80% as compared with RMB13,064.77 million for the twelve months ended 31 December 2021. The profit margin of the Group for the twelve months ended 31 December 2022 and 2021 were 2.60% and 2.51%, respectively.

### ***Profit Attributable to Owners of the Parent***

During the Reporting Period, profit attributable to owners of the parent was RMB8,525.66 million, representing an increase of 9.89% or RMB767.01 million from RMB7,758.65 million for the twelve months ended 31 December 2021.

### ***Profit Attributable to Non-controlling Interests***

During the Reporting Period, profit attributable to non-controlling interests was RMB5,819.79 million, representing an increase of 9.68% or RMB513.66 million from RMB5,306.13 million for the twelve months ended 31 December 2021.

## *Liquidity and Capital Resources*

### *Working capital*

During the Reporting Period, the Group had commercial banking facilities of RMB274,967.78 million, of which approximately RMB142,732.70 million were not yet utilized. As at 31 December 2022, the Group had cash and cash equivalents of RMB55,221.62 million, which primarily comprise cash and bank savings.

### *Cash flow*

The cash of the Group was primarily used for financing working capital, repaying credit interest and principal due, financing acquisitions and providing funds for capital expenditures, growth and expansion of the Group's facilities and operations. The table below sets out the cash flow of the Group from operating, investing and financing activities for the year ended 31 December 2022 and 2021, respectively:

	<b>2022</b>	2021
	<b><i>RMB million</i></b>	<i>RMB million</i>
Net cash generated from operating activities	<b>20,963.78</b>	9,308.09
Net cash used in investing activities	<b>(3,589.62)</b>	(1,266.96)
Net cash used in financing activities	<b>(5,693.48)</b>	(14,693.01)
Increase/(decrease) in cash and cash equivalents	<b>11,680.68</b>	(6,651.88)
Cash and cash equivalents at the beginning of the year	<b>43,529.43</b>	50,178.27
Foreign exchange gain and loss	<b>11.51</b>	3.04
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	<b><u>55,221.62</u></b>	<u>43,529.43</u>

### *Net cash generated from operating activities*

The Group's cash inflow from operations primarily derives from collections from the sale of the products and services in its pharmaceutical distribution, retail pharmacy, medical device and other business segments. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB20,963.78 million, representing an increase of RMB11,655.69 million from RMB9,308.09 million for the twelve months ended 31 December 2021.

### *Net cash used in investing activities*

During the Reporting Period, the net cash used in investment activities of the Group was RMB3,589.62 million, representing an increase of RMB2,322.66 million as compared with RMB1,266.96 million for the twelve months ended 31 December 2021.

### *Net cash used in financing activities*

During the Reporting Period, the net cash used in financing activities of the Group was RMB5,693.48 million. The net cash used in financing activities of the Group for the twelve months ended 31 December 2021 was RMB14,693.01 million.

### *Capital Expenditure*

The Group's capital expenditures were primarily utilized for the development and expansion of distribution channels, upgrading of its logistic delivery systems and the improvement of the level of informatization. The Group's capital expenditures amounted to RMB2,482.44 million and RMB2,807.27 million for the year ended 31 December 2022 and 2021, respectively.

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

### *Capital Structure*

#### *Fiscal resources*

During the Reporting Period, the Group made certain improvement and adjustments to its capital structure, so as to relieve fiscal risks and reduce finance costs. Through issuance of super short-term commercial papers, the Group obtained RMB16.00 billion for the purpose of replenishing working capital, facilitating the adjustment of the debt structure of the Group and reducing financing costs.

The Group's borrowings are mainly denominated in RMB.

As at 31 December 2022, the cash and cash equivalents of the Group were mainly denominated in RMB, with certain amount denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD"), and small amount denominated in Euro ("EUR"), Australian Dollars ("AUD"), Great Britain Pound ("GBP"), Swiss Franc ("CHF") and Japanese Yen ("JPY").

### *Indebtedness*

As at 31 December 2022, the Group had aggregated banking facilities of RMB274,967.78 million, of which RMB142,732.70 million were not utilized and are available to be drawn down at any time. Such banking facilities are primarily short-term loans for working capital. Among the Group's total borrowings as at 31 December 2022, RMB52,997.25 million will be due within one year and RMB11,750.43 million will be due after one year. During the Reporting Period, the Group did not experience any difficulties in renewing its bank loans with its lenders.

### *Gearing ratio*

As at 31 December 2022, the Group's gearing ratio was 69.83% (31 December 2021: 70.29%), which was calculated based on the net liabilities divided by the aggregate of its total equity and net liabilities as at 31 December 2022.

### *Foreign Exchange Risks*

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

### *Pledge of Assets*

As at 31 December 2022, part of the Group's borrowings and bills payable were secured by bank deposits of RMB12,038.00 million, right-of-use assets with book value of RMB7.14 million, investment properties with book value of RMB0.01 million, properties, plant and equipment with book value of RMB20.38 million and trade and bills receivables with book value of RMB2,366.86 million.

### *Major Acquisitions and Disposals*

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

### *Major Investment*

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

### *Going Concern*

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



## ***Contingent Liabilities and Material Litigations***

As at 31 December 2022, the Group neither had any material contingent liability, nor had any material litigation.

## ***Human Resources***

As at 31 December 2022, the Group had a total of 114,766 employees. In order to meet the development needs and support and promote the realization of its strategic objectives, the Group has integrated existing human resources, made innovations in management model and optimized management mechanism in accordance with the requirements of specialized operation and integrated management, so as to actively advance the organizational reform and accelerate the cultivation and recruitment of the talents. The Group has established a strict selection process for recruitment of employees and adopted a number of incentive mechanisms to enhance their efficiency. The Group also conducts periodic performance reviews on its employees and adjusts their salaries and bonuses accordingly. In addition, the Group has provided training programs to employees with different functions.

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

The Group follows the performance-oriented principle while giving consideration to balance. The Group adopts a diversified structure and makes dynamic adjustments. For the value created, we distribute the incremental value. We share benefits and risks with our employees. Based on the principle of aligning with market benchmarks and international standards, the Group has adopted a combination of short-term and medium- and long-term incentives to determine Directors’ remuneration incentive policies, and designed a compensation structure comprising “basic remuneration, performance-based remuneration, and medium and long-term incentives”. The basic annual salary is the basic fixed income; the performance-based annual salary is the immediate floating income based on the completion of the annual performance goals, which is paid after evaluation; the “medium and long-term incentive” is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share benefits and risks with shareholders. During the Reporting Period, the details of employee benefit expenses of the Group is set out in the Note 9 to the consolidated financial statements.

## DIVIDENDS

Relevant resolution was passed at a meeting of the Board held on 24 March 2023 to propose to distribute a final dividend of RMB0.82 per share (tax inclusive) for the year ended 31 December 2022 (the “**Final Dividend**”), totalling approximately RMB2,558,938,000. If the proposal of profit distribution is approved by shareholders at the 2022 annual general meeting to be held on Thursday, 15 June 2023 (the “**AGM**”), the Final Dividend will be distributed to the shareholders whose names appear on the register of members of the Company on Monday, 26 June 2023 no later than 14 August 2023.

According to the Articles of Association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect (the “**Southbound Trading**”) (the “**Southbound Trading Shareholders**”) will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China for the calendar week prior to 15 June 2023 (being the date of declaration of the Final Dividend).

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

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

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

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document (the “**Notice**”) issued by the State Administration of Tax on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which have issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries of their residence and Mainland China. Thus, 10% personal income tax will be withheld by the Company from the Final Dividend payable to the individual H-share shareholders whose names appear on the register of members of the Company on Monday, 26 June 2023, unless otherwise stated in the relevant taxation regulations, taxation agreements or the Notice. If individual H Share shareholders consider that the tax rate adopted by the Company for the withholding and payment of individual income tax on their behalf is not the same as the tax rate stipulated in any tax treaties between the PRC and the countries (regions) in which they are domiciled, after receiving the dividends, they may proceed with the subsequent tax related treatment in person or through proxy with competent tax authorities of the Company in accordance with requirements under the tax treaties.

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

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

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

## **DIVIDEND POLICY**

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

- (i) the Company's financial results;
- (ii) the Company's shareholders' interests;
- (iii) general business conditions and strategies;
- (iv) the Company's capital requirements;
- (v) contractual restrictions on the payment of dividends by the Company to its shareholders or by the Company's subsidiaries to the Company;
- (vi) taxation considerations;
- (vii) possible effects on the Company's credit worthiness;
- (viii) statutory and regulatory restrictions; and
- (ix) any other factors the Board may deem relevant.

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

## **CLOSURE OF REGISTER OF MEMBERS**

In order to ascertain Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 12 June 2023 to Thursday, 15 June 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend the AGM and to vote at the meeting, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 9 June 2023. Shareholders whose names appear on the register of members of the Company on Monday, 12 June 2023 shall be entitled to attend the AGM.

In order to ascertain Shareholders' entitlement to receive the proposed Final Dividend, the register of members of the Company will be closed from Wednesday, 21 June 2023 to Monday, 26 June 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to receive the Final Dividend, all instruments of transfer of the holders of H-shares of the Company must be lodged at the H-shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 20 June 2023. Shareholders whose names appear on the register of members of the Company on Monday, 26 June 2023 shall be entitled to receive the Final Dividend.

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES**

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

## **AUDIT COMMITTEE**

As at the date of this announcement, the audit committee of the Company currently consists of four directors: including three independent non-executive directors being Mr. Wu Tak Lung, Mr. Zhuo Fumin and Mr. Li Peiyu and one non-executive directors being Mr. Li Dongjiu. Mr. Wu Tak Lung currently serves as the chairman of the audit committee. The primary responsibilities of the Company's audit committee are to inspect, review and supervise the Company's financial information, reporting process for financial information and risk management and internal control system. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2022.

## **SCOPE OF WORK OF ERNST & YOUNG**

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2022 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2022. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

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

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

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

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

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

## **DISCLOSURE OF INFORMATION**

The 2022 annual report of the Company will be duly dispatched to the shareholders of the Company, and published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://ir.sinopharmgroup.com.cn>).

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

Shanghai, the PRC  
24 March 2023

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

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