ANNUAL REPORT 2021

Zhongzhi Pharmaceutical Holdings Limited

中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3737

Content

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Lai Zhi Tian (Chairman)
Mr. Lai Ying Feng
Mr. Lai Ying Sheng
Mr. Cao Xiao Jun

Non-executive Directors

Ms. Jiang Li Xia
Mr. Peng Zhiyun

Independent Non-executive Directors

Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

COMMITTEES OF THE BOARD

Audit Committee

Mr. Ng Kwun Wan (Chairman)
Mr. Wong Kam Wah
Mr. Zhou Dai Han

Remuneration Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

Nomination Committee

Mr. Wong Kam Wah (Chairman)
Mr. Lai Zhi Tian
Mr. Lai Ying Feng
Mr. Ng Kwun Wan
Mr. Zhou Dai Han

AUTHORIZED REPRESENTATIVES

Mr. Lai Ying Feng
Ms. Ho Wing Yan

COMPANY SECRETARY

Ms. Ho Wing Yan

REGISTERED ADDRESS

Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTER IN THE PRC

No. 3 Kangtai Road South
Torch Development Zone
Zhongshan
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 10B, 15/F
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan, New Territories
Hong Kong

OFFICE IN SHENZHEN

Unit A-H on the 20th Floor
Dream City Office Tower
Mei Lin Lu, Futian Qu, Shenzhen
PRC

AUDITOR

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

Corporate Information

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank Corporation

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Ltd.
Windward 3
Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301-04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

STOCK NAME

ZHONGZHIPHARM

STOCK CODE

3737

COMPANY WEBSITES

www.zeus.cn
www.caojinghua.cn

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Zhongzhi Pharmaceutical Holdings Limited (the"Company" and together with its subsidiaries, the "Group"), I am pleased to present to you the annual report and audited consolidated financial statements of the Group for the year ended 31 December 2021 (the "Reporting Period").

BUSINESS REVIEW

In 2021, the external environment was changing rapidly; 'change' has become the new normal in society. Since inception, the Covid-19 pandemic has lasted for more than two years, with mutations of the Covid-19 variants still lingering in our community, affecting the living conditions of people from all walks of life. Local governments have all adopted a set of standard protocols to prevent the spread of the virus. Concerns and danger still lurk with people unable to expect when and where the next case will arise and disrupt the flow of an entire city. At the same time, all these external events have led to fluctuations in raw materials prices, bringing up new challenges to the Company. The price hits affected packaging materials and Chinese herbs used in the productions of the Group's products as well as other consumables used in everyday operations.

Despite how the external environment is constantly changing, the Company continues to seek and discover new opportunities for breakthroughs and continue to adhere to the Group's primary principal of "resolving problems by constantly growing". In 2021, Zhongzhi Pharmaceutical continued to use cell wall-broken herbs (cell wall-broken decoction pieces) as its core development strategy, expanded its business coverage, and continued to make innovative attempts in various sales channels and fields. The Group continues to be principally engaged in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan, Guangdong province, the PRC. The chain pharmacy business has increased investment in store expansion, which has increased the market share of the Zhongzhi Chain Pharmacies in Zhongshan and enhanced its brand influence. The Company continues to firmly adhere to the mission of "promoting Chinese medicine culture and pushing forward the Chinese medicine industry" in the future, and strive to promote the development of the traditional Chinese medicine industry to promote the treasures of China to the world.

FUTURE AND OUTLOOK

In 2022, the Company will focus on its goals and implement various targets. Under the ever-changing environment, the Company will develop rationally, while constantly paying attention to and reviewing the external environment to identify opportunities and act in a timely manner. While continuing to develop rapidly, the company will focus on the quality of development for the year to ensure healthy and high-quality sustainable development, and this concept will run through all links.

Manufacturing Segment

Traditional Chinese medicine has been recognized as a crucial component combating the pandemic, same fact has also been echoed internationally. The modern decoction pieces and Chinese patent medicines of the Group performed well last year. In 2022, the Group will continue to vigorously promote the concept of Chinese medicines health care so that more people can understand, come into contact with and use Chinese medicines. The Group will continue to promote the Caojinghua brand and continue to invest on educating consumers, building up a well-known brand. The company will simultaneously invest more into the Chinese patent medicines business, continue to expand the market with new products. The Group's construction project in Yunfu, the Yunfu Factory, was completed and put into operations in October 2021. The factory will continue to pursue the Company's historical mission of "promoting Chinese medicine culture and pushing forward the Chinese medicine industry", and to meet the market demand for traditional decoction pieces and modern decoction pieces. Following 2021, the Yunfu Factory will continue to develop important areas for the Group, offer a wider range of product lines, actively explore the market and further meet the needs of consumers. At the same time, the factory has an independent third-party testing facility and is equipped with state-of-the-art testing equipment to undertake various raw material testing needs of the community.

Chairman's Statement

Chain Pharmacies Segment

National pharmacy chains faced various challenges arising from external environment in 2021. Under the Covid-19 epidemic, in response to the national pandemic prevention requirements, chain pharmacies have become lookout points to detect early signs of the pandemic. While ensuring safety, this measure has changed consumers' consumption habits in pharmacies, shortened the time spent at pharmacies, reduced the purchase of non-urgently needed medicines, and in-turn lowered the average customer spendings. In addition, the Covid-19 pandemic has promoted the habit of consumers to buy medicines online, which has significantly increased the proportion of online platform sales. The industry market competition has become more severe, and various strategies have been adopted in the tense market environment to ensure that each market share is not lost, resulting in a short-term decline in the overall gross profit margin. The construction project of the chain headquarters in Zhongshan is expected to complete in April 2022. The new headquarters will fully meet the needs of office staff. Adhering to leading design concepts in China to embrace new technologies in all aspects of the logistics industry, and to put in place the most advanced equipment in the market, the new intelligent logistics centre will greatly improve overall work efficiency, reduce the existing workload and meet the demands of the continued rapid expansion of Zhongzhi Chain Pharmacies. The new chain headquarters and intelligent logistics center are one of the milestones in the development of Zhongzhi Chain Pharmacies, and also laid the beginning of a new era of development. We are extremely proud of the development of chain pharmacies in Zhongshan in the past two decades in this regard, and also full of confidence in the future development. The chain segment business of the Group will develop more firmly and rapidly, accelerate the expansion of pharmacies, further cover the Zhongshan market, and continue to explore new business opportunities to maintain the leading development of chain pharmacies in Zhongshan.

APPRECIATION

2021 was full of challenges and after a year of overcoming these challenges, we are more ready than ever to confidently welcome what is to come in 2022. Opportunities are reserved for those who are well prepared. We will always continue to work with passion and perseverance towards our cause. On behalf of the Company, I would like to express my sincere gratitude to our valued customers, employees, suppliers, shareholders and partners that have supported us through our journey to date. As always, we will strive to create greater value for our shareholders and investors.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 24 March 2022

Management Discussion and Analysis

BUSINESS OVERVIEW

During the year ended 31 December 2021 (the "Reporting Period"), the Group continued to engage principally in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong Province, the PRC. Revenue of the Group rose by approximately 8.9% to approximately RMB1,746.5 million.

Profit attributable to owners of the parent decreased by approximately 62.4% to RMB52.1 million due to the Company's increased investment in marketing and promotion expenses for promoting the Company's products and brand name in view of increasing in order to increase market share, and fair value loss on unlisted wealth management product.

FINANCIAL ANALYSIS

Revenue

The Group's operations can be divided into three segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; (ii) operation of chain pharmacies in Zhongshan; and (iii) operation of on-line pharmacies. Below is an analysis of revenue by segment.

	Revenue for the year ended 31 December			**% of total revenue for the year ended 31 December**		
	2021	2020	Change	**2021**	2020	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**1,053,280**	916,076	15.0	**60.3**	57.1	3.2
Operation of chain pharmacies	**622,911**	624,874	-0.3	**35.7**	39.0	-3.3
Operation of on-line pharmacies	**70,309**	62,926	11.7	**4.0**	3.9	0.1
	1,746,500	1,603,876	8.9	**100.0**	100.0	

Pharmaceutical manufacturing

The Group is engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under the Group's brands in the PRC. The Group's brand include "Zeus (中智)", "Liumian (六棉)" and "Caojinghua (草晶華)".

Revenue derived from pharmaceutical manufacturing increased by approximately 15.0% to RMB1,053.3 million for the year ended 31 December 2021 (2020: RMB916.1 million) and accounted for 60.3% of the total revenue during the year (2020: 57.1%). The increase in revenue was primarily attributable to the sales of the modern decoction piece (Caojinghua Cell-broken Herb) (草晶華破壁草本) driven by the Group's continuous efforts in marketing and expansion of new sales channels around the brand.

Management Discussion and Analysis

Operation of chain pharmacies

The Group has been operating chain pharmacies in Zhongshan under the brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at 31 December 2021, the Group has 398 self-operated chain pharmacies in Zhongshan (2020: 366), of which 361 are medical insurance designated pharmacies (醫保定點藥店).

Segment revenue of the operation of chain pharmacies remained stable at approximately RMB622.9 million for the year ended 31 December 2021 (2020: RMB624.9 million) and accounted for 35.7% of the total revenue during the year (2020: 39.0%), which was mainly attributable to the impact of reduced passenger flow resulting from the resurgence of the pandemic currently.

Operation of on-line pharmacies

Revenue derived from operation of on-line pharmacies increased by approximately 11.7% to RMB70.3 million for the year ended 31 December 2021 (2020: RMB62.9 million) and accounted for 4.0% of the total revenue during the Reporting Period (2020: 3.9%). The increase in sales was due to continuous efforts devoted to exploring new sales opportunities in new e-commerce platforms and the increase in the sales of the Group's Caojinghua branded products.

Gross Profit and Gross Profit Margin

Gross profit of the Group for the year was RMB1,061.4 million, representing an increase of RMB70.5 million or 7.1% as compared with RMB991.2 million for the year ended 31 December 2020. The analysis of gross profit by segment is as below:

	Gross profit for the year ended 31 December			Gross profit margin for the year ended 31 December		
	2021	2020	Change	**2021**	2020	Change
	RMB'000	RMB'000	(%)	**(%)**	(%)	(%)
Pharmaceutical manufacturing	**761,715**	700,037	8.8	**72.3**	76.4	-4.1
Operation of chain pharmacies	**258,930**	252,021	2.7	**41.6**	40.3	1.2
Operation of on-line pharmacies	**40,794**	39,145	4.2	**58.0**	62.2	-4.2
	1,061,439	991,203	7.1	**60.8**	61.8	-1.0

Pharmaceutical manufacturing

The gross profit of pharmaceutical manufacturing segment increased by approximately 8.8% to RMB761.7 million for the year ended 31 December 2021 (2020: RMB700.0 million). The gross profit margin decreased to 72.3% for the year ended 31 December 2021 (2020: 76.4%). The increase in gross profit was mainly attributable to the increase in the sale of Caojinghua and the decrease in gross profit margin was mainly attributable to an increase in overall production costs due to the global increase in raw material prices including metals and Chinese medicinal herbs.

Management Discussion and Analysis

Operation of chain pharmacies

The gross profit of chain pharmacies segment increased by approximately 2.7% to RMB258.9 million for the year ended 31 December 2021 (2020: RMB252.0 million). The gross profit margin of the chain pharmacies segment increased to 41.6% for the year ended 31 December 2021 (2020: 40.3%). Gross profit margin slightly increased compared to last year.

Operation of on-line pharmacies

The gross profit of on-line pharmacies segment increased by approximately 4.2% to RMB40.8 million for the year ended 31 December 2021 (2020: RMB39.1 million). The gross profit margin decreased to 58.0% for the year ended 31 December 2021 (2020: 62.2%), which was primarily attributable to the increase in sales promotion related to the Caojinghua branded products resulting in lower margin.

Other Income and Gains

Other income and gains mainly comprise of bank interest income, rental income and government grants. For the year ended 31 December 2021, other income and gains of the Group were approximately RMB29.8 million (2020: RMB31.6 million), representing a decrease of approximately RMB1.8 million as compared to previous year, which was mainly attributable to (i) the increase in government grants of approximately RMB5.0 million; and (ii) the decrease in changes in fair value of equity investments of RMB7.5 million.

Selling and Distribution Expenses

Selling and distribution expenses mainly consists of staff costs, advertisement and promotional costs and amortization of right-of-use assets of the Group's chain pharmacies. For the year ended 31 December 2021, selling and distribution expenses amounted to approximately RMB829.2 million (2020: RMB698.8 million), representing an increase of approximately 18.7% as compared to previous year. Selling and distribution expense ratio increased to approximately 47.5% (2020: 43.6%) against revenue for the year ended 31 December 2021, which was mainly due to the increase of marketing and promotion activities on the Company's Caojinghua Cell-broken Herb (草晶華破壁飲片) through various channels and platforms.

Administrative Expenses

Administrative expenses mainly consists of salaries and benefits of the administrative and management staff as well as legal and professional fees. For the year ended 31 December 2021, administrative expenses amounted to approximately RMB102.9 million (2020: RMB91.8 million), representing an increase of approximately 12.1% as compared to previous year. The increase was due to the increase in headcount in the first half of 2021, which resulted in an increase in the Group's salary expenses and depreciation and amortization for the year.

Management Discussion and Analysis

Other Expenses

Other expenses mainly comprises of research and development expenses and fair value changes in financial assets at fair value through profit and loss.

The research and development expenses mainly consists of various expenses incurred in the course of research and development of products, technologies, materials, crafts and standards. For the year ended 31 December 2021, research and development expenses amounted to approximately RMB43.8 million (2020: RMB50.2 million), representing a decrease of approximately 12.7% compared to that for the same period of previous year. The decrease in research and development expenses was due to the delay in the progress of some outsourced research and development projects due to the impact of the pandemic.

The fair value changes in financial assets at fair value through profit and loss mainly represented the fair value adjustment on certain unlisted wealth management products purchased by the Group from a bank with a principal amount of RMB37.0 million, which were overdue for redemption and had high recoverability uncertainties due to the uncertainties surrounding certain bonds issued by property developers in the PRC. The Group provided full provision of these wealth management products, has been actively seeking legal advice and taking necessary legal measures against the relevant issuers to recover any investment losses as far as possible, thus safeguarding the interests of the Company and its shareholders.

Finance Costs

Finance costs consists of interest on bank borrowings and interest on lease liabilities, which amounted to RMB7.1 million for the year ended 31 December 2021 (2020: RMB5.2 million). The increase was mainly due to the increase in lease liabilities and effective interest rate of bank overdrafts.

Income Tax Expense

Income tax expense amounted to RMB9.4 million for the year ended 31 December 2021 (2020: RMB28.6 million). The decrease was primarily due to the impacts of the fair value changes in financial assets at fair value through profit and loss and the deferred income tax.

Profit attributable to owners of the parent

As a result of the factors discussed above, profit attributable to owners of the parent decreased by 62.4% to RMB52.1 million for the year ended 31 December 2021 (2020: RMB138.5 million). The Group's net profit margin amounted to 3.0% for the year ended 31 December 2021 (2020: 8.6%).

Liquidity and Capital Resources

Net Current Assets

The Group had net current assets of approximately RMB356.6 million as at 31 December 2021 (2020: RMB398.4 million). The Group's cash and bank balances decreased from RMB294.0 million as at 31 December 2020 to RMB233.4 million (which consisted of cash and bank balances of RMB229.6 million and HK$3.8 million denominated in RMB and HKD respectively) as at 31 December 2021. The current ratio of the Group decreased from approximately 1.8 as at 31 December 2020 to 1.7 as at 31 December 2021.

Management Discussion and Analysis

Borrowing and the Pledge of Assets

The Group had outstanding unsecured borrowings of RMB32.7 million and HK$30.0 million as at 31 December 2021 (2020: RMB20 million and HK$70 million).

As at 31 December 2021, the Group had available unutilised banking facilities of RMB87.3 million (2020: RMB40 million) and HK$10.0 million (2020: HK$nil).

Gearing Ratio

The Group's gearing ratio as at 31 December 2021 was 6.4% (2020: 9.6%).

Capital Structure

The shares of the Company (the "Share(s)") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015. The capital of the Company comprises ordinary Shares and other reserves. As at 31 December 2021, the number of issued shares of the Company was 863,600,000 ordinary Shares of HK$0.01 each.

Subscription of New Shares

On 29 June 2021, the Company entered into a subscription agreement with Novich Dingli International Investment Limited ("Novich"), a company incorporated in the British Virgin Islands with limited liability, an independent third party, and advised and managed by its shareholders Novich Positioning Investment (Cayman) Limited, which in turn is indirectly wholly-owned by Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司), pursuant to which Novich has conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 23,600,000 ordinary Shares of HK$0.01 each at the subscription price of HK$1.53 per Share (the "Subscription").

The closing price per Share as quoted on the Stock Exchange on 29 June 2021, being the date of the subscription agreement, was HK$1.50. The gross proceeds from the Subscription were approximately HK$36,108,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK$36,055,430, representing a net issue price of approximately HK$1.53 per subscription Share. The Company intends to use the net proceeds to enhance the public awareness of the brand and for distribution of shareholders' dividend.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group will continue to grow with Novich and create greater value and explore new business opportunities for the Company through the network and synergy with Novich.

The completion date of the Subscription was 26 August 2021. Details of the Subscription were published in the Company's announcement dated 29 June 2021.

* For identification purpose only

Management Discussion and Analysis

USE OF PROCEEDS

As at 31 December 2021, the proceeds from the Subscription were fully utilized.

An analysis of the utilization of the net proceeds from the Subscription up to 31 December 2021 is set out below:

	Percentage to the total amount	Net proceeds HK$ million	Utilized amount up to 31 December 2021 HK$ million	Unutilized amount up to 31 December 2021 HK$ million
Enhancing the distribution network and the public awareness of the Company's brand	50%	18	**18**	—
Building reputation and dividend distribution	50%	18	**18**	—
	100%	36	**36**	—

Foreign Exchange Exposure and Exchange Rate Risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars. In addition, the Company will pay dividend in Hong Kong dollars in the future. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impacts on the Group. The Group did not use any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year of 2021. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

EMPLOYEES AND EMOLUMENTS POLICY

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, commission, bonuses and the Group's contribution to mandatory provident funds or state-managed retirement benefits scheme (the "Defined Contribution Schemes"). Other benefits include share options to be granted under the share option scheme and Shares to be granted under the share award plan.

As at 31 December 2021, the Group had 3,152 employees (2020: 3,289) with a total remuneration of RMB343.1 million during the Reporting Period (2020: RMB329.7 million) (including wages and salaries, pension scheme contributions, staff welfare expenses, equity-settled share award expenses and others). The salaries of the employees are determined with reference to individual performance, work experience, qualification and current industry practices.

The contributions by the Group for the Defined Contribution Schemes are charged to the statement of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

The Group's contributions to the Defined Contribution Schemes vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2020 and 31 December 2021, there was no forfeiture of contributions under the Defined Contribution Schemes; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Defined Contribution Schemes as at 31 December 2020 and 31 December 2021.

For each of the two years ended 31 December 2020 and 31 December 2021, the Group did not have any defined benefit plan.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS

Discloseable Transaction: Construction Contracts

On 10 October 2020, (i) Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd (廣東雲智中藥飲片有限公司) ("Guangdong Yunzhi"), a wholly-owned subsidiary of the Company, entered into the Yunfu Factory First Construction Contract with 廣東省正東建設有限公司 ("Guangdong Zhengdong"), pursuant to which Guangdong Zhengdong shall provide construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB27,000,000; and (ii) Zhongshan Zhongzhi Property Management Company Limited (中山中智物業管理有限公司) ("Zhongshan Zhongzhi"), a wholly-owned subsidiary of the Company, entered into the Zhongshan Factory First Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB31,190,000.

On 24 March 2021, (i) Guangdong Yunzhi, a wholly-owned subsidiary of the Company, further entered into the Yunfu Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Guangdong Yunzhi for the construction of the Yunfu Factory at a consideration of RMB46,000,000; and (ii) Zhongshan Zhongzhi, a wholly-owned subsidiary of the Company, further entered into the Zhongshan Factory Second Construction Contract with Guangdong Zhengdong, pursuant to which Guangdong Zhengdong shall provide further construction services to Zhongshan Zhongzhi for the construction of the Zhongshan Factory at a consideration of RMB25,000,000. For details, please refer to the announcement and supplemental announcement of the Company dated 24 March 2021 and 7 April 2021.

Save as disclosed above, the Group had no significant investments held during the Reporting Period.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Reporting Period.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed under the section headed "SIGNIFICANT INVESTMENTS", there were no significant events after the Reporting Period up to the date of this report.

CAPITAL COMMITMENT

As at 31 December 2021, the Group's capital commitment amounted to RMB33.2 million (2020: RMB65.9 million). The capital commitment is mainly related to the construction of two new buildings and the additions of new fixed assets, the rest of which relate to the purchasing of new equipment for research and development activities and to expand the Group's production capacity.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Apart from strengthening the Group's current business and the future plans as disclosed in the prospectus of the Company dated 30 June 2015, the Group will devote its best effort and resources to cope with the increasing market demand in the Group's own-branded products, in order to enhance shareholder's value. In particular, the Group has commenced the construction of new factories premises and additional production lines in Zhongshan and Yunfu, Guangdong province, for the expansion of production capacity to cater for the increase in demand of the Group's products. Among which, certain floors of the new factories in Yunfu had been put into use in October 2021, and the buildings of the premises in Zhongshan are expected to be put into use in April 2022.

Save for the above, the Group will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

CONTINGENT LIABILITIES

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

Biographical Details of Directors and Senior Management

Biographies of Directors and senior management team are set out below:

EXECUTIVE DIRECTORS

Mr. Lai Zhi Tian (賴智填), aged 54, is the founder, controlling shareholder, an executive Director and Chairman of the Board. He is also a member of each of the remuneration committee and the nomination committee of the Company. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group. He is the spouse of Ms. Jiang Li Xia, a non-executive Director, and father of both Mr. Lai Ying Feng, an executive Director and the Chief Executive, and Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

Mr. Lai has over 30 years of experience in the pharmaceutical industry and has extensive experience in pharmaceutical products development, manufacturing and distribution. From September 1981 to April 1994, he worked as a salesperson at the Puning Chang Mei Herbs Shop* (普寧市長美藥材站). From May 1994 to September 1998, he worked as a salesperson at Zhongshan Herbs Company* (中山市藥材公司). Mr. Lai was a manager of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") before its transformation from a collective enterprise to a limited liability company. In September 1999, he became a shareholder of our Group. Under the leadership of Mr. Lai, our Group's business expanded from the distribution of pharmaceutical products to the operation of chain pharmacies and the production of pharmaceutical products.

Mr. Lai is currently the vice chairman of China Pharmaceutical Materials Association* (中國醫藥物資協會) and the president of Guangdong Pharmacies Union* (廣東藥店聯盟). Mr. Lai is an adjunct associate professor and a mentor of the Master's programme at the Research Centre of Chinese Herbal Resources (Science and Engineering)* (中藥資源科學與工程研究中心) of Guangzhou University of Chinese Medicine* (廣州中醫藥大學).

Mr. Lai Ying Feng (賴穎豐), aged 30, was appointed as an executive Director on 14 May 2018, Chief Executive of the Company on 24 March 2021 and is a member of each of the remuneration committee and the nomination committee of the Company. He joined the Group since April 2014 and has served as a director of sales in several sales divisions, helping to formulate sales strategies, and has served as the head of branding for the Company, leading the Group's brand and marketing strategies. Since July 2016, Mr. Lai has served as a director of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司), a subsidiary of the Company, mainly responsible for organizing the formulation of business plan of the Company, investment and financing plan, and making decisions on major issues. He is the son of Mr. Lai Zhi Tian, an executive Director and the Chairman, and Ms. Jiang Li Xia, a non-executive Director, and brother to Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

In July 2014, Mr. Lai obtained a bachelor's degree in economics from the Faculty of Arts and Social Sciences at Simon Fraser University in Canada and obtained a qualification certificate for the secretary of the board. Since April 2016, Mr. Lai has also been the vice president of the 1st Youth Entrepreneurs Association of Zhongshan Torch Hi-tech Industrial Development Zone* (第一屆中山火炬高技術產業開發區青年企業家協會).

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Lai Ying Sheng (賴穎盛), aged 28, was appointed as an executive Director on 24 March 22. He joined our Group on 1 October 2018 as the Group's Assistant Financial Controller and on 24 March 2021 as the Chief Financial Officer. Mr. Lai graduated from the University of British Columbia, Canada, in 2016 with an undergraduate degree in Commerce, specialized in Accounting. Since then, he has worked in the audit practice of KPMG LLP, Vancouver office, and has completed his Chartered Professional Accounting Qualifications during his time at KPMG.

Upon joining the Group in 2018, Mr. Lai headed the Group's Accounting department in its daily operations and, over time, began to manage the Group's other management functions including Human Resources, Internal Controls, Investor Relationships and Purchasing. He is the son of Mr. Lai Zhi Tian, an executive Director and the Chairman, and Ms. Jiang Li Xia, a non-executive Director, and brother to Mr. Lai Ying Feng, an executive Director and the Chief Executive.

Mr. Cao Xiao Jun (曹曉俊), aged 54, was appointed as an executive Director on 30 January 2015 and the vice president of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

Mr. Cao has over 25 years of experience in the pharmaceutical industry. He served as the marketing manager in Guangdong Shiqi Pharmaceutical Company Limited* (廣東石岐製藥公司) from July 1989 to March 1997 and since then to June 2000, he became the deputy general manager of Shenzhen Wedge Pharmaceutical Chains Company Limited* (深圳市萬澤醫藥有限公司). From June 2000 to July 2009, he served as the deputy general manager of Shenzhen Naber Medicine Company Limited* (深圳市南北醫藥有限公司).

NON-EXECUTIVE DIRECTORS

Ms. Jiang Li Xia (江麗霞), aged 57, was appointed as an executive Director on 12 September 2014 and was re-designated as non-executive Director on 19 September 2016. She is the controlling shareholder of the Company. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and was responsible for supervising business administration of our Group. Her duties included overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group. She is the spouse of Mr. Lai Zhi Tian, an executive Director and the Chairman, and mother of both Mr. Lai Ying Feng, an executive Director and the Chief Executive and Mr. Lai Ying Sheng, an executive Director and the Chief Financial Officer.

Mr. Peng Zhiyun (彭志雲), aged 52, was appointed as an non-executive Director on 10 December 2021. He has more than ten years of experience in equity investment. Mr. Peng served as a lawyer from 2003 to 2009. Since 2010, Mr. Peng has been acting the general manager of Shanghai Novich Venture Capital Co., Ltd.* (上海諾偉其創業投資有限公司) ("Novich"). He has also been acting the general manager of Shanghai Jinbang Equity Investment Management Co., Ltd.* (上海勁邦股權投資管理有限公司) ("Jinbang Capital") since 2011. In addition, Mr. Peng is also the director of multiple investment portfolio companies of Novich and Jinbang Capital. Mr. Peng serves as a director of Mingyue Optical Lens Co., Ltd., an A-share listed company (stock code: 301101.SZ) in mainland China.

Mr. Peng obtained an EMBA degree from China Europe International Business School in 2015. In addition, Mr. Peng received the Legal Professional Qualification Certificate issued by the Ministry of Justice of the PRC in 1996 and the qualification certificate of fund practitioner issued by the Asset Management Association of China in 2016.

* For identification purpose only

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Kwun Wan (吳冠雲), aged 58, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of the audit committee and a member of each of the remuneration committee and the nomination committee of the Company. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to October 1995 and from October 1995 to June 1998, Mr. Ng worked as a project manager for New World Development (China) Limited and New World Infrastructure Limited respectively. From July 1998 to August 2004, he worked for New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited (a subsidiary of South China (China) Limited (Stock Code: 413)). Mr. Ng is currently an independent non-executive director of China Boton Group Company Limited (stock code: 3318), CT Vision S.L. (International) Holdings Limited (stock code: 994), Asia Energy Logistics Group Limited (stock code: 351) and Sunray Engineering Group Limited (stock code: 8616).

Mr. Wong Kam Wah (黃錦華), aged 53, was appointed as an independent non-executive Director on 8 June 2015. He is the chairman of each of the remuneration committee and the nomination committee and a member of the audit committee of the Company. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

Mr. Wong has over 15 years of experience in legal practice. He is currently a partner of Messrs. Lau Edward, Wong & Lou.

Mr. Zhou Dai Han (周岱翰), aged 80, was appointed as an independent non-executive Director on 8 June 2015. He is a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

Mr. Zhou has over 30 years of experience in the field of Chinese medicines. Since 1976, Mr. Zhou has been working at the Guangzhou College of Chinese Medicine as a lecturer, associate professor, associate dean of the tumor research center* (腫瘤研究室副主任), chief medical practitioner* (主任醫師), dean of the tumor department* (腫瘤科主任) and professor.

Mr. Zhou completed the Listed Companies Independent Directors Training Programme* (上市公司獨立董事培訓班) co-organised by the Securities Association of China and the Shenzhen Stock Exchange in January 2003.

* For identification purpose only

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Qiao Wei Lin (喬衛林), aged 46, holds a bachelor's degree and is a senior engineer and registered pharmacist. He is currently the vice president of Zhongzhi Pharmaceutical Group and is responsible for technical research and development, quality control, Chinese medicine resources management and administration.

Mr. Qiao graduated from Tongji Medical College of Huazhong University of Science & Technology in July 2000. He joined Grünenthal Pharmaceutical (China) Company Limited (格蘭泰製藥(中國)有限公司) in August 2000, during which he received systematic training on the German pharmaceutical manufacturing technology system. After three years of service, he joined the Company's subsidiary, Honeson Pharmaceutical, in August 2003 and worked in the quality control and production departments successively. Since 2010, he has been the director of quality and chief executive officer of the Group, responsible for implementing the Group's quality policy, ensuring the healthy operation of the quality control system, as well as being responsible for the external public affairs of the Company.

His current social positions include: deputy secretary general of Guangdong Chinese Medicine Association (廣東省中藥協會), director of Guangdong Provincial Association of Chinese Medicine, member of the Technical Committee on Chinese Medicine Standardization of Guangdong Province (廣東省中藥標準化技術委員會), member of the Professional Committee on Lingnan Chinese Herbal Resources of the Guangdong Pharmaceutical Association (廣東省藥學會嶺南中草藥資源專業委員會), etc.

Mr. He Gui Quan (何貴全), aged 42, joined Honeson Pharmaceutical in July 2003. He worked as a production workshop supervisor from July 2003 to December 2007. From January 2008 to December 2009, he was the production manager of Honeson Pharmaceutical. From January 2010 to December 2015, he worked as the assistant to the general manager of Honeson Pharmaceutical and worked as the general manager from January 2016 to December 2020, responsible for the overall management of Honeson Pharmaceutical. In January 2021, he was promoted to the vice president of the Group, responsible for the management of production segments of the Group.

Mr. He graduated from Guangdong Pharmaceutical University* (廣東藥學院) and is a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Ran Qiang (冉強), aged 48, joined Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) in March 2016 and is currently the vice president of the Group, the deputy secretary general of the Academic Expert Committee of the Key Research Laboratories (重點研究室學術專家委員會), member of the Professional Committee on Quality and Safety of Chinese Medicines of China Association of Traditional Chinese Medicine (中國中藥協會中藥品質與安全專業委員會) and executive director of Guangdong Provincial Association of Chinese Medicine. He graduated from Anhui College of Traditional Chinese Medicine in 1996 with a degree in pharmacology and from the Business School of Renmin University of China in 2005 with an MBA in Pharmaceutical Business Administration.

Prior to joining the Group, he worked for Buchang Pharmaceutical Co., Ltd. (步長製藥有限公司).

Ms. Shen Man Na (沈嫚娜), aged 41, currently works as the general manager of Zhongzhi Chain Pharmacies, and the representative of the People's Congress of Zhongshan. In 2001, she joined Zhongzhi Pharmaceutical Group and worked in quality department and procuring department successively. From 2007 to March 2017, she worked as the manager of the commodities department, manager of the procuring department and the director of the commodities department of Zhongzhi Chain Pharmacies successively. Since April 2017, she has served as the general manager of the Zhongzhi Chain Pharmacies.

She graduated from Shaoguan Health College (韶關衛生學校) in 2000, majoring in pharmaceutics and from Guangzhou University of Chinese Medicine in 2013, majoring in Chinese medicine. She obtained the qualification of Senior Nutritionist (高級營養師) in 2014, and the qualification of licensed pharmacist of Chinese medicine (執業中藥師) in 2015.

Mr. Chen Jiong (陳炯), aged 48, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from July 1997 to November 2001, Mr. Chen served as the production worker of Guangzhou Chen Li Ji Pharmaceutical Factory* (廣州陳李濟藥廠) responsible for the operation of the production line and maintaining the GMP production standard. From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was the general manager of Honeson Pharmaceutical from January 2010 to December 2015. Mr. Chen is now the general manager of Guangdong Caojinghua Cell-broken Herb Company Limited* (廣東草晶華破壁草本有限公司) ("Guangdong Caojinghua"), an indirect wholly owned subsidiary of the Company, and is responsible for the overall management of Guangdong Caojinghua.

* For identification purpose only

Biographical Details of Directors and Senior Management

Mr. Tang Lin (唐琳), aged 58, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from August 1985 to May 1987, Mr. Tang worked as a pharmacist at Fuchuan Yaozu Autonomous Region People's Hospital* (富川瑤族自治縣人民醫院). From May 1987 to October 1994, he worked as an assistant factory manager of Guangxi Province Wuzhou Third Medicinal Factory* (廣西梧州地區第三製藥廠). From December 1997 to December 2000, he worked as a deputy head of the production department of Europharm Laboratories Co., Ltd.* (廣州歐化藥業有限公司). From March 2001 to October 2001, he worked as the head of the production department of Guangdong Jiangmen Ming Sheng Medicine Manufacturing Limited* (廣東江門名盛製藥有限公司).

From November 2001 to December 2009, Mr. Tang worked as the head of technical development department of Honeson Pharmaceutical. From January 2010 to December 2013, he worked as the general manager of the technical department of Zhongzhi Pharmaceutical. Since January 2010 and December 2017, he had been the chief engineer of Honeson Pharmaceutical and the director of the technical department of Zhongzhi Pharmaceutical respectively. Since January 2018, he has been the deputy general manager and chief engineer of Honeson Pharmaceutical. Mr. Tang is also responsible for reviewing the quality control procedures performed by our quality control team.

* For identification purpose only

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Reporting Period except the following deviation from 1 January 2021 to 24 March 2021:

Code Provision C.2.1

Pursuant to CG Code provision C.2.1, the role(s) of a chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai Zhi Tian ("Mr. Lai") is the Chairman and the general manager of the Group. In view of Mr. Lai is the founder of the Group and has been operating and managing the Group since 1999, the Board believes that it is in the best interest of the Group to have Mr. Lai taking up both roles for effective management and business development. Therefore the Directors consider that the deviation from the CG Code provision C.2.1 is appropriate in such circumstances.

As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2021.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provisions C.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. As at the date of this report, the roles of the chairman and the chief executive officer are separate. Mr. Lai Zhi Tian was the chairman while the role of the chief executive was performed by Mr. Lai Ying Feng.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance, law and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

The Company annually assesses the independence of each independent non-executive Director during their terms of appointment. During the Reporting Period, the Company received from each of the independent non-executive Directors a written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

Corporate Governance Report

THE BOARD

The Board currently comprises four executive Directors, namely Mr. Lai Zhi Tian (Chairman), Mr. Lai Ying Feng, Mr. Lai Ying Sheng and Mr. Cao Xiao Jun; two non-executive Directors, namely Ms. Jiang Li Xia and Mr. Peng Zhiyun; and three independent non-executive Directors, namely Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han. The number of independent non-executive Directors represents more than one third of the Board. The biographical details of and relationships among the members of the Board are disclosed under the section headed "Biographical Details of Directors and Senior Management" on pages 14 to 19 of this annual report.

The Directors believe that the composition of the Board reflects the necessary balance of skills and experience appropriate for the requirements of the business development of the Group and for effective leadership as all the Executive Directors possess extensive experience in management and professional knowledge in business, while the three independent non-executive Directors possess professional knowledge and broad experience in finance, law and business. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders of the Company and the Company.

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2021. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 88 to 92.

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

All Directors are appointed for a specific term. Each of the executive Directors and the non-executive Directors is under a service contract with the Company for a term of 3 years, which will continue thereafter. Each of the independent non-executive Directors is appointed for a term of 3 years.

According to the articles of association of the Company (the "Articles"), all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company's annual general meeting ("AGM"). Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment, and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next AGM.

Corporate Governance Report

PROCEEDINGS OF BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The Board may meet together for the dispatch of business, adjourn and otherwise regulate its meeting and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An AGM and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 days' notice in writing, and a meeting of the Company other than an AGM or an extraordinary general meeting for the passing of a special resolution shall be called by at least 14 days' notice in writing. A meeting of the Board of any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

When a Director and the enterprise(s) involved in a proposal of a Board meeting have connected relations, such Director shall not exercise his/her voting rights on such proposal nor shall he/she exercise any voting rights on behalf of other Directors.

Set out below are details of the attendance record of each Director at the Board, committee and general meetings of the Company held during the year ended 31 December 2021:

	Attendance/Number of Meetings Held				
Name of Directors	**Regular Board Meeting**	**Audit Committee Meeting**	**Nomination Committee Meeting**	**Remuneration Committee Meeting**	**General Meeting**
Executive Directors					
Mr. Lai Zhi Tian	6/6	—	1/1	1/1	1/1
Mr. Lai Ying Feng	6/6	—	1/1	1/1	1/1
Mr. Cao Xiao Jun	6/6	—	—	—	1/1
Mr. Cheng Jin Le (resigned on 24 March 2022)	6/6	—	—	—	1/1
Non-executive Directors					
Ms. Jiang Li Xia	6/6	—	—	—	1/1
Mr. Yang Ai Xing (resigned on 10 December 2021)	5/6	—	—	—	1/1
Mr. Peng Zhiyun (appointed on 10 December 2021)	0/6	—	—	—	0/1
Independent Non-executive Directors					
Mr. Ng Kwun Wan	6/6	*2/2	1/1	1/1	1/1
Mr. Wong Kam Wah	6/6	2/2	*1/1	*1/1	1/1
Mr. Zhou Dai Han	6/6	2/2	1/1	1/1	1/1

* representing chairman of the board or the committees

Corporate Governance Report

The Board has established three committees, namely, the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee"), for overseeing particular aspects of the Company's affairs. All committees have been established with defined written terms of reference, which were posted on the Stock Exchange (www.hkexnews.hk) and the Company website (www.zeus.cn). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Audit Committee

The Audit Committee was established on 8 June 2015 with terms of reference (amended on 31 December 2015) in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the risk management and internal control systems of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The Group's accounting principles and policies, financial statements and related materials for the year had been reviewed by the Audit Committee.

The external auditor was invited to attend two Audit Committee meetings held during the year to discuss with the Audit Committee members on the audit and financial reporting related matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor.

Remuneration Committee

The Remuneration Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management as well as other employee benefit arrangements. The Remuneration Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2021, the Remuneration Committee has held one meeting. Full minutes of the Remuneration Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Remuneration Committee meetings are circulated to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

Corporate Governance Report

For the year ended 31 December 2021, the annual salary of the senior management of the Company falls within the following bands.

Remuneration bands (HK$)	Number of senior management
Nil to 500,000	6
500,000 to 1,200,000	2

Nomination Committee

The Nomination Committee was established on 8 June 2015 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment of Directors and the management of the Board succession. The Nomination Committee comprises a total of five members, being two executive Directors, namely, Mr. Lai Zhi Tian and Mr. Lai Ying Feng, and three independent non-executive Directors, namely, Mr. Ng Kwun Wan, Mr. Wong Kam Wah (Chairman) and Mr. Zhou Dai Han. Accordingly, a majority of the members are independent non-executive Directors.

The Board would follow a set of formal, considered and transparent procedures for the appointment of new directors to the Board. The appointment of a new director has been a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. In addition, all candidates to be selected and appointed as a director must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

During the year ended 31 December 2021, the Nomination Committee has held one meeting. Full minutes of the Nomination Committee meetings are kept by the Company Secretary. Draft and final versions of the minutes of the Nomination Committee meetings are circulated to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee are reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 29 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

Corporate Governance Report

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Diversity Policy

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will review the board diversity policy, as appropriate, to ensure the effectiveness of the board diversity policy and also discusses any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

CORPORATE GOVERNANCE FUNCTION

The Board does not have a Corporate Governance Committee. The functions that would be carried out by a Corporate Governance Committee are performed by the Board as a whole and are as follows:

1. to develop and review the Company's policies and practices on corporate governance;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the CG code and disclosure in the Corporate Governance Report.

Corporate Governance Report

The corporate governance policy is formulated with an emphasis on the Board's quality, effective internal control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of the Group's operations with applicable laws and regulations.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to the CG Code provision A.6.5, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2021, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2021, the Directors participated in the following continuous professional development:

Name of Directors	Training organized by professional organization[1]	Reading materials updating on new rules and regulations
Executive Directors		
Mr. Lai Zhi Tian	✓	✓
Mr. Lai Ying Feng	✓	✓
Mr. Cao Xiao Jun	✓	✓
Mr. Cheng Jin Le (resigned on 24 March 2022)	✓	✓
Non-executive Directors		
Ms. Jiang Li Xia	✓	✓
Mr. Yang Ai Ying (resigned on 10 December 2021)	✓	✓
Mr. Peng Zhiyun (appointed on 10 December 2021)	✓	✓
Independent Non-executive Directors		
Mr. Ng Kwun Wan	✓	✓
Mr. Wong Kam Wah	✓	✓
Mr. Zhou Dai Han	✓	✓

Notes:

1. Professional training namely "Case Study: Merger and Acquisition" was arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Ernst & Young as its external auditor for the year ended 31 December 2021. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor.

During the year ended 31 December 2021, the fee payable to Ernst & Young, is set out as follows:

Nature of Services	Fee paid/payable RMB'000
Audit services	2,600.0
Non-audit services	360.0

Non-audit services fees include (1) fees for providing internal control services and (2) fees related to ESG report.

INTERNAL CONTROL

Risk Management and Internal Control

The Board puts emphasis on risk management and has established and maintained suitable and effective risk management and internal control system. Such system aims to manage, rather than eliminate, risks of failure to achieve business objective, and provides reasonable, though not absolute, assurance against material misstatement or loss by the Group.

To attain the objective, with reference to the COSO (Committee of Sponsoring Organizations of the Treadway Commission) standards and best practices from excellent management companies, the management balances the actual situation and business features of the Company, while continuously allocates resources to optimize risk management and internal control system. The management assessed the effectiveness and appropriateness of the internal control system on the ground of the above to ensure the effective operation of the control system.

Risk Management Organization System

With respect to the organizational structure, the Group has established a set of complete organizational structure to manage risks that the Group is exposed to.

Risk Supervision Function

The Board's Responsibilities to Shareholders Regarding the Effectiveness of Comprehensive Risk Management

- Recognizing overall objectives of risk management, risk appetite and risk tolerance of the corporation, approving risk management strategies and substantial risk-mitigating plans as well as risk management measures;

- Understanding every material risk that the corporation will encounter and its current risk management status and making effective risk-control decisions;

- Approving the annual comprehensive risk management report;

- Overseeing the cultivation of risk management culture of the corporation.

Corporate Governance Report

Risk Management Function

Audit Committee is the top risk management body of the Company and is held accountable to the Board

- Considering the construction plan of comprehensive risk management system;
- Determining the plan on set-up of risk management organizational structure and their duties;
- Approving the regulation, system and the key procedures in risk management;
- Considering and assessing on the strategies of the Group in risk management;
- Approving the annual risk management work plan;
- Considering and assessing the significant solutions and measures in risk management;
- Reviewing and submitting annual comprehensive risk management report to the Board.

Daily Risk Management Function

Risk Management Project Team leads daily risk management works and reports to Audit Committee

- Responsible for the establishment and improvement of the risk management system and mechanism of the Company;
- Proposing annual risk management work plan and submitting the plan to Audit Committee for consideration;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to identify and assess risks on regular basis, and identify significant risks the Company is exposed to;
- Organizing the process owners from various functions and departments of the Group and the respective subsidiaries to discuss and formulate risk response strategies and solutions for the risks the Company is exposed to and to prepare comprehensive risk management report;
- Organizing or jointly organizing various functions and departments of the Group and the respective subsidiaries to improve the internal control system based on the risk response plan;
- Following up the implementation of the risk response plan performed by various functions and departments of the Group and the respective subsidiaries, and reviewing the operational effectiveness of the internal control system.

Corporate Governance Report

Risk Management Implementation Function

Respective functional departments of the Company commences risk management under the coordination of risk management project team

- Executing basic procedures for risk management and internal control;
- Identifying and assessing risks, and recognizing significant risks that the Company is exposed to under the guidance of risk management project team;
- Discussing and implementing risk control measures and solutions against risks the Company is exposed to under the guidance of the risk management project team;
- Enhancing the internal control system of the functions and departments in accordance with the risk response plan.

Internal Audit Function

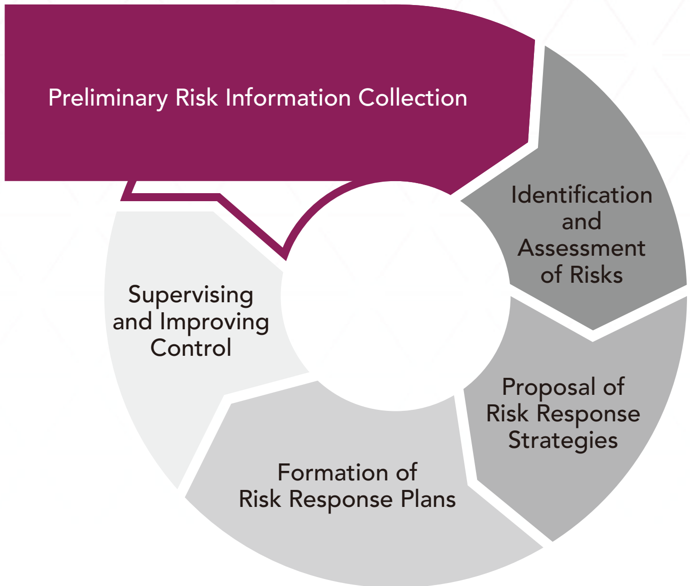
Internal Audit Department analyzes and makes independent assessment on the adequacy and effectiveness of the risk management and internal control system of the Group

- Responsible for establishing and amending the internal reviewing system and work mechanism of the Company;
- Formulating internal audit plan and determining internal audit focuses, audit methods and procedures, time of audit and staff arrangement/engagement arrangement of third party professional institutions based on the substantial risks and business fields the Company is exposed to, and submitting the Board and Audit Committee for consideration;
- Reviewing the effectiveness of risk management and the internal control system, including the annual comprehensive risk management report, risk management plan and daily risk management solutions; assessing the design and operational effectiveness of the internal control system;
- Auditing the assessment results of risk management and internal control system issued by the third party;
- Reporting the risk management and internal control works to Audit Committee and the Board.

Corporate Governance Report

Risk Management Procedures

The Group has established a set of complete risk management procedures to identify, assess and manage substantial risks, to review the effectiveness of risk management and the internal control system, and to resolve serious deficiencies on internal control. Specific procedures of risk management are as follows:



(a) Preliminary Risk Information Collection:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to extensively and continuously collect internal and external preliminary information related to risk management for the list of risk information.

(b) Identification and Assessment of Risks:

Risk assessment questionnaires were designed based on the list of risk information by the risk management project team. Various functions and departments of the Company and the Group and the respective subsidiaries are regularly organized to carry out risk analysis and assessment. Risks are sorted and significant risks are identified according to the assessment results.

For material issues, the risk management project team organizes and convenes special assessment meetings for the assessment of material issues and risk issues in order to provide support regarding decisions-making.

(c) Proposal of Risk Response Strategies:

The risk management project team organizes various functions and departments of the Company and the Group and the respective subsidiaries to select management strategies for each of the risks.

(d) Formation of Risk Response Plans:

The risk management project team organizes various functions and departments of the Group and the respective subsidiaries to discuss and propose risk response plans and designs, amends or optimizes internal control files based on the risk response plans.

(e) Supervising and Improving the Implementation of Risk Management of Each Business Unit:

The risk management project team supervises and assesses the implementation of risk management and the effectiveness of internal control of each business unit; Keeping track of the development of material risk issues.

Internal audit department analyzes and makes independent assessment on whether risk management and the internal control system of the Group are sufficient and effective.

Identification, Assessment and Management of Risks

In 2021, the risk management project team, in accordance with the risk management procedures aforementioned, commenced risk identification and assessment from five dimensions, namely strategies, marketing, operation, compliance and finance. Senior management as well as middle-and-basic level staff of the Group were extensively organized to identify and assess the risks exposed to in the course of their work. In the light of the top ten significant risks assessed and identified, the risk management project team organized senior management of the Group to discuss and determine risk response strategies and specific risk response plans based on the level of risk tolerance. For other identified risks, the risk management project team assessed the risk response plans of business units and formed a comprehensive risk management report by proposing adjustments or recommendations for improvement.

The risk management project team kept track on the execution of response plans and measures of significant risks and reported to senior management of the Group.

Assessment on the Effectiveness of the Risk Management and the Internal Control System

In 2021, the Board continuously supervised and performed annual review on the effectiveness of the risk management and the internal control system of the Group and its subsidiaries through the Audit Committee. The review covered aspects of significant control, such as financial control, operational control, supervision on compliance and risk management. The directors are of the view that, the operation of the internal control system is effective and sufficient, and effectively controls various risks that might disturb the Company from achieving its objectives. The Board was not aware of any significant issues that might affect the shareholders and needed to be brought to their attention, and believed that the internal control of the Group has complied with every code provision in connection with internal control within the Corporate Governance Code, including the compliance of the requirements of laws and regulations.

Corporate Governance Report

The Board has, with reference to the assessment made by Audit Committee, reviewed in the board meeting on whether the resources in accounting, internal audit and financial reporting functions, staff's qualification and experience, and training courses provided to staff and the relevant budget were sufficient. In 2021, the Internal Audit Department, based on the aforementioned risk management procedures, entrusted third party professional institutions to conduct review and assessment on the effectiveness of design and operational compliance of the relevant internal control system in relation to risk management, control and governance practices, regarding the risk management system and the internal control system of significant business fields. Audit Committee under the Board reviewed the assessment results of risk management and internal control system of the Group for the year ended 31 December 2021 issued by third party professional institution and no significant concern that constituted impacts to the Company's shareholders was found.

Management of Inside Information

The Group has formulated a set of complete procedures for inside information management to supervise the inside information revealed during business development and standardized the practice of conveying relevant information to shareholders, media and analysts. Those management procedures state expressly that confidential or inside information is strictly prohibited to use without permission and set out the reply procedures in respect of the enquiry towards the Group's affairs made by external parties.

DELEGATION BY THE BOARD

In general, the Board oversees the Company's strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group's strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

COMPANY SECRETARY

Ms. Ho Wing Yan ("Ms. Ho") has been appointed as the company secretary of the Company since 5 May 2017 and is responsible for overseeing all the company secretarial matters of the Group. In the opinion of the Board, Ms. Ho possesses the necessary qualification and experience, and is capable of performing the functions of the company secretary. Mr. Lai Zhi Tian, the chairman of the Company, is the primary corporate contact person of the Company with Ms. Ho. During the year ended 31 December 2021, Ms. Ho confirmed that she has taken no less than 15 hours of relevant professional training. The Company will provide fund for Ms. Ho to take no less than 15 hours of appropriate professional training in each financial year as required under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Corporate Governance Report

Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 64 of the Articles, extraordinary general meeting shall be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisition(s) himself (themselves) may do so in the same manner.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meetings

Shareholders of the Company are requested to follow article 64 of the Articles for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to convene an extraordinary general meeting".

Pursuant to article 113 of the Articles, no person (other than a retiring Director) shall be eligible for election to the office and Director at any general meeting unless a notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as a Director is posted on the website of the Company. Shareholders or the Company may refer to the above procedures for putting forward any other proposals at general meetings.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

Corporate Governance Report

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 29 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTORS RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

Constitutional Documents

The was no significant changes in the constitutional documents of the Company during the year ended 31 December 2021.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This report is the sixth environmental, social and governance ("ESG") report of Zhongzhi Pharmaceutical Holdings Limited ("Zhongzhi Pharmaceutical" or the "Company"; or together with its subsidiaries, the "Group", "We"), which presents the Company's environmental, social and governance policies, measures and performance for the period from 1 January 2021 to 31 December 2021 (the "Reporting Period").

Reporting scope

The reporting scope in this report is consistent with the 2021 annual report of Zhongzhi Pharmaceutical Holdings Limited.

Reporting standard

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report is formulated in accordance with its systematic procedures, which include:

Identifying key stakeholders → Identifying and prioritizing material ESG issues → Determining the reporting scope → Collecting relevant materials and data → Computing and reviewing data

Reporting principles

In preparing this report, the Company adheres to the reporting principles outlined in the Guide:

Reporting principles	Interpretation
Materiality	Identify and define material environmental and social issues by analyzing the opinions of stakeholders of the Group. The material issues are prioritized and disclosed in this report.
Quantitative	Environmental and social key performance indicators data is collected. Quantifiable disclosures on the environmental and social indicators are made to the maximum extent to monitor and evaluate the Group's progress in implementing environmental and social responsibility initiatives.
Balance	This report impartially presents the Group's environmental, social and governance performance in order to achieve comprehensive and fair reporting.
Consistency	This report uses consistent methodologies for effective and meaningful comparisons of environmental and social data over time. Any changes in the methodologies and reporting scope are interpreted in remarks for reference.

Environmental, Social and Governance Report

Data collection

The data and other information in this report are mainly from the relevant documents, reports and statistic results of the Group. Zhongzhi Pharmaceutical, in the name of the Board, undertakes that this report contains no false statements or misleading statements, and is responsible for the truthfulness, accuracy and completeness of its contents.

Confirmation and approval

This report is confirmed by the management and approved by the Board on 24 March 2022.

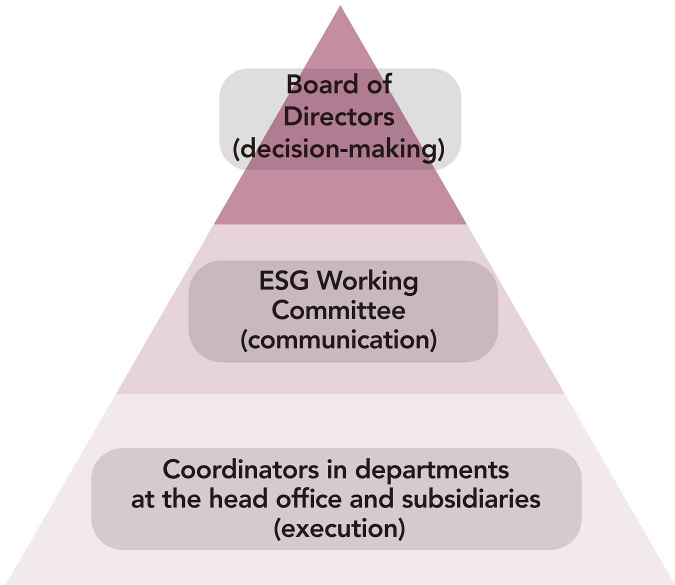
Versions of the report

This report is prepared in both Chinese and English and can be downloaded from the website of The Stock Exchange of Hong Kong Limited and the official website of the Group (http://www.zeus.cn). In the event of any conflict or inconsistency between the Chinese and English versions, the Chinese version shall prevail.

SUSTAINABILITY GOVERNANCE

In terms of sustainability governance, the Group has developed an ESG-related management system that divides its work into three levels of "decision-making", "communication" and "execution" to systematically manage the environmental, social and governance issues. We have engaged Riskory Consulting Limited, an independent ESG consultant, to assist the Group in the ESG reporting and provide ESG related advisory services.

For information about the Group's corporate governance structure and other relevant information, please refer to the Corporate Governance Report in the Company's 2021 annual report.



Environmental, Social and Governance Report

Board of Directors

The Board, as the highest level, is primarily responsible for decision-making of ESG issues, including but not limited to discussing major ESG matters and future development, reviewing ESG strategy and approach, reviewing ESG action plans and results, reviewing the effectiveness of ESG management and reviewing ESG objectives and progress regularly.

ESG Working Committee

The ESG management is primarily coordinated by the ESG Working Committee, which is chaired by Mr. Lai Ying Feng, an executive Director of the Group and president of the Company, with members including the Chair of Operations, all department heads at our head office and employees capable of identifying and managing ESG risks.

In strict compliance with the Guide and related guidelines issued by the Stock Exchange of Hong Kong and with reference to the Social Responsibility System of the Group, the Committee identifies ESG risks and opportunities, and regularly reviews the effectiveness of the Group's ESG-related management systems and regularly reports to the Board on ESG management status. Furthermore, the Committee is also responsible for coordinating stakeholder communications and materiality analysis of ESG issues, formulating ESG strategy and approach, developing ESG action plans, coordinating day-to-day ESG management and information disclosure and setting ESG objectives and reviewing progress regularly.

Coordinators in departments at the head office and subsidiaries

Coordinators in departments at the head office and subsidiaries, as the execution department, are responsible for implementing ESG information and policy management, implementing ESG objectives and reporting regularly on progress and relevant outcomes to the ESG Working Committee.

Environmental, Social and Governance Report

COMMUNICATION WITH STAKEHOLDERS

Zhongzhi Pharmaceutical attaches great importance to the opinions of stakeholders and maintains close communications with them by ways of face-to-face interview, telephone interview, questionnaire survey and on-site visit to understand their requirements for and expectations of the Group, which are adequately addressed through different ways, including but not limited to this report.

Stakeholders	Communication and Response	Appeals and Expectations for the Company
Customers and consumers	• Customer satisfaction survey • Customer service and complaint	• Products and service quality • Protection of consumers' interest
Employees	• Internal meetings • Training, seminars and briefing sessions • Intranet and emails • Monthly and annual performance appraisal • A feedback and communication mechanism with multiple channels	• Reasonable remuneration and benefits • Employee training, development and promotion • Employee care and welfare • Democratic management
Investors	• General meetings • Announcements and disclosures • Investor relations email box	• Investment return • Timely and transparent disclosures
Partners and industry partners	• Supervision on suppliers • Industry exchange and promotion activities	• Maintain sound industrial development • Win-win partnership
Media	• Publicity materials and products • Press conference • Company website	• Positive interaction with media • Keep information transparent
Environmental groups	• Press conference • Company website	• Environmental protection • Energy conservation and emission reduction
Community	• Volunteer service and public charity campaigns • Press conference • Company website	• Support for community charity • Promote healthy knowledge and culture

Environmental, Social and Governance Report

MATERIALITY ANALYSIS

The Group engages an independent consultant to offer assistance in collecting opinions from stakeholders through questionnaires and identifying and evaluating ESG-related issues through materiality analysis. We will prioritize and disclose material issues in this report to respond to the concerns of stakeholders. The materiality assessment can be divided into the following 3 procedures:

Identifying Environmental, Social and Governance issues

Based on the major issues in the past, the latest standards of ESG Guides and industry trends, the Group has identified 23 issues on environmental, social and governance.

Conducting materiality assessment

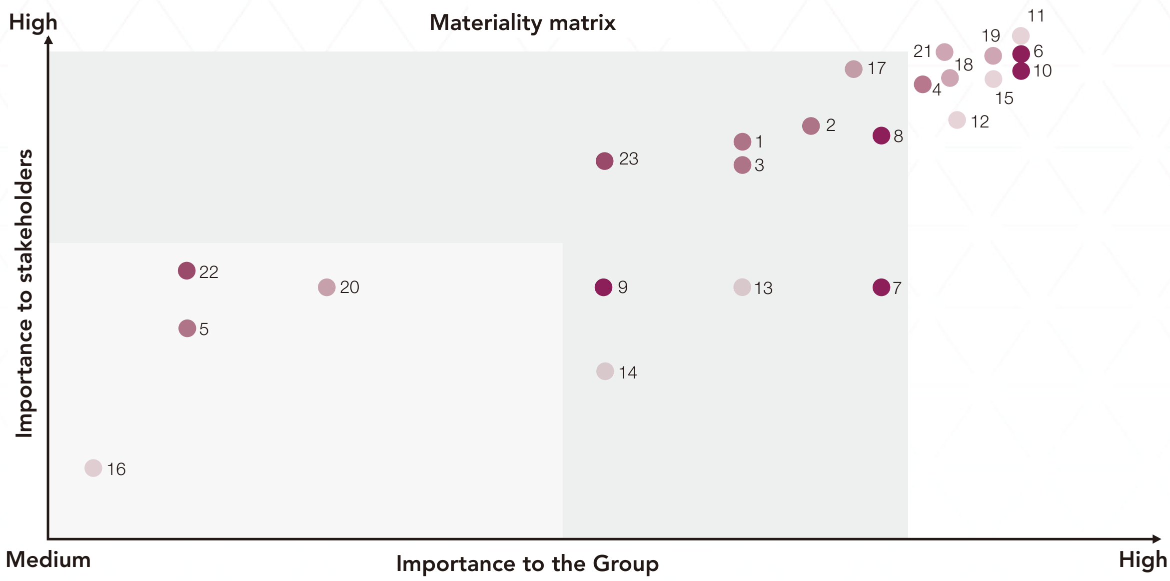
Stakeholders gave scores to the 23 issues through questionnaires.

Analyzing results and preparing materiality matrix

Independent consultant conducted the materiality analysis in respect of the 23 issues based on the combined scores of stakeholders and our management. The results of the analysis have been disclosed in the following materiality matrix.

Environmental, Social and Governance Report

The scoring results of this stakeholder survey are presented in the following materiality matrix, of which 9 issues in the top right quadrant of the matrix are the Group's material issues:



Environmental protection	Operating practice	Product and service responsibility	Human rights and employees	Community contribution
1 Emission management (such as air, greenhouse gas and sewage)	6 Compliant operation	11 Product quality and safety	17 Employment relationship, employee welfare and benefits	22 Public welfare participation and contribution
2 Efficient use of resources (such as water, paper, packaging materials)	7 Supplier management (including environmental and social risk management)	12 Complaint handling	18 Equal opportunity, diversity and anti-discrimination	23 Universal access to health products and services
3 Waste management	8 Green procurement (such as the use of environmentally friendly raw materials, etc.)	13 New product research and development	19 Employee health and safety	
4 Ecology protection	9 Anti-corruption, anti-fraud and whistle-blowing mechanism	14 Information security and transparency	20 Employee training and development	
5 Climate change risk identification and management	10 Crisis or emergency handling	15 Protection of intellectual property rights	21 Prevention of child and forced labour	
		16 Advertising and promotion		

Environmental, Social and Governance Report

PRODUCT RESPONSIBILITY

Zhongzhi Pharmaceutical attaches great importance to product quality and continuously improves its quality management system, striving to making quality management as one of the core competitiveness of the Company. With the goal of "creating a healthy life through intelligent manufacturing", the Group insists on providing healthy and safe products to the public.

In 2021, Zhongzhi Pharmaceutical was elected as the executive vice president unit of Guangdong Chinese Medicine Association (廣東省中藥協會) and actively participated in the establishment of the professional authority of the Chinese medicine industry. The Group conducted quality control regarding each key aspect of the entire industry chain, including but not limited to the origin, seeds and seedlings, plantation, production processing and transportation of Chinese medicine, modern industry production, sales and management after product launch, to ensure product quality and assist the regulatory authorities in regulating industry development. In order to establish a benchmark for high-quality development of Chinese medicines in the industry, Zhongzhi Pharmaceutical, as the main drafting unit, completed 10 group standards such as "Guidelines and Principles for Seeds and Seedlings, Production and Use of Chinese Medicine Materials", which were implemented through the announcement of Guangdong Chinese Medicine Association (廣東省中藥協會).

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling and privacy matters relating to products and services and methods of redress that would have a significant impact on the Group.

1. Enhancement of quality management system

In August 2019, the amendment to the "Drug Management Law" was passed to further strengthen drug supervision and management, ensure the public's medication safety, and promote the development of the drug industry. The Administrative Quality Center of the Group comprehensively interpreted the "Drug Management Law", strictly complied with the requirements of the revised contents including the Drug Marketing Authorization Holder System (MAH) and the Pharmacovigilance (PV) system, with an aim to supplement and improve the existing quality management system of the Group.

Based on the Quality Control Rules for Drug Production (GMP) and the Pharmaceutical Operation Quality Management Standard (GSP), the Group established and improved the Administrative Measures for Supervision on Drug Production, the Administrative Measures for Drug Registration and other management systems to fully guarantee the safety, effectiveness and quality reliability of drugs in the entire process of drug development, production, operation and use.

The Administrative Quality Center of Zhongzhi Pharmaceutical cooperated with the quality management departments of each production unit and continued to promote the construction of a quality management standardization system for each production unit in accordance with the Administrative Measures for Supervision on Drug Production and the Administrative Measures for Drug Registration. Chinese Medicine Herb in Pieces Co., Ltd. re-examined, revised and optimized the product quality standards and package design drafts according to the latest version of Chinese Pharmacopoeia, to ensure that the quality documents are in line with the regulatory requirements so as to guarantee the quality of raw materials and products from the standard control. As of the end of the Reporting Period, each production unit under the Company passed GMP certification, and both the Group and chain drug business units passed GSP certification.

GMP Training Programs of the Group

The Group organizes GMP training programs every year to enhance a sense of responsibility and motivation of employees in pharmaceutical quality management. To improve the education and training system, the Group formulated training management procedures in line with the new GMP requirements, and conducted training in the areas of sampling and retention, deviation assessment, acceptance of pharmaceutical materials and quality risk assessment during the production process. The Group also conducted employee assessments through oral questions and written examinations.

Environmental, Social and Governance Report

2. Products Quality Assurance

Product quality assurance is one of the Group's key tasks. In order to further implement the requirements of the MAH system in the Medicine Management Law, Zhongzhi Pharmaceutical, led by the Administrative Quality Center of the Group, formulated annual quality audit work plan in accordance with the Administrative Measures for Supervision on Drug Production, and cooperated with the quality management department of each pharmaceutical production unit to carry out quality audit in accordance with the plan.

The internal quality audit team conducted at least one quality audit per year of the production units, conducted a comprehensive evaluation in accordance with the five elements of "human, machine, material, law and environment" in accordance with the GMP norms, and assisted each production unit to respond to the quality inspection from the drug supervision and management department to timely identify problems and provided recommendations and suggestions for improvement in quality management.

During the Reporting Period, the Group and its production units carried out 4 internal quality audits, and received 1 quality inspections and GMP random inspections from the drug supervision and administration department. All production site operation and material storage complied with GMP and SOP requirements of the Company. No major quality problems occurred, and rectifications were completed in a timely manner under the guidance of on-site inspection experts, effectively improving the overall quality management level.

We also continue to advance the quality standardization of laboratories. In 2021, China National Accreditation Service for Conformity Assessment (CNAS) appointed an accreditation team to continue to regularly monitor the physical, chemical and microbiological testing of Zhongzhi Herb Pieces testing center and Hengsheng Pharmaceutical Quality Control Laboratory. The centers satisfied the CNAS accreditation requirements after implementing various measures, marking further recognition of the testing capability of laboratory of Zhongzhi Pharmaceutical by China National Accreditation Service for Conformity Assessment.

At the same time, to ensure that the quality of medicines are secured through quality examination, the Group has formulated the Emergency Plan for Material Quality and Safety Incidents of Products, the Management System for Sub-standard Product Disposal, the Operating Procedures for Quality Control Standard of Returned Products, the Management of Drug Inspection and Acceptance and the Management of Drug Recalls, which explicitly outlined the handling procedures and measures in case of significant quality or safety incident, in the hope that products can be traced and recalled in a timely manner. During the Reporting Period, the Company did not have any sold products that required a recall due to safety and health concerns.

Environmental, Social and Governance Report

3. Focus on the Research of Decoction Pieces

Believing that R&D and innovation is one of the key elements for sustainable development, the Group has continuously expanded the size of its R&D team and devoted itself to the research of decoction pieces. In March 2021, Zhongzhi Pharmaceutical's innovative R&D team for Chinese medicine decoction pieces was awarded "Zhongshan City Enterprise Team with Outstanding Contribution" (中山市企業突出貢獻團隊) in the Zhongshan City Talent Festival (中山市人才節) in recognition of our contribution and efforts in the field of decoction pieces.

R&D team

At present, the Group has 18 national, provincial and municipal scientific and technological innovation platforms, and a research team comprising professors, senior engineers, doctors and masters. It has introduced an academic committee consisting of 17 top experts in various research fields in the domestic pharmaceutical industry, including Academician Zhou Honghao as director member, Academician Huang Luqi, Academician Wang Guangji, Academician Liu Liang, Academician Wang Qi (national medical master), national medical master Zhou Dai Han as deputy director members, with 5 academicians of the China Academy of Engineering and 2 national medical masters.

The Group has set up the National Enterprise Technology Center, the national and local joint engineering research center of Chinese medicine decoction pieces, and other national, provincial and municipal scientific research platforms. It also undertook national torch plans, national major new drug creation and provincial and municipal scientific and technological innovation projects.

At the same time, the Group also established close industrial-university-research cooperation with the University of Mississippi, Hong Kong Baptist University, Macau University of Science and Technology, Shanghai Institute of Materia Medica, Chinese Academy of Chinese Medical Sciences and other reputable universities and research institutes at home and abroad.

R&D achievements

As of December 2021, the R&D team of Zhongzhi Pharmaceutical has published 92 academic papers relating to Chinese medicine decoction pieces, 8 of which have been indexed by SCI.

During the Reporting Period, the Group published the group standard of the China Association of Chinese Medicine (中華中醫藥學會) "American ginseng with Chinese medicine decoction pieces " led and formulated by us and the ISO standard proposal "Traditional Chinese Medicine – General requirements for the ultrafine powder of herbs " led and applied by us, which were officially approved by ISO TC249, with the number and name of "ISO/WD6904 Traditional Chinese Medicine – General requirements for the ultrafine powder of herbs".

Environmental, Social and Governance Report

4. Protection of Intellectual Property Rights

Zhongzhi Pharmaceutical is keenly aware of the importance of intellectual property rights protection and strictly complies with the Patent Law of the People's Republic of China and the Law on Intellectual Property Rights of the People's Republic of China. In order to avoid infringement of external intellectual property rights, the innovative Chinese medicine research institute of the Group comprehensively conducted patent search and investigation of risks before product R&D was initiated, and comprehensively collected and screened relevant patent documents.

At the same time, we value our own R&D achievements and has carried out patent registration and declaration in strict accordance with the Requirements on Relevant Works on Confidentiality of Corporate Technologies. During the Reporting Period, the projects the Group successfully applied is as follows:

Patents:	4	(2 inventions and 2 designs).
Authorizations:	16	(8 inventions, 2 utility models and 6 designs).

In addition, the Group applied for a total of 29 trademarks during the Reporting Period. At the same time, the "Caojinghua" category 5 (pharmaceutical) trademark of Zhongzhi Pharmaceutical was included in the Key Trademarks Protection List in Guangdong Province (廣東省重點商標保護名錄) by the Key Trademarks Protection Committee of Guangdong Trademark Association (廣東商標協會重點商標保護委員會), and was included in the first batch of the list. As of the end of the Reporting Period, Zhongzhi Pharmaceutical has accumulated a total of 971 registered trademarks. We actively safeguarded brand rights to fully protect the Group's intellectual property rights. We reported to the market supervision and management department and complained about counterfeit and inferior products of well-known trademarks owned by the Group such as "Caojinghua" in the market in accordance with relevant trademark management regulations and systems.

5. Protection of Customer Rights and Privacy

Zhongzhi Pharmaceutical strictly complied with the requirements of drug management in the Medicine Management Law and the Law on Protection of Consumer Interests to protect customer rights. The Group has formulated Management of Consumer Complaints, the Complaint Management Standard and the Standard Operating Procedures for Complaint Handling and other management systems to provide customer with various communication channels, including but not limited to service hotline, email box and official Weibo account to collect customer feedback. Each communication channel has a dedicated department responsible for follow-up with customer feedback. During the Reporting Period, the Company received a total of 25 complaints related to its products and services, 5 of which were confirmed to be untrue.

We attach great importance to consumer privacy protection, and have formulated the Management and Measures of Consumer Privacy Protection to comprehensively guarantee the security of personal information of customers in the online and offline pharmaceutical business process of consulting and purchasing products, and seriously deal with those responsible for illegal leakage of consumer private information. At the same time, we also continuously improve the construction of information system security. To improve employees' legal and professional qualities, we carry out standardized data security and privacy protection laws and regulations and company system announcements for all employees in the pharmaceutical business unit. Regular training sessions are provided to employees and all employees are required to keep consumer privacy in strict confidence, to ensure that employees properly handle and keep the customers' personal information. During the Reporting Period, the Company did not have any violations of leakage of customer privacy information.

Environmental, Social and Governance Report

CONCERN FOR EMPLOYEES

1. Employment

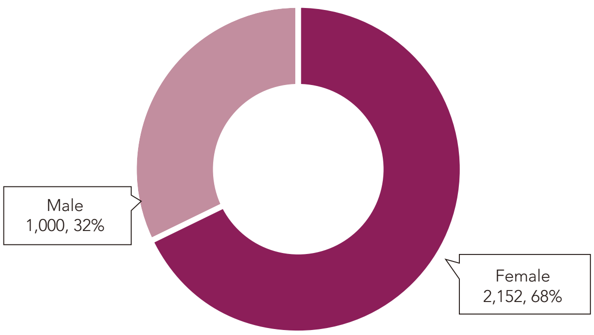
Zhongzhi Pharmaceutical believes that employees are important asset of the Group. We strictly comply with national and local laws and regulations, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China.

In order to achieve our talent strategic objectives, we have developed the Human Resources Management System and related systems to optimise the management of personalised and revitalised resources in a systematic and standardized manner.

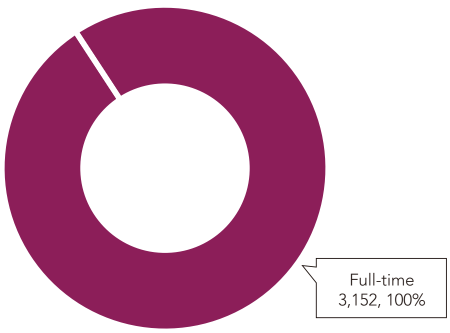
During the Reporting Period, the Group is not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the Group.

As at 31 December 2021, the Group had 3,152 employees, all of them are full-time employees, the distribution of which is as follows:

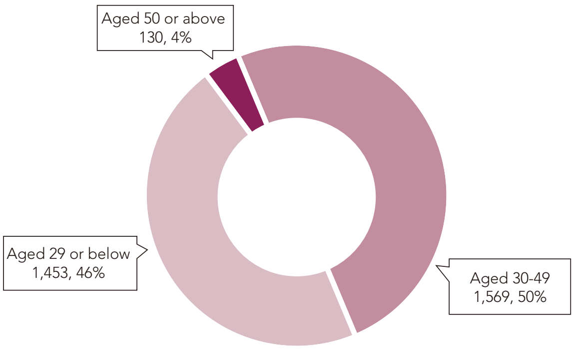
Total number of employees by gender



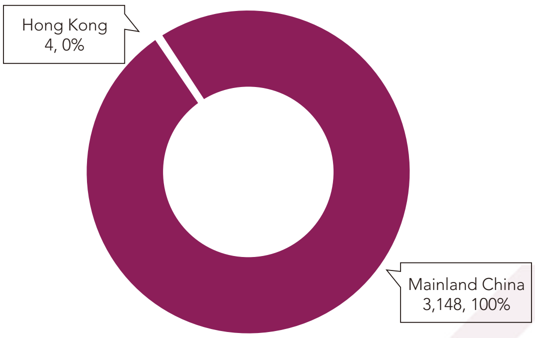
Total number of employees by employment type



Total number of employees by age



Total number of employees by geographical region



Environmental, Social and Governance Report

		Unit	2021
Total number of employees		Person	3,152
By gender	Male	Person	1,000
	Female	Person	2,152
By age	Below 29	Person	1,453
	30-49	Person	1,569
	Above 50	Person	130
By geographical region	Mainland China	Person	3,148
	Hong Kong	Person	4

Equal employment

In order to protect the rights and interests of the Company and its employees, the employment contract is entered into upon negotiation between both parties. We continuously upgrade our talent introduction incentives, optimise the interview process and improve recruitment efficiency to improve our talent pipeline. During the Reporting Period, the Group continued to launch campus recruitment by visiting universities to conduct briefing sessions and offline job interviews, which has provided a number of outstanding fresh graduates to the Company's talent pool to meet the demand for talents from various departments to the greatest extent.

We adhere to the principles of "justice, fairness and openness", and will not discriminate any employee based on their social identity, such as ethnicity, race, nationality, religion, gender, age, sexual orientation, political factions and marital status, when it comes to their employment, remuneration and promotion.

The Group has formulated policies, such as the Management Rules on the Confirmation after Probation for New Employees of the Group and the Management Rules on Employee Rehiring, to standardise the management process of new staff appraisal and employee rehiring.

Environmental, Social and Governance Report

The Company manages the turnover of employees and stipulates the approval procedures for dimission in the Company's internal system. The employee turnover data for the Reporting Period are as follows:

		Unit	2021
Employee turnover rate		Percentage	51.2
By gender	Male	Percentage	61.0
	Female	Percentage	46.6
By age	Below 29	Percentage	72.0
	30-49	Percentage	34.3
	Above 50	Percentage	23.1
By geographical region	Mainland China	Percentage	51.3
	Hong Kong	Percentage	0

Protection of remuneration and benefits

In order to protect the interests of employees and provide basis for remuneration and benefits, the Group has formulated policies, such as the Attendance Management System and the Remuneration Structure Management Methods, to regulate attendance and vacation. The policies of the Company expressly stipulate that the staff remuneration comprises of basic salary, other allowances, commissions, bonuses and contributions to the mandatory provident fund or stated-managed retirement benefit scheme; other benefits include share options granted under the share option scheme and shares granted under the share award scheme.

We also provide our staff with various holidays and benefits, such as paid holidays, social and commercial insurance, housing funds, corporate annuity, annual body check, education, and continuing education opportunities.

Staff communication

The Group values its relationship and communication with its staff. We have established the Management Procedures of Staff Whistle-blowing and Complaints to understand the needs of our staff through communication and feedback, including but not limited to regular staff and departmental meetings, bulletin board and internal publication, intranet communication, and employee satisfaction surveys, and to actively work on improvements based on feedback from staff.

During the Reporting Period, a questionnaire was sent to 396 employees. In the 2020 survey, we found that the key sore point of shop managers is that the daily work of shops is rather tedious. In this regard, we continued to adopt the information system during the Reporting Period to help shop managers on task management and reduce their workload.

Environmental, Social and Governance Report

2. Health and Safety

The Group attaches great importance to the health and safety of its employees and strictly complies with national and local laws and regulations such as the Work Safety Law of the People's Republic of China and the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, and has formulated the Occupational Health Management System, to create a safe working environment for its employees by continuously improving the safety conditions in the workplace.

During the Reporting Period, the Group was not aware of any material non-compliance of laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that would have a significant impact on the Group.

Production safety

We have formulated the Safety Standard Document and have improved the safety conditions of the working environment through the following measures:

- requiring that production areas should be designed reasonably to separate hazardous operating area from non-hazardous ones;
- installing alarm systems and formulating emergency plans; and
- setting on-site emergency appliance and having necessary venting area, so as to provide work environment and conditions which meet the production safety requirements.

The Group's occupational health and safety data for the Reporting Period is as follows:

	Unit	2021[1]	2020	2019
Work-related fatalities	Person	0	0	0
	Percentage	0	0	0
Work injury	Number	9	8	15
	Lost days	143	89	596

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

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In order to reduce the number of work-related injuries and maintain zero work-related fatalities, the Group continues to improve its safety management system and set annual production safety targets for the Group and its subsidiaries. To achieve these goals, we have adopted a number of measures, including but not limited to:

- strengthening the reminding of risk points in key areas;
- identifying and rectifying potential safety hazards;
- conducting safety training and drills;
- implementing the operating positions certification; and
- implementing a safety reward and punishment system.

Examination for production management positions

Examination for production management positions was one of the Group's safety priorities for the Reporting Period to ensure that candidates for key production management positions pass both theoretical and practical examinations before they are allowed to take up their duties. Candidates have to pass "four barriers" – competition, study, examination and practical operation. The Safety Office has set up a "job-specific" assessment scheme for the major risk factors of production positions, covering safety precautions before, during and after production process to ensure that candidates have adequate knowledge of safe production.

Guangdong Caojinghua – potential safety hazards identification and rectification, staff safety education

In order to provide a safe working environment, during the Reporting Period, Guangdong Caojinghua conducted a total of 30 safety inspections on scenarios or themes including the resumption of work after the festival season, special equipment, key areas, summer power rooms and outdoor electric cabinets on the roofs. A total of 127 potential hazards were detected, and all rectifications were completed on time subsequently.

Occupational health

We have formulated the Management System of Corporate Potential Occupational Hazards and performed regular review of causes of occupational hazards to reduce occupational hazards and prevent occupational diseases.

At the same time, in accordance with the Management Rules of Occupational Health, we have implemented a number of protective measures to protect the health of our staff, including:

- providing labour protection articles such as anti-static clothing, anti-dust respirators, sterilized gloves and others for every position in workshop;
- requiring the department which generates dust to strictly manage all dust-generating equipment and opening and closing of dust source points; and
- posting warning signs in obvious workplaces for the operational positions that are vulnerable to occupational diseases as a reminder for the threat imposing by such diseases.

Environmental, Social and Governance Report

We also regularly arranged for relevant personnel to have professional medical check, and those in special positions shall conduct special medical check at the Disease Control Center or the approved and recognized hospitals, and the result of the medical check shall be included in the "Occupational Health Monitoring File".

Guangdong Caojinghua – on-site spot tests on occupational hygiene and health

In order to protect the health and safety of the Company's employees, during the Reporting Period, Guangdong Caojinghua commissioned a third-party testing institute to conduct on-site spot tests on occupational hygiene and health in the working environment of the production workshops, including coarse powder, micro powder, granulation, packaging, outsourcing and laboratories, etc. The test results showed that the standards were met, effectively preventing the risk of occupational diseases.

In addition to the occupational health of staff, the Group is also concerned about the mental health of staff. In order to create a positive workplace environment, the Group has demonstrated its care and concern for its staff in its various personnel management policies, as well as hosted a wide range of activities, such as garden party, annual tour and birthday gifts to create a harmonious and friendly workplace atmosphere.

We have set up six hobby clubs to promote work-life balance among our staff. We also have a staff recreation center, which provides a bodybuilding environment for our staff and encourages them to exercise and strengthen their bodies after work. During the Reporting Period, we organised three large-scale fun and educational activities to enhance staff's sense of belonging to the company and to promote team communication and relieve staff's work stress.

3. Training and Development

Zhongzhi Pharmaceutical believes that the career and professional competitiveness of its staff is one of the cornerstones of its long-term development. Therefore, the Group is committed to providing a comprehensive training system for its staff to enhance their professionalism.

Staff training

The Group has formulated, among others, the Management System on Training, the Training Structure and Plan and provided training opportunities in a variety of form and content, including but not limited to:

Training Form	Training Content
• corporation-level training; • department training; • external training; • orientation training • transfer training; • promotion training; • special work training; and • other specific training.	• Corporate culture; • management knowledge and skills; • professional knowledge and skills; • safety management knowledge; • professionalism and systems; and • annual GMP training, etc.

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The Group's staff training data during the Reporting Period are as follows:

		Unit	2021[1]
Total number of staff participating in training		Person	2,444
Total percentage of staff participating in training		Percentage	85.3
Percentage of staff trained			
By gender	Male	Percentage	79.4
	Female	Percentage	87.8
By employee category	Senior management	Percentage	95.8
	Middle management	Percentage	82.0
	Non-management	Percentage	85.4
Average training hours per staff			
By gender	Male	Hour	41.6
	Female	Hour	55.0
By employee category	Senior management	Hour	13.7
	Middle management	Hour	20.0
	Non-management	Hour	52.8

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

In addition, the Group also provided relevant training courses in line with the changes in industry regulations to ensure that staff understand and comply with the latest industry requirements. During the Reporting Period, Guangdong Caojinghua provided in-house training on the GMP regulations for health food products, the Regulations on the Management of Health Food Labels and Guidelines on the Use of Health Food Warnings and other regulations.

Double Hundred Talents Academy

Double Hundred Talents Academy is the Group's project for cultivating outstanding marketing and management talents, laying a solid foundation for achieving the Group's goal of decoction pieces of 10 billion and a market value of 10 billion. The Group actively organised key staff from the middle level and above to participate in courses on the Group's corporate culture, the teaching of Confucianism and organisational behavioural science. In order to increases staff participation and enhances their management ability and leadership, the training courses are conducted in various ways, such as course learning and development training, and the staff's training assessment results are linked to their promotion opportunities and stock incentives.

Environmental, Social and Governance Report

Occupational development

The Group is highly concerned about the development of its staff. We have formed a talent pipeline program, conducted selection and evaluation for all the classes of position, so as to optimise human resource distribution and internal promotion, and train employees to become leaders of respective fields. We adhere to the principle of the "Integration of uniform plan, personnel leveling and diversification of methods with supervision control", encouraging employees to obtain occupational development opportunities through outstanding performances and work performances. We will evaluate the performance of managerial and technical employees on a semi-annual basis, and offer promotions based on their performance.

Employees are encouraged to pursue further education to help upgrade their qualifications and obtain vocational certificates. At the same time, the Group and Torch Polytechnic have jointly organized the "Modern Apprenticeship Pilot Class" – "Zhongzhi Class" to provide learning opportunities for staff.

"Modern Apprenticeship Pilot Class" – "Zhongzhi Class"

The program is a three-year program. Upon completion of the prescribed courses during their employment, students will be awarded graduation certificates from full-time general vocational college education after meeting the graduation requirements as evaluated by Zhongzhi and Torch Polytechnic. The program recruits the employees of the Group through the national adult examination, and the main cultivation method is school-enterprise on-the-job training and alternate school-enterprise work-learning. Based on the professional curriculum system of vocational competencies, the college and the enterprise have jointly formulated and implemented the talent cultivation program, curriculum standards, job standards, quality control standards and corresponding implementation plans. During the Reporting Period, a total of 41 students enrolled in Phase 2.

4. Labour Standards

We strictly comply with the laws and regulations promulgated by national and local governments, including but not limited to the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China and the Provisions on the Prohibition of Using Child Labour.

The Group conducts stringent scrutiny of candidate identity during recruitment. In case of child labour, the child labourer would be sent to his/her original place of residence and handed over to their parents or other guardians by the relevant authorities.

During the Reporting Period, the Group was not aware of any material non-compliance of laws and regulations relating to preventing child and forced labour that would have a significant impact on the Group.

Environmental, Social and Governance Report

GREEN OPERATION

The Group always upholds the philosophy of green operation and strictly complies with applicable laws and regulations on environmental protection, including but not limited to the Environmental Protection Law of the People's Republic of China and the Administrative Measures on Environmental Protection for Pharmaceutical Industry. At the same time, we will regularly check for updates on compliance with the requirements and strive to reduce risks in environmental protection compliance arising from operations.

To build an image of a green enterprise, the Group has established and implemented a comprehensive environmental management system to quantify and monitor our emissions and usage of resources under an effective organisational and information framework. We continue to improve our environmental performance by carrying out other dedicated projects.

1. Emission management

The Group is committed to reducing the environmental impact caused by its production process. We have formulated and implemented the "Environmental Protection Management System of Zhongzhi Pharmaceutical Company". Each of subsidiaries has developed its own detailed policies including the Sewage Discharge Management System, Gas Emission Management System and Solid Waste Management Measures in line with their own production processes and compliance requirements on environmental protection of the places where they operate. In order to minimise the environmental impact arising from production and operation activities, the subsidiaries of the Group have also taken various measures to reduce emissions.

We regularly assess whether the relevant environmental policies are applicable to the regulatory requirements in the places where we operate and amend them where necessary to meet the latest requirements.

In order to further achieve energy saving, consumption reduction, pollution reduction and efficiency enhancement, Honeson Pharmaceutical, a subsidiary of the Group, passed the Cleaner Production Audit in 2019 and continued its green production efforts during the Reporting Period.

Air emission management

The Group's air pollutants mainly arise from the operation of gas boilers. During the Reporting Period, the emission data of the Group is as follows:

Types of Emissions	Unit	2021[1]	2020
Nitrogen Oxides (NO_x)	Tonne	2.75	2.77
Sulphur Oxides (SO_x)	Tonne	0.51	0.10
Particulate Matters (PM)	Tonne	0.07	0.09

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

During the Reporting Period, the Group reduced the emission of nitrogen oxides and particulate matters, and increased the emission of sulphur oxides as compared with 2020. In order to reduce air emissions and ensure that air emissions meet standards, we conduct regular repair and inspection on our boilers and related equipment, as well as environmental protection facilities, and have engaged a qualified third-party testing firm to monitor our air emission.

Environmental, Social and Governance Report

Greenhouse gas emission management

The Group's direct greenhouse gas emission are generated from the use of automobiles and the burning of fossil fuels in the operation of staff canteen, while indirect greenhouse gas emissions are mainly from the use of electricity and steam systems.

During the Reporting Period, the data of greenhouse gas emissions of the Group is as follows:

Emission Quantity of Greenhouse Gas	Unit	2021[1]	2020
Scope 1 Emission	tCO_2e	3,659.19	2,680.69
Deductions from Scope 1 (Trees Planting)[2]	tCO_2e	245.04	N/A
Scope 2 Emission	tCO_2e	18,514.15	14,343.08
Total Greenhouse gas emissions[3]	tCO_2e	21,928.30	17,023.76
Intensity	tCO_2e/revenue in million RMB	12.56	10.61

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

2. The Group has started to disclose the deductions from greenhouse gas emission Scope 1 since the Reporting Period.

3. The calculation method of the greenhouse gas emissions in this report mainly refers to the relevant contents listed in the "Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Enterprises in Other Industries by the National Development and Reform Commission (Trial)" and "Appendix II: Reporting Guidance on Environmental KPIs" of the Stock Exchange of Hong Kong.

The Group's greenhouse gas emissions increased by approximately 29% as compared with that in the previous year due to increased production. In order to reduce air emissions and resource consumption, we adopted a number of energy conservation and emission reduction measures during the Reporting Period. Please refer to the section headed "Use of Resources" in this report for relevant measures.

Solid waste management

The Group mainly divides the wastes generated in the process of research and development, production and office operations into hazardous and non-hazardous wastes. We strictly comply with the Law of People's Republic of China on the Prevention and Treatment of Solid Waste Pollution to Environment, Directory of National Hazardous Wastes and other local regulations and industry standards, Zhongzhi Pharmaceutical has formulated various policies including the Solid Waste Management Measures, to enable systematic management of wastes.

Environmental, Social and Governance Report

During the Reporting Period, the relevant data of solid wastes is as follows:

	Unit	2021[1]	2020
Hazardous Waste			
Total amount	Tonne	8.89	6.28
Intensity	kg/revenue in million RMB	5.10	3.91
Non-hazardous Wastes			
Total amount	Tonne	1,166.95	866.87
Intensity	Tonne/revenue in million RMB	0.67	0.54

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Hazardous wastes

The hazardous wastes generated by the Group mainly include laboratory waste liquids, reagents and waste medicines. The hazardous wastes generated by the Group increased by approximately 42% as compared with that in the previous year due to increased production.

For the treatment of hazardous wastes, we have set up storage areas for hazardous wastes and added hazard warning signs in prominent places pursuant to the Pollution Control Standard for Hazardous Waste Storage of China and other rules. The appointed dedicated personnel shall be responsible for the storage, transport, handling and contingency management of hazardous wastes. At the same time, we conducted prudent review and filing of important documents such as disposal contracts and transfer notes of hazardous wastes.

In order to sort out potential environmental risks, Honeson Pharmaceutical, a subsidiary of the Group, has prepared Hazardous Wastes Contingency Plan for Zhongshan Honeson Pharmaceutical in accordance with the requirements of the Guidelines for the Development and Implementation of Environmental Emergency Response Plans for Enterprises and Institutions in Guangdong Province (Trial), and has established a sound emergency mechanism for environmental pollution incidents. At the same time, another subsidiary of the Group, Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., has also established a corresponding plan mechanism to enhance its ability to respond to emergencies and dangerous situations.

Environmental, Social and Governance Report

Non-hazardous wastes

Non-hazardous wastes are classified as recyclable or non-recyclable. The non-hazardous wastes generated by the Group increased by approximately 35% as compared with that in the previous year due to increased production.

Recyclable wastes are recovered by recycling agencies regularly, including scrap iron cans and waste paper; while non-recyclable wastes will be stored centrally and disposed of periodically.

In order to further reduce non-hazardous wastes, we launched a comprehensive equipment preventive maintenance programme to prevent and reduce equipment breakdown so as to reduce the amount of waste plastic film and packaging materials generated. In order to reduce the equipment breakdown rate, we carried out regular maintenance of equipment according to schedule, conducted equipment checks on a regular basis, established an equipment lubrication management mechanism and implemented on-site management of equipment lubrication.

Sewage discharge management

In strict compliance with the Water Pollution Prevention Law of the People's Republic of China and according to relevant requirements of the Sewage Discharge Management System, we conduct discharge examination each year and make detailed records on the daily operation and maintenance of sewage treatment facility.

During the Reporting Period, the sewage generated during the operation of the Group and related data are as follows:

	Unit	2021[1]	2020
Waste water	Tonne	223,414	154,517
Chemical Oxygen Demand (COD)	Tonne	20.29	4.96
Ammonia nitrogen	Tonne	0.12	0

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

The production of Chinese patent medicine and decoction pieces products and equipment maintenance are the main sources of production of sewage, and the sewage was discharged into the municipal drainage pipeline after being treated in the treatment facility located in the factory. During the Reporting Period, the Group's subsidiaries, Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Guangdong Caojinghua and Honeson Pharmaceutical, implemented registration management for sewage discharge. The Company strictly complied with the regulatory requirements to ensure that sewage discharge meets the standards. However, the Group's subsidiary, Honeson Pharmaceutical, is in the progress of upgrading and commissioning of the sewage system, one of the total phosphorus indicators exceeded the discharge standard in one of the samplings in July 2021, and was imposed with administrative penalties by the West District Street Office of the Zhongshan Municipal People's Government. As the system is in the running and commissioning stage during the sampling period and has not yet passed the inspection and acceptance, Honeson Pharmaceutical immediately carried out checking and rectification through cause investigation, conducted alteration regarding the buckets, and formulated operating procedures to regularly clean the buckets to prevent pollution caused by the lack of circulation of water flow at the bottom. Honeson Pharmaceutical has engaged a third party to conduct three sampling and monitoring after the completion of rectification. All the relevant emission has met the emission standards.

In order to avoid or mitigate water pollution, the Group has established the Environmental Protection Emergency Plan as corresponding steps in case of equipment breakdown or emergency.

During the Reporting Period, besides the above-mentioned incidents, the Group was not aware of other material non-compliance with laws and regulations related to air and greenhouse gas emission, discharges into water and land, and generation of hazardous and non-hazardous wastes that would have a significant impact on the Group.

2. Use of Resources

Zhongzhi Pharmaceutical deeply understands the importance of efficient use of resources and energy conservation and emission reduction on sustainable development. In order to reduce greenhouse gas emissions and improve performance, we adopt "improving overall efficiency, ensuring normal operation and reducing operating costs" as the equipment energy management policy and continue to review and optimise the systems, and transform projects through day-to-day lean management and implementation of energy conservation.

During the Reporting Period, the energy consumption data of the Group is as follows:

Energy	Unit	2021[1]	2020[2]
Gasoline	MWh	1,171	833
Diesel	MWh	413	291
Natural gas	MWh	13,921	11,516
Liquefied petroleum gas[3]	MWh	57	Not applicable
Purchased power	MWh	29,805	19,363
Purchased steam	MWh	834	2,146
Total energy consumption	MWh	46,201	34,149
Intensity	MWh/revenue in million RMB	26.45	21.29

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

2. The 2020 data has been recalculated to improve reference and comparability.

3. The Group has disclosed its data of liquefied petroleum gas since the Reporting Period.

According to the Workplace Safety Management System of Zhongzhi Pharmaceutical Group, the Group must conduct regular examinations of equipment operation, lighting management and pipeline opening and closure. In order to avoid energy waste and maximise the utilization rate of the Company's production equipment, we have revised the Specification of Good Condition of Equipment to conduct normalised management of daily equipment operation. Workshops of each subsidiary actively responded to the energy conservation call of the Group and reviewed energy conservation in depth so as to maximize energy management in safety inspection and energy-consuming equipment maintenance in line with their own circumstances.

Environmental, Social and Governance Report

During the Reporting Period, the Group continued the implementation of the "Efficiency Improvement Program for Equipment and Facilities Management", established a "Management Efficiency Improvement" action group led by the Group's executive directors and the leadership of the Safety Office, and set 2021 action targets from saving power and water for production and improving equipment utilisation and other aspects, and through the improvement of procedures and assessment system, to achieve the current target for 2021 more effectively:

Procedure	• Each level assumes corresponding responsibility, and the overall goal is broken down into specific targets for implementation in each department to make goals of action become clear.
Assessment	• An assessment, reward and penalty mechanism is established. • The Company's performance assessment team and the machine transport area conduct monthly assessments of the energy consumption of functional departments and units with specific targets, and honor rewards and penalties.

In order to manage and standardise idle equipment in an all-round way, the Group continues to strengthen and strictly implements the energy-saving system, and continuously improve the approval procedure for equipment engineering projects. At the same time, we implemented initiatives including "Internet + Equipment" data-based monitoring and operation, to practice energy saving from three aspects including the management mechanism secure, efficiency improvement, and equipment improvement. During the Reporting Period, the Group exercised control over the engineering and technical audits and successfully saved approximately RMB653,000 for the Group.

During the Reporting Period, we adopted the following measures in respect of saving energy consumption and improving energy efficiency.

i. *Improving energy efficiency – production scheduling system*

Centralised production was achieved through the production scheduling system. The production department formulated weekly, monthly and annual production plans through production orders and sales forecasts, such as arranging for centralised production of small items, which directly reduced the need for single process or small number of processes production arrangements for multiple periods, in order to efficiently coordinate with departments and workshops to realise centralized use of water, electricity and steam, thus achieving the goal of efficient energy utilisation.

The remaining functional departments ensured the use of materials in production through planned material procurement control, timely material acceptance and accurate material inspection, as well as equipment running time through spare parts planning and timely maintenance response system.

ii. *Reducing energy waste – an appointment system for use of public systems*

In order to reduce energy waste, the Group actively promotes the appointment system for use of public systems on production lines. The appointment system for air compressors, steam, air conditioning and pure water is adopted to enable energy used according to demand and enabled production time to be matched, as well as energy to be supplied centrally and shut down in a timely manner after use.

Electricity consumption reduction

Electricity consumption is the largest resource consumption of the Group, representing approximately 65% of the total energy consumption. In order to control the electricity consumption effectively and reduce energy waste, the Group implemented stricter management of electricity consumption, including but not limited to:

- the Safety Office made division according to areas and work nature and conducted classified management to control the use of high energy-consuming and inefficient equipment;
- energy-saving initiatives were carried out throughout the Company and efficient and energy-saving signs are posted to promote energy conservation; and
- control of improper connection of electricity, electricity theft and failure to switch off equipment in a timely manner was strengthened.

At the same time, the Group implemented the following green office measures in daily operations to further save electricity consumption:

- Reducing lighting energy consumption and switching off lights when not in use;
- Turning off office equipment such as computers, monitors, printers, photocopiers and water dispensers in a timely manner to reduce standby energy consumption; and
- Controlling the use of air conditioning (air conditioning in use from 15 April to 31 October). In summer, the indoor temperature in the office is 26 degrees or more, and the air conditioning must not be switched on when the indoor temperature is below 26 degrees.

Water conservation

The Group has been sparing no effort to promote water saving actions to improve the utilisation rate of water resources. We promoted the rational and recycled use of water according to the Environmental Protection Management System of Zhongzhi Pharmaceutical Company. During the Reporting Period, the Group has no problem in obtaining suitable water sources. The data of water consumption is as follows:

	Unit	2021[1]	2020
Total water consumption	m^3	338,003	205,857
Intensity	m^3/revenue in million RMB	193.53	128.34

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

Environmental, Social and Governance Report

The Group's water consumption increased by approximately 64% as compared with that of previous year due to increased production. In order to reduce water consumption, the Safety Office of the Group analysed the Company's water consumption on a monthly basis, singled out departments with abnormalities or large fluctuations in water consumption for analysis and provided the solution, and dealt with water resource wastage in a timely manner.

At the same time, we consolidated and enhanced the awareness of our employees of water conservation through a number of measures. The Safety Office of the Group also posted water-saving signs at prominent positions in the Company to promote the concept of water saving, and each subsidiary and production unit will remind employees to take water-saving actions through equipment cleaning and reuse of water resources.

Packaging materials usage reduction

In order to ensure the quality of our diversified products, we used a variety of packaging materials, including composite membrane, paper materials, and plastics. During the Reporting Period, the consumption of the Group's packaging materials is as follows:

Packaging materials	Unit	2021[1]	2020
Total consumption of packaging materials	Tonne	5,057.62	4,531.26
Intensity	Tonne/revenue in million RMB	2.90	2.82

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

The consumption of the Group's packaging materials increased by approximately 12% as compared to that of previous year due to increased production. In order to reduce the impact of product life cycle on the environment, under the premise of ensuring that product preservation is not affected, we continue to upgrade packaging technology and reduce the usage of printing inks and packaging materials.

3. Protection of Ecological Environment

With the mission of being a green enterprise, the Group strives to balance the corporate development and the sustainable social development. The Group identifies the impact of its own activities, products and services on the ecological environment through a range of procedures, while identifying, monitoring and reviewing each stakeholder's expectations for ecological environment protection. We have formulated and strictly implemented the "Environmental Protection Emergency Plan", which seeks to minimise the adverse impact caused by accidents in production on the ecological environment.

The Group has also insisted in the development of standardised plantation bases for Chinese medicine herbs over the years, and attaches great importance to biodiversity protection while further developing ecological planting techniques, in order to reduce the environmental impact of base planting activities as well as improve the quality and security of the Chinese medicine herbs.

Environmental, Social and Governance Report

During the Reporting Period, the Group launched organic planting projects in Astragalus Base, Gansu, and made raw herbal materials in Astragalus planted by nuisanceless planting techniques meet the requirements of organic products certification, while protecting the environment to the greatest extent. Astragalus, the result of the project, has even obtained the organic certification of the European Union and the United States. In addition, we obtained some technical achievements through the previous cooperation project with the China Academy of Chinese Medical Sciences, and transformed the results into actual cultivation process of traditional Chinese medicinal materials to carry out simulated cultivation, and to improve the quality of Houttuynia cordata, the soil microenvironment and the land utilisation. The research result of "Study on the Impact of Different Treatment Methods and Storage Conditions on the Germination of Houttuynia Cordata" was published in the Journal of Chinese Medicinal Materials.

4. Coping with Climate Change

As a major global environmental challenge, climate change has received more and more attention from society in recent years. With the nation's long-term climate targets of carbon peaking by 2030 and carbon neutrality by 2060, the concept of carbon reduction is also regarded as the main direction in the "14th Five-Year Plan" for the protection of the ecological environment for ecological and environmental protection. The Group believes that energy saving, consumption reduction and carbon reduction will inevitably become the new direction of corporate development.

As a responsible enterprise, the Group has incorporated climate and environmental risk management into its business strategies and decisions, and continued to strengthen its climate and environmental risk management. We are very concerned about the impact of climate changes on business activities. Since traditional Chinese medicine resources are special agricultural resources, their cultivation, growth and harvest may be affected by climate changes. Light, temperature, humidity and ventilation may all have an impact on the medicinal properties and quality of Chinese herbal medicines, and climate fluctuations may also cause changes in the genuine producing area of medicine herbs. In face of the challenges of climate change, we has stepped up its efforts in climate monitoring and regularly collected climate-related indicators such as light, rainfall, temperature and humidity from various Chinese medicine cultivation bases. The Group's Chinese medicine resources department has carried out a long-term special research project on the quality of Chinese herbs to assess the active constituent of herbs under different climatic conditions and continuously monitor and investigate the impact of climate factors on the quality of Chinese medicine herbs.

At the same time, we proactively responded to the national policy, and was committed to energy saving and emission reduction. During the Reporting Period, we set the targets for energy saving and emission reduction and decentralised to various business units, with the concept of greening being implemented in all aspects of operations. We implement the following measures in the production process and daily business to further reduce greenhouse gas emissions and resource consumption.

Improving production technology	• continued to improve production and processing technics; • implemented layout optimisation solutions; and • tried out new equipment and technologies.
Promoting green office	• Short-term initiative: carried out digital construction and launched a collaborative office management system (OA). • Long-term initiative: reduce resource consumption through information management and implementing paperless office.

Environmental, Social and Governance Report

SUPPLY CHAIN MANAGEMENT

The Group is committed to the principle of quality first and attaches great importance to supply chain management. According to the Pharmaceutical Operation Quality Management Standard and "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", we formulated the Management Regulations on Suppliers to appraise suppliers in terms of qualification, environmental safety and information access, so as to ensure that the quality of procured materials satisfies the requirements of the Group.

1. Distribution of the Suppliers

To ensure the quality of our products, we select quality suppliers across the country. As at 31 December 2021, Zhongzhi Pharmaceutical had a total of 562 suppliers. The regional distribution of suppliers is as follows:

	Unit	2021[1]
Number of suppliers	Number	562
By region		
Mainland China	Number	388
– South China	Number	173
– Non-South China		
Others	Number	1

Note:

1. The data of 2021 covers Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd., Guangdong Caojinghua Cell-broken Herb Co., Ltd., Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd., Zhongshan Honeson Pharmaceutical Co., Ltd. and Zhongshan Zhongzhi Chain Pharmacies Company Limited.

2. Stringent Suppliers Assessment

To ensure that suppliers possess materials production and operation qualifications, we require suppliers to provide relevant certificates, such as "Permits on Pharmaceuticals Production" and "Business Licenses for Corporations", and the pharmaceuticals registration certificates, drugs packaging certificates, quality standards and inspection standards for relevant materials. We conducts quality assessment on materials and makes objective evaluation on suppliers in consideration of various factors such as quality risks for pharmaceuticals, materials usage and the extent of materials' impacts on pharmaceutical quality, so as to ensure that the quality and safety of medicine and other medical products are up to standard. We will only include those qualified suppliers into the list of qualified suppliers. At the same time, in order to ensure that raw materials procurement complies with the internal standards of the Company, the list of qualified suppliers specifies the permitted scope of materials supply of each supplier. Any pharmaceuticals or materials found to be sub-standard will be rejected and returned to the suppliers. To ensure that quality of materials is able to satisfy the business needs, we update our supplier requirements from time to time based on the conditions of materials.

Environmental, Social and Governance Report

In order to effectively implement the supplier assessment and management system and strengthen supplier management, we conduct regular assessments of existing suppliers and also commence second on-site audits of its long-term suppliers on a regular basis, in order to enhance guarantee for quality and delivery of suppliers. During the Reporting Period, we conducted quarterly performance evaluations of 30 major suppliers, evaluated multiple aspects such as delivery quality, delivery service and coordination, and kept the supplier notified on a quarterly basis and requested improvement to the complaints. In the meanwhile, we reviewed 4 packaging material suppliers, and immediately requested each supplier to rectify the problems identified in the on-site audits. The suppliers have implemented all rectification measures.

3. Support for accountability to drive common development

In order to achieve a sustainable supply chain, Zhongzhi Pharmaceutical emphasizes the environmental risks and operational integrity of suppliers and strengthens the assessment of these two aspects.

Environmental risk control

In order to improve the management standard of environmental risks for our supply chain, the Group performs environment evaluation on suppliers in the process of appraisal and signs environmental protection agreements. We put forward requirements in aspects of packaging materials reduction, energy-saving and emissions reduction, chemical management and product transportation, etc.

Operational integrity assessment

To promote anti-corruption awareness and corruption risk prevention among suppliers, the Group implements disciplinary management on suppliers, who are required to sign an integrity agreement covering operation with integrity and self-discipline. Bribery of any kind is strictly prohibited in procurement.

Improvement of friction coefficient and slitting process of composite membrane by suppliers

The Group led suppliers to improve the friction coefficient and slitting process of composite membrane, which reduced the winding tension and increased the winding taper, and also significantly reduced membrane waste and loss. At the same time, Guangdong Caojinghua also set internal standard for composite membrane usage and assessed the production workshops to reduce the amount of composite membrane used and discarded.

Environmental, Social and Governance Report

ANTI-CORRUPTION

Operation with integrity is one of Zhongzhi Pharmaceutical's priorities. We advocate honesty as its corporate culture through the implementation of a number of anti-corruption activities. The Group strictly complies with the Provisional Requirements for Prohibiting Commercial Bribery and other related laws and regulations, and have formulated several internal policies, including but not limited to:

- Directors and Management's Code of Ethics;
- Staff Code of Ethics;
- Management Procedures of Staff Whistle-blowing and Complaints;
- Zhongzhi Pharmaceutical High-voltage Grid Commitment Letter; and
- Integrity Policies.

In addition, we have a dedicated legal department and legal counsels to deal with corruption behavior centrally and seriously. During the Reporting Period, there was no corruption litigation case brought against the Company or its employees and the Group is not aware of any material non-compliance with the laws and regulations relating to bribery, extortion, fraud and money laundering that would have a significant impact on the Group.

1. Integrity policies

In order to communicate stringent anti-corruption and anti-fraud requirements to our staff, the Group formulated the Integrity Policies, which specifies a range of requirements for business operation and employee behaviours, including but not limited to:

Corporate	• The Company advocates honesty as its corporate culture, and encourages and protects its staff for honestly revealing any conducts in breach of laws and regulations and dishonesty within the Company. • The Company shall strengthen safety management measures such as whistle-blowing mailbox, telephone hotline and email, and strictly distinguish the responsibilities for whistle-blowing information management and investigation. The usage of information and files shall undergo stringent approval procedures.
Employees	• Staff shall refuse fraud conducts in a self-conscious manner and enhance the corresponding awareness of prevention thereon, while effectively prevent and report fraud conducts. • All staff shall be subject to the supervision of national and capital market regulatory institutions based on the relevant law, and shall safeguard the legal interests of the Company in a self-conscious manner. • Staff shall be in strict compliance with the laws and regulations as well as regulatory requirements in relation to anti-business corruption, and distinguish the boundaries between ordinary business dealings and irregular trading. Breaches of business ethics and market rules as well as improper trading conducts affecting fair competition in operation shall be strictly rectified. Cooperation with regulatory institutions based on the law is made for the investigation and handling of business corruption cases in breach of laws as well as of giving and receiving properties or other benefits.

Environmental, Social and Governance Report

2. Whistle-blowing channels

In order to enhance corporate governance and internal control as well as safeguard the legal interests of the Company and shareholders, the Group provides employees with whistle-blowing channels. At the same time, the Group believes that suppliers are an important part of anti-bribery efforts, and therefore we actively communicated with suppliers to prevent commercial bribery and eliminate corruption. To enhance the suppliers' awareness of anti-corruption, we clearly stipulated that all suppliers must sign the Business Integrity Agreement when entering into formal contracts. A reporting hotline was clearly published in the Business Integrity Agreement to ensure smooth reporting channels.

3. Anti-corruption training

During the Reporting Period, all of the Group's new staff underwent integrity training with a total of 1,485 participants. At the same time, Guangdong Caojinghua also included anti-corruption content in its staff handbook and organised training to 80 staff to effectively enhance their awareness of anti-corruption.

CONTRIBUTION TO SOCIETY

As a pharmaceutical company with a high sense of social responsibility, Zhongzhi Pharmaceutical also keeps in mind to give back to the society while continuously improving its business operations. The Group takes "creating a healthy life through intelligent manufacturing" as its goal, and considers the improvement of the health of all people as the strategic goal of a healthy China. We actively promote the high-quality development of the Chinese medicine business and industry, inherit the essence of Chinese medicine civilization, fully leverage on the unique advantages and functions of Chinese medicine in disease prevention and treatment, and promote healthy products and services to the public to attempt to better provide medical welfare to society.

In recent years, Zhongzhi Pharmaceutical has actively participated in various public welfare and charities, and has focused on four main areas:

Promotion of healthy products and services	Poverty alleviation
Support community development	Fight against the pandemic

1. Promotion of healthy products and services

During the Reporting Period, the Group organized Herbal Health Festival in Guangdong, Shandong, Hunan and Jiangsu to actively promote health products and services to the public, enhance health awareness of the public, and establish an emerging health concept for the whole society. However, some of the kick-off meetings were pushed back or suspended due to localized outbreak of the pandemic.

During the Herbal Health Festival, we will establish nine body constitutions rooms where a number of consultants and experts of healthcare examine health conditions through hand, face and tongue and give advice on healthcare. In the meanwhile, we set up some fun games related to healthcare to promote new scientific healthcare concept and scientific healthcare knowledge of "Love health, Use herbs" to enable the public to learn about herbal healthcare knowledge.

Environmental, Social and Governance Report

2. Contrition to rural revitalisation

Over the past 3 years, we have quickly helped more than 60 households to get out of poverty and become rich by providing professional technical service guidance, and high quality strains and Gastrodia Elata f.Glauca seeds, and the Group has continued to contribute to the construction of beautiful villages.

3. Support community development – Caojinghua Charity Fund

Since its establishment, the foundation of the Group has strictly complied with the laws and regulations of the Charity Law of the People's Republic of China and the Foundation Management Regulations of People's Republic of China. It also formulated and implemented the Management Regulations of Caojinghua Love Fund, rigorously reviewed and implemented the application approval process and related procedures to ensure that each love fund can help those in need.

During the Reporting Period, which is the fourth year of the foundation, a total amount of RMB40,000 was donated, involving 8 employees of chain pharmacies of China Nepstar, with an average of RMB5,000 per person.

4. Fight against the pandemic

Security of supplies

During the outbreak of the pandemic, we raised supplies in an active manner to ensure the provision of emergency supplies such as masks, sanitizer, thermometers and other supplies needed by the general public and enterprises, and to assist the government in distributing pandemic prevention supplies in response to the call by the government. By the end of February 2021, more than 9.93 million masks were distributed.

Stay at the post

The employees of Zhongzhi Chain Pharmacies stayed at the front line to fight against the pandemic. We help keep 396 stores open, providing 24-hour business and door-to-door drug delivery services, increasing the number of pharmacists consulting on the online micronet platform to meet the healthcare consultation needs of the citizens, and providing mental health counseling to allay the public's fears.

Orderly resumption of work

During the Reporting Period, Zhongzhi Pharmaceutical strictly complied with emergency plans for resumption of work and production and pandemic prevention and control, and the resumption implementation plan, as well as pandemic prevention and control management systems, in order to maintain the order and management after the resumption of production and to fully satisfy the market demand for Chinese decoction pieces and related Chinese medicine products. In the meanwhile, the Group enhanced internal management, strengthened personnel filing and screening, ensured sufficient supplies, reduced crowd gathering, promoted knowledge of pandemic prevention, and implemented monitoring for employees with "two histories" (travel history and contact history with personnel in the key areas of the pandemic), and reported the monitoring to relevant government authorities on a regular basis as required.

In July 2021, the Group was placed under the management of the pandemic closure zone. Zhongzhi Pharmaceutical responded quickly to the pandemic prevention measures. During this period, we strictly followed the government's pandemic prevention requirements and conducted closed management. We quickly improved the relevant living facilities within one day to ensure that all staff could live normally within the Company during the seven-day closure period.

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A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and intensity	Green Operation – Emission Management
A1.3	Total hazardous waste produced and intensity	Green Operation – Emission Management
A1.4	Total non-hazardous waste produced and intensity	Green Operation – Emission Management
A1.5	Description of emission target(s) set and steps taken to achieve them	Green Operation – Emission Management
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A2 Use of Resources		
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A2.1	Direct and/or indirect energy consumption by type in total and intensity	Green Operation – Use of Resources
A2.2	Water consumption in total and intensity	Green Operation – Use of Resources
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A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	Green Operation – Use of Resources
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Environmental, Social and Governance Report

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B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Caring for Staff – Health and Safety

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Major Categories, aspects, general disclosure and key performance indicators		Section
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Environmental, Social and Governance Report

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Report of Directors

The Directors are pleased to present to the Shareholders the annual report and the audited consolidated financial statements for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the sections of Financial Summary, Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

The Group complies with the requirements under the Hong Kong Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the year.

KEY RISK FACTORS

The following lists out the key risks and uncertainties facing the Group.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year.

The Group places great emphasis on working relationships with suppliers to meet our customers' needs in an effective and efficient manner. Our departments work closely with our suppliers to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

Report of Directors

Our major suppliers are generally providing materials for pharmaceutical production and had business relationship with the Group for over six years on average, which spreading over various regions, such as Northern China, Central China and Southern China.

The payment terms granted by suppliers were generally from telegraphic transfers before shipment to 120 days. The payables were usually settled within the credit period.

The Group is principally engaged in the pharmaceutical manufacturing in the PRC and the quality of the procured materials from the suppliers is important. In order to alleviate quality risks for pharmaceuticals produced, the Group has formulated the "Management Regulations on Suppliers" based on the "Pharmaceutical Operation Quality Management Standard" and the "GSP Certification Site Inspection Item of Drug Retail Chain Enterprise Head Office of Guangdong Province", which regulates and makes specific requirements in respect of the supplier assessment methods, audit methods and types as well as the removal and replacement procedures for unqualified suppliers, and ensured the legality and safety of the operation of the Group.

During the Reporting Period, the Group did not have any significant disputes with our major suppliers.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Our major customers are wholesale customers and the trading terms with them are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers, payment in advance is normally required. The years of business relationship with the Group ranged from an average of four to six years.

In order to alleviate the credit risk, the Group trades only with recognized and creditworthy third parties and all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

During the Reporting Period, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any major product dispute with our customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2021 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 93 to 177.

As the Group has commenced the construction of new factory premises and additional production lines to expand its production capacity, the Board proposed not to distribute any dividend at the end of 2021 in order to maintain a healthy cash flow.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 May 2022 to Friday, 20 May 2022, both days inclusive, during which period no transfers of shares shall be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Monday, 16 May 2022.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

On 29 June 2021, the Company entered into a subscription agreement with Novich Dingli International Investment Limited ("Novich"), a company incorporated in the British Virgin Islands with limited liability, an independent third party, and advised and managed by its shareholders Novich Positioning Investment (Cayman) Limited, which in turn is indirectly wholly-owned by Shanghai Novich Positioning Investment Management Co., Limited* (上海諾偉其定位投資管理有限公司), pursuant to which Novich has conditionally agreed to subscribe for and the Company conditionally agreed to allot and issue a total of 23,600,000 ordinary Shares of HK$0.01 each at the subscription price of HK$1.53 per Share (the "Subscription").

The closing price per Share as quoted on the Stock Exchange on 29 June 2021, being the date of the subscription agreement, was HK$1.50. The gross proceeds from the Subscription were approximately HK$36,108,000 and the net proceeds from the Subscription, after deduction of all relevant cost and expenses, were approximately HK$36,055,430, representing a net issue price of approximately HK$1.53 per subscription Share. The Company intends to use the net proceeds to enhance the public awareness of the brand and for distribution of shareholders' dividend.

The Board considers that, while broadening the shareholder base, the Subscription represents a valuable opportunity for the Company to bring in an investment fund as a shareholder which can enhance the corporate image of the Group. Also, the Board believes that the Group will continue to grow with Novich and create greater value and explore new business opportunities for the Company through the network and synergy with Novich.

The completion date of the Subscription was 26 August 2021. Details of the Subscription were published in the Company's announcement dated 29 June 2021.

Details of the movements in share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

* For identification purpose only

Report of Directors

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's article of association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the trustee of the share award plan (as adopted by the Group on 8 January 2016) (the "Share Award Plan"), pursuant to the rules and trust deed of the Share Award Plan, purchased on the Stock Exchange a total of 3,323,000 Shares of the Company at a total consideration of approximately HK$5.3 million on 18 June 2021. Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

RESERVES

Details of the movements in the reserves of the Company and the Group during the year are set out in the note 40 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company's reserve available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB148.0 million. The amount of RMB122.0 million includes the Company's share premium and retained profits at 31 December 2021, and the Company will be able to pay off its debts as they fall due in the ordinary course of business.

CHARITABLE DONATIONS

The Group donated RMB0.13 million during the Reporting Period (2020: RMB7.1 million).

MANAGEMENT CONTRACTS

Save as disclosed in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

During the Reporting Period, purchases from the single largest supplier of the Group and the five largest suppliers of the Group in aggregate accounted for approximately 10.5% and 34.7% (2020: 8.2% and 22.8%) of the total purchases of the year, respectively.

None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

Report of Directors

DIRECTORS

The directors of the Company ("Director(s)") during the year and up to the date of this report were:

Executive Directors
Mr. Lai Zhi Tian *(Chairman)*
Mr. Lai Ying Feng
Mr. Lai Ying Sheng (appointed on 24 March 2022)
Mr. Cao Xiao Jun
Mr. Cheng Jin Le (resigned on 24 March 2022)

Non-executive Directors
Ms. Jiang Li Xia
Mr. Yang Ai Xing (resigned on 10 December 2021)
Mr. Peng Zhiyun (appointed on 10 December 2021)

Independent non-executive Directors
Mr. Ng Kwun Wan
Mr. Wong Kam Wah
Mr. Zhou Dai Han

In accordance with article 112 of the Articles, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. As such, Mr. Lai Ying Sheng, who was appointed as an executive Director on 24 March 2022, and Mr. Peng Zhiyun, who was appointed as a non-executive Director on 10 December 2021, shall hold office until the forthcoming annual general meeting of the Company (the "AGM"), and who being eligible, offer themselves for re-election.

In accordance with article 108(a) of the Articles, Mr. Cao Xiao Jun, Ms. Jiang Li Xia and Mr. Ng Kwun Wan will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Every Director shall retire from office once every three years and for this purpose, at each AGM one-third (1/3) of the Directors for the time being, or, if their number is not three (3) or a multiple of three (3), then the number nearest one-third (1/3) but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Subject to the Articles, a retiring Director shall be eligible for re-election at the meeting at which he or she retires. For avoidance of doubt, each Director shall retire at least once every three (3) years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 14 to 19 of this annual report.

Report of Directors

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and the non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date and will continue thereafter and each of the independent non-executive Directors has enter into a service agreement with the Company for a term of three years and renewed each of three years commencing on 13 July 2021. All the service agreements may be terminated by either party by giving to the other party not less than three months' prior notice in writing.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment or compensation, other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, the interests and short positions of the Directors and chief executive in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code and Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) are as follows:

Report of Directors

(i) Long position in the ordinary shares of the Company

Name of Director	Beneficial interest Number of ordinary shares	Interest in a controlled corporation Number of ordinary shares	Family interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of the issued share capital of the Company
Mr. Lai Zhi Tian ("Mr. Lai") (Note 1)	1,176,000	471,105,000 (Note 2)	42,240,000 (Note 3)	514,521,000	59.58%
Ms. Jiang Li Xia ("Mrs. Lai")	—	42,240,000 (Note 3)	472,281,000 (Note 2)	514,521,000	59.58%
Mr. Lai Ying Feng	5,990,000	—	—	5,990,000	0.69%
Mr. Peng Zhiyun	1,231,000	—	—	1,231,000	0.14%

Notes:

1. Mr. Lai is personally interested in 21.518% shareholding interest in Advance Keypath Global Investments Limited which is interested in 6.95% shareholding in the Company.

2. Crystal Talent Investment Group Limited ("Crystal Talent"), which holds 471,105,000 ordinary shares of the Company, is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the ordinary shares of the Company held by Crystal Talent under the SFO.

3. Cheer Lik Development Limited ("Cheer Lik"), which holds 42,240,000 ordinary shares of the Company, is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the ordinary shares of the Company held by Cheer Lik under the SFO.

Report of Directors

(ii) Long position in Crystal Talent, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family Interest (Note)	100%

Note: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

(iii) Long position in Cheer Lik, an associated corporation of the Company

Name of Director	Capital/Nature of Interest	Percentage of the issued share capital of associated corporation
Mrs. Lai	Beneficial owner	100%
Mr. Lai	Family Interest (Note)	100%

Note: Cheer Lik is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai under the SFO.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporations as at the date of this report, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2021, the following persons (other than the interests of the Directors of the Company as disclosed above) had interests or short positions in the ordinary shares of the Company or underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Report of Directors

Long positions in the ordinary shares of the Company

Name	Beneficial interest Number of ordinary shares	Total interest Number of ordinary shares	Approximate percentage of issued share capital of the Company
Crystal Talent (Note 1)	471,105,000	471,105,000	54.55%
Cheer Lik (Note 2)	42,240,000	42,240,000	4.89%
Advance Keypath Global Investment Limited (Note 3)	60,000,000	60,000,000	6.95%
Novich Positioning Investment Limited Partnership (Note 4)	56,958,000	56,958,000	6.60%
Novich Positioning Investment (Cayman) Limited (Note 5)	82,377,000	82,377,000	9.54%

Notes:

1. These 471,105,000 shares are held by Crystal Talent, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Lai.

2. These 42,240,000 shares are held by Cheer Lik, a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mrs. Lai.

3. These 60,000,000 shares are held by Advance Keypath Global Investment Limited, a company incorporated in the British Virgin Islands with limited liability.

4. These 56,958,000 shares are held by Novich Positioning Investment Limited Partnership, a company incorporated in the Cayman Islands and is 1.09% owned by Novich Positioning Investment (Cayman) Limited.

5. These 82,377,000 shares are held by Novich Positioning Investment (Cayman) Limited, a company incorporated in the Cayman Islands.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2021 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above and in the section "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

Report of Directors

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Save as disclosed in the section headed "Connected Transactions" of this report, none of the Directors or any of their respective associates has engaged in or has any interest in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group during the Reporting Period and up to the date of this report.

Each of Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik (together the "Controlling Shareholders"), had entered into a non-competition deed dated 8 June 2015 (the "Non-competition Deed") in favour of the Company (for itself and on behalf of all members of the Group), pursuant to which, each of the Controlling Shareholders would not, and would procure his/her/its associates not to (other than through the Group or in respect of each covenanter (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognized stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which may be in competition with the business carried on by the Group from time to time, except where the Company's approval is obtained.

In order to ensure the Controlling Shareholders have complied with the Deed of Non-competition, each of the Controlling Shareholders has provided to the Company a written confirmation (i) in respect of his/her/its compliance with the Non-competition Deed for the Reporting Period; (ii) no personal interests were ever declared by any Controlling Shareholders who are also Directors at the Directors' meetings; and (iii) stating that they have not entered into any business which may be in competition with the business carried on by the Group from time to time. As there was no change in terms of the undertaking since the Company's listing on the Stock Exchange, the independent non-executive Directors of the Company are of the view that the Controlling Shareholders have complied with the Non-competition Deed and no matters are required to bring to the attention of the public.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

SHARE OPTION SCHEME

A share option scheme was conditionally adopted on 8 June 2015 (the "Share Option Scheme"), which became effective on the Listing Date.

The Share Option Scheme is a share incentive scheme and is established to recognize and motivate the contributions that eligible participants (as defined in the Prospectus) have made or may make to the Group.

Subject to the terms and conditions of the Share Option Scheme, the maximum numbers of shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the share of the Company in issue at the Listing Date (i.e. 80,000,000 shares) unless approved by the shareholders of the Company.

The maximum entitlement for any one participant is that the total number of the Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue unless otherwise approved by the Shareholders at a general meeting of the Company.

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of:

(i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of a Share on the offer date.

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date).

Subject to earlier termination by the Company in general meeting or by the Directors, the Share Option Scheme shall be valid and effective for a period of ten years from date of adoption. The remaining life of the Share Option Scheme is 4 years. There is no share option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2021.

As at the date of this report, the total number of securities available for issue under the Share Option Scheme is 80,000,000, representing approximately 9.26% of the issued shares of the Company.

SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

In order to recognise and reward the contribution of and solidify the relationship with the service providers and distributors, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

Report of Directors

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000).

The Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to the satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of the performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to the failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.439) on the day of the grant, amounting to HK$1,727,000 (equivalent to approximately RMB1,477,000).

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.52) on the day of the grant, amounting to HK$1,292,000 (equivalent to approximately RMB1,117,000).

On 20 October 2020, the board of directors approved to purchase shares as reserve for future granting. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate of amount HK$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future grant. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK$5,288,000 (equivalent to approximately RMB4,383,000).

The Group recognised a share award expense of RMB1,117,000 and nil for 2020 and 2021, respectively.

As at 31 December 2021, 16,601,500 shares of the Company were held by the Trustee and have yet to be awarded.

CONNECTED TRANSACTIONS

Non-exempt Continuing Connected Transactions

We have entered into a number of continuing agreements and arrangements ("Contractual Arrangements") with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group.

Contractual Arrangements

On 31 August 2014, our Group, Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders") entered into the Contractual Arrangements, which consist of: (i) an operation services agreement; (ii) a call option agreement; (iii) an equity pledge agreement; (iv) a power of attorney; and (v) an exclusive intellectual property purchase agreement. For details of these contracts, please refer to the "Contractual Arrangements – Details of the Contractual Arrangements" section in the Prospectus.

Report of Directors

The Contractual Arrangements that were in place as at 31 December 2021 are as follows:

1. Operation services agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the operation services agreement. Pursuant to the operation services agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, inter alia, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. The service fee payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical for the year ended 31 December 2021 is approximately RMB10.6 million.

The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces (which included sales of RMB231.4 million to Zhongzhi Pharmaceutical) after deducting, inter alia, all the expenses (which included rental fee of RMB7.4 million and royalty fee of RMB42.9 million to Zhongzhi Pharmaceutical) and reserve fund. All the above transactions have been eliminated upon consolidation of the financial results of Zhongzhi Herb Pieces into the Group's consolidated financial statements.

2. Call Option Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the call option agreement, pursuant to which the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

3. Equity Pledge Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the equity pledge agreement, pursuant to which the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the call option agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

4. Power of Attorney

On 31 August 2014, the Registered Shareholders executed the power of attorney, pursuant to which, among others, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s). The said shareholders' rights include but not limited to the rights to exercise voting rights in shareholders' meeting, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, and to appoint directors and supervisors.

5. Exclusive Intellectual Property Purchase Agreement

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Exclusive Intellectual Property Purchase Agreement, pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations.

Report of Directors

Apart from the above, there are no new Contractual Arrangements entered into, renewed or reproduced between our Group, Zhongzhi Herb Pieces and the Registered Shareholders during the year ended 31 December 2021.

For the year ended 31 December 2021, none of the Contractual Arrangements has been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Risk relating to the Contractual Arrangements

The following risks are associated with the Contractual Arrangements. Further details of the risks are set out on pages 37 to 41 of the Prospectus.

- The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- Uncertainties of the interpretation under the relevant PRC laws, rules, regulations or explanatory notes may result in our Contractual Arrangements becoming invalid and illegal.
- Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.
- Our Group relies on the Contractual Arrangements for the production of decoction pieces in PRC, which may not be as effective in providing operational control as direct ownership.
- The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.
- Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Actions taken to mitigate the risks

In light of the above risks associated with the Contractual Arrangements, the Group has adopted relevant procedures and internal control measures to ensure the effective operation of the Group and the implementation of the Contractual Arrangements, including (i) discuss and make all necessary modification to the Contractual Arrangements in order to maintain the economic interests; (ii) regular report by relevant divisions of the Group to the senior management of the Company in relation to the compliance of the Contractual Arrangements; (iii) regular report by the senior management of the Group to the Board any non-compliance issues; (iv) retain legal adviser and/or other professional to assist the Group to deal with specific issues arising from the Contractual Arrangements, if required; and (v) annual review by the independent non-executive Directors the compliance of the Contractual Arrangements.

Conflicts of Interests

We have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the operation services agreement, the Registered Shareholders have undertaken that they will cause Zhongzhi Herb Pieces to strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and will not raise objection to the same. If there is any potential conflict of interests between the Registered Shareholders and Zhongzhi Pharmaceutical, especially when the Registered Shareholders are also the directors or senior management of Zhongzhi Pharmaceutical, the Registered Shareholders shall protect, and shall not harm the interests of Zhongzhi Pharmaceutical. Under the call option agreement, the Registered Shareholders granted Zhongzhi Pharmaceutical an irrevocable and exclusive option to purchase all or any part of the equity interests in Zhongzhi Herb Pieces at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Furthermore, under the power of attorney executed by the Registered Shareholders, Zhongzhi Pharmaceutical was irrevocably appointed as the attorney of the Registered Shareholders to exercise the shareholders' rights in Zhongzhi Herb Pieces on behalf of the Registered Shareholders. As a result, we have minimised the Registered Shareholders' influence on the business operations of Zhongzhi Herb Pieces.

Reasons for the Contractual Arrangements

The principal business of Zhongzhi Herb Pieces is the production of decoction pieces, of which the processing techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the relevant PRC laws and regulations. We cannot own any equity interest in Zhongzhi Herb Pieces. As a result, the Contractual Arrangements were necessary for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to our Group. Other than the information that were disclosed in the Prospectus, there were no changes to the relevant PRC laws and regulations for the year ended 31 December 2021.

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Group and our Shareholders as a whole.

Waiver from the Stock Exchange and Annual Review

Zhongzhi Herb Pieces is owned as to 89.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules. The Group operates its decoction pieces business in the PRC through a series of Contractual Arrangements entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders. The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions under the Listing Rules.

The Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the certain conditions as disclosed on pages 203 to 205 of the Prospectus.

Report of Directors

Confirmation from Independent Non-executive Directors

Our independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that (i) the transactions carried during the year ended 31 December 2021 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and that the profit generated by Zhongzhi Herb Pieces has been substantially retained by Zhongzhi Pharmaceutical, (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group during the year ended 31 December 2021, and (iii) any new contracts entered into, renewed or reproduced between the Group and Zhongzhi Herb Pieces during the year ended 31 December 2021 are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the shareholders of the Company as a whole.

Confirmations from our Company's Independent Auditor

The auditor of our Company has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into during the year ended 31 December 2021:

1. nothing has come to their attention that causes the auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes the auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

3. nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. nothing has come to their attention that causes the auditor to believe that dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

Zhongzhi Herb Pieces

Revenue attributable to Zhongzhi Herb Pieces was approximately RMB233.2 million during the year ended 31 December 2021. As at 31 December 2021, the total asset and net asset attributable to Zhongzhi Herb Pieces was approximately RMB163.2 million and RMB90.4 million respectively.

FUTURE PROSPECT AND DEVELOPMENT

With reference to the Future and Outlook section of the Chairman's Statement, the Group will continue to focus on developing the PRC market in 2021 by building our Caojinghua brand, further expanding its distribution network, increasing the number of chain pharmacies in the Guangdong province and increasing production capacities. The Board will also consider any potential investment opportunities which may benefit its shareholders as and when these opportunities arise.

PUBLIC FLOAT

Based on publicly available information, and to the best of the Directors' knowledge, information and belief, the Company had maintained sufficient public float of not less than 25% of its issued shares as required under the Listing Rules during the Reporting Period up to the date of this report.

Report of Directors

AUDIT COMMITTEE

The Audit Committee comprised of three independent non-executive Directors, namely Mr. Ng Kwun Wan (Chairman), Mr. Wong Kam Wah and Mr. Zhou Dai Han. The main duties of the Audit Committee are to examine, review and monitor the financial data and financial reporting procedure of the Company.

The Audit Committee had reviewed the audited annual results of the Group for the year ended 31 December 2021.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has complied with all applicable code provisions under the CG Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2021, save for the deviation as disclosed in Corporate Governance Report from pages 20 to 34, which provides further information on the Company's corporate governance practices. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

AUDITOR

Ernst & Young, the auditor of the Company, will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to be held on 20 May 2022 to seek Shareholders' approval on the appointment of Ernst & Young as the Company's auditor until the conclusion of the next AGM and to authorise the Board to fix their remuneration.

By order of the Board
Lai Zhi Tian
Chairman

Hong Kong, 24 March 2022

Independent Auditor's Report

EY 安永

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Zhongzhi Pharmaceutical Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 93 to 177, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
We focused on the recoverability of trade receivables because a high level of management judgement is required in assessing whether there would be credit losses for trade receivables. Furthermore, trade receivable balances were significant to the Group as they represented 19.3% of the total assets of Group as at 31 December 2021. The Group has applied the expected credit loss ("ECL") model to measure the impairment provision against trade receivables at the reporting date and estimated the loss allowance for trade receivables based on the lifetime of expected credit losses. The Group initially developed the matrix based on the Group's historical default rates, considering the ageing of the balances and recent historical payment patterns. Management then calibrated the matrix to adjust the historical credit loss experience with forward-looking information such as existence of disputes and forecasted economic conditions. Related disclosures are included in notes 3, 21 and 38 to the consolidated financial statements.	We understood, evaluated and tested the key internal controls over the Group's assessment on the recoverability of trade receivables. We evaluated the techniques and methodology in the ECL model against the requirements of IFRS 9. We evaluated the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including checking the correctness of the ageing of receivables and the underlying data of the historical default rate, evaluating whether the expected credit loss are adjusted based on forward-looking information, and checking historical and subsequent settlement records of the customers. We assessed the adequacy of the Group's relevant disclosures in the financial statements.
Provision for inventories	
We focused on the provision for inventories because the inventory balance was material to the consolidated financial statements representing 17.6% of the total assets of the Group as at 31 December 2021 and significant management judgement is required in assessing the net realisable values of inventories. The specific factors considered by management in the estimation of the provision include types of inventories, the ageing and conditions of the inventories, expiration dates of medicines, and the forecasted inventory usage and sales. Related disclosures are included in notes 3 and 20 to the consolidated financial statements.	We understood, evaluated and tested the key internal controls of the provision for inventories. We tested the provision amount for inventories by checking the ageing of inventories, expiration dates of medicines and the subsequent usage and sales of inventories etc. for different types of inventories on a sampling basis. We tested the key information used by management in calculating the net realisable values, including selling prices, cost to be incurred upon completion, selling expense and the relevant taxes etc., by comparing to the supporting documents, and compared the net realisable values to the carrying amounts of inventories to check for the adequacy and calculation of provisions on a sampling basis. We also attended and observed management's inventory counts at the material inventory locations and in certain self-owned chain pharmacies of the Group, to check if any damaged, slow-moving or obsolete inventories identified. We checked the adequacy of the Group's disclosure of the provision for inventories.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is TJEN, Michael.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2022

Consolidated Statement of Profit or Loss

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**1,746,500**	1,603,876
Cost of sales		**(685,061)**	(612,673)
Gross profit		**1,061,439**	991,203
Other income and gains	5	**29,771**	31,583
Selling and distribution expenses		**(829,237)**	(698,799)
Administrative expenses		**(102,899)**	(91,777)
Other expenses	6	**(90,181)**	(59,770)
Finance costs	7	**(7,080)**	(5,218)
PROFIT BEFORE TAX	8	**61,813**	167,222
Income tax expense	11	**(9,447)**	(28,603)
PROFIT FOR THE YEAR		**52,366**	138,619
Attributable to:			
Owners of the parent		**52,128**	138,532
Non-controlling interests		**238**	87
		52,366	138,619
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
— For profit for the year		**RMB0.06**	RMB0.17
Diluted			
— For profit for the year		**RMB0.06**	RMB0.17

Consolidated Statement of Comprehensive Income

Year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
PROFIT FOR THE YEAR	**52,366**	138,619
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**781**	(125)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**53,147**	138,494
Attributable to:		
Owners of the parent	**52,909**	138,407
Non-controlling interests	**238**	87
	53,147	138,494

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**410,286**	303,163
Investment properties	14	**40,778**	—
Right-of-use assets	15(a)	**137,025**	128,832
Prepayments for property, plant and equipment		**3,481**	25,924
Goodwill	16	**1,628**	1,628
Other intangible assets	17	**18,290**	19,560
Investment in a joint venture	18	**381**	392
Equity investments at fair value through profit or loss	19	**9,367**	17,713
Deferred tax assets	28	**31,969**	16,208
Prepayments	22	**5,950**	16,150
Other non-current assets		**7,513**	7,067
Total non-current assets		**666,668**	536,637
CURRENT ASSETS			
Inventories	20	**268,057**	247,121
Trade and notes receivables	21	**293,559**	283,088
Prepayments, deposits and other receivables	22	**53,645**	59,063
Equity investments at fair value through profit or loss	19	**8,795**	580
Cash and bank balances	23	**233,381**	294,032
Total current assets		**857,437**	883,884
CURRENT LIABILITIES			
Trade payables	24	**120,828**	110,439
Other payables and accruals	25	**229,400**	201,416
Interest-bearing bank borrowings	26	**57,243**	78,915
Lease liabilities	15(b)	**37,874**	35,772
Amounts due to related parties	35	**8,786**	8,786
Deferred income	27	**18,925**	23,497
Amount due to a joint venture		**64**	65
Tax payable		**27,711**	26,580
Total current liabilities		**500,831**	485,470
NET CURRENT ASSETS		**356,606**	398,414
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,023,274**	935,051

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	27	**15,429**	14,215
Lease liabilities	15(b)	**80,624**	73,216
Deferred tax liabilities	28	**26,056**	25,857
Total non-current liabilities		**122,109**	113,288
Net assets		**901,165**	821,763
EQUITY			
Equity attributable to owners of the parent			
Issued capital	29	**6,847**	6,650
Reserves	32	**891,893**	813,526
		898,740	820,176
Non-controlling interests		**2,425**	1,587
Total equity		**901,165**	821,763

Lai Zhitian
Director

Lai Yingsheng
Director

Consolidated Statement of Changes in Equity

31 December 2021

	Attributable to owners of the parent											
	Issued capital RMB'000 Note 29	Shares held for the share award plan RMB'000 Note 31	Share premium RMB'000	Merger reserve RMB'000 Note 32(a)	Statutory surplus reserve RMB'000 Note 32(b)	Share-based payment reserve RMB'000 Note 32(c)	Share award reserve RMB'000 Note 31	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	6,650	(10,578)	243,440	31,200	47,979	5,680	(1,514)	21,046	419,480	763,383	—	763,383
Profit for the year	—	—	—	—	—	—	—	—	138,532	138,532	87	138,619
Other comprehensive loss for the year												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(125)	—	(125)	—	(125)
Total comprehensive income for the year	—	—	—	—	—	—	—	(125)	138,532	138,407	87	138,494
Capital contribution by a non-controlling shareholder	—	—	—	—	—	—	—	—	—	—	1,500	1,500
Shares repurchased	—	(12,322)	—	—	—	—	—	—	—	(12,322)	—	(12,322)
Equity-settled share award scheme	—	1,683	—	—	—	—	(565)	—	—	1,118	—	1,118
Transfer from retained profits	—	—	—	—	9,719	—	—	—	(9,719)	—	—	—
Final 2019 dividend	—	—	(33,241)[i]	—	—	—	—	—	—	(33,241)	—	(33,241)
Interim 2020 dividend	—	—	(37,169)[i]	—	—	—	—	—	—	(37,169)	—	(37,169)
At 31 December 2020	6,650	(21,217)*	173,030*	31,200*	57,698*	5,680*	(2,079)*	20,921*	548,293*	820,176	1,587	821,763

Consolidated Statement of Changes in Equity

31 December 2021

	Attributable to owners of the parent											
	Issued capital	Shares held for the share award plan	Share premium	Merger reserve	Statutory surplus reserve	Share-based payment reserve	Share award reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 29	Note 31		Note 32(a)	Note 32(b)	Note 32(c)	Note 31					
At 1 January 2021	6,650	(21,217)	173,030	31,200	57,698	5,680	(2,079)	20,921	548,293	820,176	1,587	821,763
Profit for the year	–	–	–	–	–	–	–	–	52,128	52,128	238	52,366
Other comprehensive income for the year												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	781	–	781	–	781
Total comprehensive income for the year	–	–	–	–	–	–	–	781	52,128	52,909	238	53,147
Issue of shares	197	–	29,841	–	–	–	–	–	–	30,038	–	30,038
Capital contribution by a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	600	600
Shares repurchased	–	(4,383)	–	–	–	–	–	–	–	(4,383)	–	(4,383)
Transfer from retained profits	–	–	–	–	33,078	–	–	–	(33,078)	–	–	–
At 31 December 2021	6,847	(25,600)*	202,871*	31,200*	90,776*	5,680*	(2,079)*	21,702*	567,343*	898,740	2,425	901,165

* These reserve accounts comprise the consolidated reserves of RMB981,893,000 (2020: RMB813,526,000) in the consolidated statement of financial position.

(i) Dividend income arising from the shares held for the share award plan of RMB217,000 is deducted from the aggregate of the final 2019 dividend and that of RMB243,000 is deducted from the aggregate of the interim 2020 dividend.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	8	**61,813**	167,222
Adjustments for:			
Finance costs	7	**7,080**	5,218
Bank interest income	5	**(4,142)**	(5,271)
Interest income from financial assets at fair value through profit or loss	5	**(35)**	(4,749)
Dividend income from equity investments at fair value through profit or loss	5	**(40)**	(58)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	5,6	**3,437**	(7,509)
Financial assets at fair value through profit or loss	6	**37,000**	—
(Gain)/loss on disposal of items of property, plant and equipment, net	5,6	**(106)**	217
Covid-19-related rent concessions from lessors	15	**—**	(698)
Depreciation of property, plant and equipment and investment properties	8,14	**39,445**	59,736
Depreciation of right-of-use assets	8,15	**42,325**	37,173
Amortisation of other intangible assets	8,17	**3,282**	2,840
Equity-settled share award expense	8	**—**	1,117
Government grants released	27	**(13,925)**	(8,920)
Impairment losses on trade receivables	6,8	**442**	394
Write-down of inventories to net realisable value	6,8	**91**	114
		176,667	246,826
Increase in inventories		**(21,027)**	(48,197)
Decrease/(increase) in trade and notes receivables		**10,030**	(52,993)
Decrease/(increase) in prepayments, deposits and other receivables		**15,618**	(58,790)
(Decrease)/increase in non-current assets		**(446)**	45
Increase in trade payables		**10,389**	6,139
Increase in other payables and accruals		**3,133**	14,007
Increase in deferred income	27	**10,566**	9,511
Cash generated from operations		**204,930**	116,548
Interest paid		**(2,673)**	(1,387)
Income tax paid		**(23,878)**	(21,982)
Net cash flows from operating activities		**178,379**	93,179

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(185,849)**	(89,658)
Decrease/(increase) in prepayments for purchases of property, plant and equipment		**22,443**	(24,331)
Proceeds from disposal of items of property, plant and equipment		**2,527**	9,220
Purchase of other intangible assets		**(2,014)**	(3,840)
Purchase of right-of-use assets		**—**	(8,502)
Purchase of equity investments at fair value through profit or loss		**(9,716)**	(389)
Purchases of financial assets at fair value through profit or loss		**(42,000)**	(320,000)
Proceeds upon maturity of financial assets at fair value through profit or loss		**5,000**	320,000
Proceeds from disposal of equity investments at fair value through profit or loss		**6,412**	—
Bank interest received	5	**4,142**	5,271
Interest received from financial assets at fair value through profit or loss	5	**35**	4,749
Dividend received from equity investments	5	**40**	58
Decrease/(increase) in non-pledged time deposits with original maturity of more than three months when acquired		**63,000**	(143,000)
Net cash flows used in investing activities		**(135,980)**	(250,422)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	**30,038**	—
Principal portion of lease payments	33(a)	**(45,414)**	(38,264)
New bank borrowings		**123,871**	78,915
Repayments of bank borrowings		**(145,543)**	(31,352)
Dividends paid		**—**	(70,410)
Purchase of shares held under the share award plan		**(4,383)**	(12,322)
Capital contribution from a non-controlling shareholders		**600**	1,500
Net cash flows used in financing activities		**(40,831)**	(71,933)

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,568**	(229,176)
Cash and cash equivalents at beginning of year		**151,032**	380,333
Effect of foreign exchange rate changes, net		**781**	(125)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**153,381**	151,032
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**153,381**	151,032
Non-pledged time deposits	23	**80,000**	143,000
Cash and bank balances as stated in the statement of financial position		**233,381**	294,032
Non-pledged time deposits with original maturity of more than three months when acquired		**(80,000)**	(143,000)
Cash and cash equivalents as stated in the statement of cash flows		**153,381**	151,032

Notes to the Consolidated Financial Statements

31 December 2021

1. CORPORATE AND GROUP INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 13 July 2015 (the "Listing Date").

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors, as at the date of this report, the immediate and ultimate holding company of the Company is Crystal Talent Investment Group Limited, a company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2021 are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Windom Talent Company Limited ("Windom Talent")	BVI 16 September 2014, BVI	US$1	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")	Hong Kong 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") [(a)]	PRC 27 September 1999, Mainland China	RMB220,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited	Hong Kong 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")	PRC 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herb Pieces") [(b)]	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100%	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Guangdong Caojinghua Cell-broken Herb Co., Ltd. ("Guangdong Caojinghua")	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food
Shenzhen Caojinghua Electronic Business Co., Ltd. ("Shenzhen Caojinghua")	PRC 10 January 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical drugs
Guangzhou Yunzhi Health Technology Co., Ltd. ("Guangzhou Yunzhi")	PRC 1 December 2017, Mainland China	RMB1,000,000	—	100%	Sale of pharmaceutical drugs
Guangdong Zhongzhida Pharmaceutical Co., Ltd. ("Guangdong Zhongzhida")	PRC 25 October 2019, Mainland China	RMB10,000,000	—	100%	Wholesale of pharmaceutical products
Guangdong Yunzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Guangdong Yunzhi")	PRC 12 November 2019, Mainland China	RMB50,000,000	—	100%	Manufacture and sale of Chinese decoction pieces
Guangdong Yunzhi Chain Pharmacies Company Limited ("Yunzhi Chain Pharmacies")	PRC 29 April 2020, Mainland China	RMB10,000,000	—	100%	Sale of pharmaceutical drugs
Gansu Zhongzhi Shunhe Chinese Medicinal Materials Co., Ltd. ("Gansu Shunhe")	PRC 26 March 2020, Mainland China	RMB10,000,000	—	70%	Manufacture and sale of Chinese herb
Zhongshan Zhongzhi Property Management Co., Ltd. ("Zhongzhi Property Management")	PRC 2 September 2020, Mainland China	RMB3,000,000	—	100%	Property management

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1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangdong Honeson Pharmaceutical Co., Ltd. ("Guangdong Honeson Pharmaceutical")	PRC 2 September 2020, Mainland China	RMB50,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Shandong Guozhi Chinese Medicine Herb in Pieces Co., Ltd. ("Shandong Guozhi")	PRC 16 November 2020, Mainland China	RMB100,000,000	—	80%	Manufacture and sale of Chinese decoction pieces
Guangdong Yunzhi Detection Service Co., Ltd. ("Yunzhi Detection")	PRC 25 June 2021, Mainland China	RMB5,000,000	—	100%	Detection and testing services

(a) Zhongzhi Pharmaceutical was registered as a wholly-foreign-owned enterprise under PRC law.

(b) Zhongzhi Herb Pieces was ultimately controlled by the Company as a result of a series of contractual arrangements between Zhongzhi Pharmaceutical with Zhongzhi Herb Pieces and the holders of its equity interests ("Registered Shareholders").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under a historical cost convention, except for equity investments and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Notes to the Consolidated Financial Statements

31 December 2021

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

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

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2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[2]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to IFRS Standards 2018–2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022
2 Effective for annual periods beginning on or after 1 January 2023
3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 3 are intended to 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* issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 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 IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 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 expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Notes to the Consolidated Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments on the Group's accounting policy disclosures.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (Continued)

Amendments to IAS 12 narrow the scope of the initial recognition exception so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 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, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 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 amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to IFRS Standards 2018-2020 sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- IFRS 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. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- IFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying IFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying IFRS 16.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Notes to the Consolidated Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvements	1-10 years
Buildings	5-50 years
Machinery	2-20 years
Motor vehicles	4-5 years
Office equipment	2-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents a building under construction, leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. The Group applies cost model and recognises the investment properties with specific useful lives and depreciates them accordingly.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised on the straight-line basis over the following estimated useful life:

Software	10 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 5 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Pharmacies and office premises	3 to 5 years
Leasehold land	40 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Notes to the Consolidated Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and notes receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade and notes receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade and notes receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to related parties and interest-bearing bank borrowings.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

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

Shares held under the share award scheme

The Group's own equity instruments which are reacquired (shares held under the share award scheme) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option plan and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to the Consolidated Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Notes to the Consolidated Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the subsidiaries established outside the PRC are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries established outside the PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside the PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual arrangements

Zhongzhi Herb Pieces is engaged in the manufacture and sale of Chinese decoction pieces, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 1, as part of the historical reorganisation, the equity interests in Zhongzhi Herb Pieces were transferred to the Registered Shareholders and the Group exercises control over Zhongzhi Herb Pieces and enjoys all economic benefits of Zhongzhi Herb Pieces through the Contractual Arrangements.

The Group considers that it controls Zhongzhi Herb Pieces, notwithstanding the fact that it does not hold a direct equity interest in Zhongzhi Herb Pieces, as it has power over the financial and operating policies of Zhongzhi Herb Pieces and receives all economic benefits from the business activities of Zhongzhi Herb Pieces through the Contractual Arrangements. Accordingly, Zhongzhi Herb Pieces has been accounted for as a subsidiary during the reporting period.

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from a subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the Group, and it is not probable that such subsidiary will distribute dividends in the foreseeable future.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 was RMB1,628,000 (2020: RMB1,628,000). Further details are given in note 16.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on the ageing analysis of groupings of various customer segments that have similar loss patterns (i.e., by geography, product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Notes to the Consolidated Financial Statements

31 December 2021

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2021 was RMB603,000 (2020: RMB658,000). Further details are included in note 19 to the financial statements.

Provision for inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for inventory items. The assessment of the provision amount required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the inventories and provision charge/write-back in the period in which the estimate has been changed. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether a provision needs to be made in respect of any damaged, obsolete or slowing-moving inventories identified. The Group carries out an inventory review at the end of each reporting period and makes a provision against damaged, obsolete and slow-moving items. Management reassesses the estimation at the end of each reporting period. The directors of the Company are satisfied that a sufficient provision for damaged, obsolete and slow-moving inventories has been made in the consolidated financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Notes to the Consolidated Financial Statements

31 December 2021

4. OPERATING SEGMENT INFORMATION

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

For management purposes, the Group is organised into business units based on its sales channels and has three reportable operating segments as follows:

(a) Pharmaceutical manufacturing

(b) Operation of chain pharmacies

(c) Operation of on-line pharmacies

Separate individual financial information for different types of channels is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

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

Geographical information

Since over 90% of the Group's revenue and operating profit were generated in the PRC and over 90% of the Group's non-current assets were located in the PRC, no geographical segment information in accordance with IFRS 8 *Operating Segments* is presented.

Notes to the Consolidated Financial Statements

31 December 2021

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

During each of the years ended 31 December 2021 and 2020, no revenue from transactions with a single customer accounted for 10% or more of the Group's sales.

Operating segment information for the year ended 31 December 2021:

Year ended 31 December 2021

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers (note 5)	1,053,280	622,911	70,309	1,746,500
Intersegment sales	823,961	—	—	823,961
Elimination of intersegment sales	(823,961)	—	—	(823,961)
Revenue	1,053,280	622,911	70,309	1,746,500
Cost of sales	(291,565)	(363,981)	(29,515)	(685,061)
Segment results	761,715	258,930	40,794	1,061,439
Reconciliation:				
Other income and gains				29,771
Selling and distribution expenses				(829,237)
Administrative expenses				(102,899)
Other expenses				(90,181)
Finance costs				(7,080)
Profit before tax				61,813

Notes to the Consolidated Financial Statements

31 December 2021

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers (Continued)

Year ended 31 December 2020

	Pharmaceutical manufacturing RMB'000	Operation of chain pharmacies RMB'000	Operation of on-line pharmacies RMB'000	Total RMB'000
Segment revenue:				
Revenue from external customers (note 5)	916,076	624,874	62,926	1,603,876
Intersegment sales	69,482	—	—	69,482
Elimination of intersegment sales	(69,482)	—	—	(69,482)
Revenue	916,076	624,874	62,926	1,603,876
Cost of sales	(216,039)	(372,853)	(23,781)	(612,673)
Segment results	700,037	252,021	39,145	991,203
Reconciliation:				
Other income and gains				31,583
Selling and distribution expenses				(698,799)
Administrative expenses				(91,777)
Other expenses				(59,770)
Finance costs				(5,218)
Profit before tax				167,222

Notes to the Consolidated Financial Statements

31 December 2021

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue, other income and gains is as follows:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers		
Sale of pharmaceutical products	**1,746,500**	1,603,876

(i) Disaggregated revenue information

The Group's revenue is mainly derived from the sale of pharmaceutical products to customers in Mainland China and is recognised at a point in time.

Disaggregation of revenue from contracts with customers is disclosed in Note 4.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of pharmaceutical products	**12,030**

(ii) Performance obligations

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

Sale of pharmaceutical products

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 15 to 90 days from delivery, except for new customers and one-off purchase order customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

Notes to the Consolidated Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Performance obligations (Continued)

Sale of pharmaceutical products (Continued)

	Note	2021 RMB'000	2020 RMB'000
Other income			
Bank interest income		**4,142**	5,271
Dividend income		**40**	58
Rental income		**2,102**	322
Interest income from financial assets at fair value through profit or loss		**35**	4,749
Sales of raw materials		**2,834**	147
Others		**1,745**	979
		10,898	11,526
Gains, net			
Government grants:			
— Related to assets		**2,830**	1,342
— Related to income		**11,095**	7,578
Gain on disposal of items of property, plant and equipment		**124**	43
Gain on disposal of equity investments at fair value through profit or loss	8	**828**	303
Fair value gains, net:			
Equity investments at fair value through profit or loss	8	**—**	7,509
Others		**3,996**	3,282
		18,873	20,057
		29,771	31,583

Notes to the Consolidated Financial Statements

31 December 2021

6. OTHER EXPENSES

	Note	2021 RMB'000	2020 RMB'000
Loss on disposal of items of property, plant and equipment		**18**	260
Research and development costs		**43,834**	50,189
Write-down of inventories to net realisable value		**91**	114
Impairment losses on trade receivables	21	**442**	394
Fair value losses on equity investments at fair value through profit or loss		**3,437**	—
Fair value losses on financial assets at fair value through profit or loss		**37,000**	—
Others		**5,359**	8,813
		90,181	59,770

7. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	**4,407**	3,831
Interest on bank borrowings	**2,673**	1,387
	7,080	5,218

Notes to the Consolidated Financial Statements

31 December 2021

8. PROFIT BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of inventories sold	4	**685,061**	612,673
Depreciation of property, plant and equipment	14	**39,445**	59,736
Depreciation of right-of-use assets	15(a)	**42,325**	37,173
Research and development costs	6	**43,834**	50,189
Advertising, marketing and promotion expenses		**227,256**	189,256
Amortisation of other intangible assets*	17	**3,282**	2,840
Write-down of inventories to net realisable value		**91**	114
Lease payments not included in the measurement of lease liabilities	15(c)	**3,518**	3,785
Auditor's remuneration		**2,646**	2,590
Impairment losses on trade receivables	21	**442**	394
Gain on disposal of equity investments at fair value through profit or loss	5	**(828)**	(303)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	5,6	**3,437**	(7,509)
Financial assets at fair value through profit or loss	6	**37,000**	—
Employee benefit expenses (including directors' remuneration (note 9)):			
Wages and salaries		**306,867**	297,070
Pension scheme contributions (defined contribution scheme)		**19,595**	11,163
Staff welfare expenses		**16,631**	20,348
Equity-settled share award expense		**—**	1,117
		343,093	329,698

* The amortisation of other intangible assets for the reporting period is included in "Administrative expenses" in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the reporting period, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2021 RMB'000	2020 RMB'000
Fees	**1,885**	1,968
Other emoluments:		
Salaries, allowances and benefits in kind	**3,390**	3,401
Pension scheme contributions	**102**	82
Others	**—**	—
	5,377	5,451

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 RMB'000	2020 RMB'000
Ng Kwun Wan	**149**	156
Wong Kam Wah	**149**	156
Zhou Daihan	**149**	156
	447	468

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

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9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors and the chief executive

2021

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Others RMB'000	Total remuneration RMB'000
Executive directors:					
Lai Zhitian	430	989	27	—	1,446
Lai Yingfeng	249	791	21	—	1,061
Cheng Jinle	249	802	27	—	1,078
Cao Xiaojun	249	808	27	—	1,084
	1,177	3,390	102	—	4,669
Non-executive directors:					
Jiang Lixia	261	—	—	—	261
Peng Zhiyun	—	—	—	—	—
	261	—	—	—	261
	1,438	3,390	102	—	4,930

2020

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Others RMB'000	Total remuneration RMB'000
Executive directors:					
Lai Zhitian	440	992	21	—	1,453
Lai Yingfeng	266	801	17	—	1,084
Cheng Jinle	266	806	22	—	1,094
Cao Xiaojun	267	802	22	—	1,091
	1,239	3,401	82	—	4,722
Non-executive directors:					
Jiang Lixia	261	—	—	—	261
Yang Aixing	—	—	—	—	—
	261	—	—	—	261
	1,500	3,401	82	—	4,983

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the reporting period.

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2020: four directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining one (2020: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and benefits in kind	**667**	509
Pension scheme contributions	**16**	15
	683	524

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2021	2020
Nil to HK$1,000,000	**1**	1

During the reporting period, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

The Hong Kong profits tax rate is 16.5% (2020: 16.5%) of assessable profits derived from Hong Kong during the year. Since the Group had no such profits during the reporting period, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof.

Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the Group's subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income.

Zhongzhi Pharmaceutical and Honeson Pharmaceutical are qualified high and new technology enterprises and were subject to income tax at a preferential tax rate of 15% for the reporting period.

Notes to the Consolidated Financial Statements

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11. INCOME TAX EXPENSE (Continued)

The income tax expense of the Group for the reporting period is analysed as follows:

	2021 **RMB'000**	2020 RMB'000
Current — Mainland China		
Charge for the year	**24,904**	24,903
Underprovision/(overprovision) in prior years	**105**	(6,053)
Deferred income tax credit (note 28)	**(15,562)**	9,753
Total income tax expense	**9,447**	28,603

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2021 **RMB'000**	**%**	2020 RMB'000	%
Profit before tax	**61,813**		167,222	
Tax at the PRC statutory tax rate of 25%	**15,453**	**25.0**	41,806	25.0
Effect of different applicable tax rates for specific jurisdictions or enacted by local authority	**(7,312)**	**(11.8)**	(12,306)	(7.4)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**—**	**—**	8,289	5.0
Additional deduction for research and development expenses	**(4,700)**	**(7.6)**	(4,298)	(2.6)
Adjustment in respect of current tax of previous years	**105**	**0.2**	(6,053)	(3.6)
Income not subject to tax	**(25)**	**(0.0)**	(21)	(0.0)
Tax losses utilised from previous periods	**—**	**—**	(924)	(0.6)
Tax losses not recognised	**3,855**	**6.2**	626	0.4
Expenses not deductible for tax	**2,071**	**3.3**	1,484	0.9
Tax charge at the Group's effective tax rate	**9,447**	**15.3**	28,603	17.1

The effective tax rate of the Group was 15.3% in 2021 (2020: 17.1%).

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11. INCOME TAX EXPENSE (Continued)

In accordance with the Enterprise Income Tax Law of the PRC effective on 1 January 2008, a 10% (or a lower rate if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors) withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. As at 31 December 2021, the Group recognised a deferred tax liability of RMB17,790,000 (31 December 2020: RMB17,790,000) in respect of the withholding tax on future dividends.

12. DIVIDENDS

	2021 **RMB'000**	2020 RMB'000
Interim — Nil (2020: HK3.7 cents) per ordinary share	**—**	26,878
Special interim — Nil (2020: HK1.45 cents) per ordinary share	**—**	10,533
Proposed final — Nil (2020: Nil) per ordinary share	**—**	—
Proposed special — Nil (2020: Nil) per ordinary share	**—**	—
	—	37,411

The Board of Director ("Board") does not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: nil).

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the adjusted weighted average number of ordinary shares of 836,954,291 (2020: 828,797,947) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the adjusted weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares under the share award plan.

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13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

(Continued)

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

	2021 **RMB'000**	2020 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**52,128**	138,532

	2021	2020
Shares		
Weighted average number of ordinary shares in issue	**852,026,301**	840,000,000
Weighted average number of shares held for the share award plan	**(15,072,010)**	(11,202,053)
Adjusted weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**836,954,291**	828,797,947
Effect of dilution — weighted average number of ordinary shares:		
Share award plan	**—**	—
Adjusted weighted average number of ordinary shares in issue used in the diluted earnings per share calculation	**836,954,291**	828,797,947

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	143,864	195,503	97,981	8,576	35,104	35,445	516,473
Accumulated depreciation	(97,591)	(51,617)	(35,953)	(3,993)	(24,156)	—	(213,310)
Net carrying amount	46,273	143,886	62,028	4,583	10,948	35,445	303,163
At 1 January 2021, net of accumulated depreciation	46,273	143,886	62,028	4,583	10,948	35,445	303,163
Additions	14,103	—	17,983	2,039	5,681	150,284	190,090
Disposals	(1,277)	—	(18)	(26)	(298)	(1,125)	(2,744)
Transfer to investment properties*	—	(40,778)	—	—	—	—	(40,778)
Depreciation provided during the year (note 8)	(16,458)	(7,048)	(9,801)	(1,594)	(4,544)	—	(39,445)
Transfers	8,122	45,034	12,696	—	2,384	(68,236)	—
At 31 December 2021, net of accumulated depreciation	50,763	141,094	82,888	5,002	14,171	116,368	410,286
At 31 December 2021:							
Cost	164,236	194,409	128,531	10,240	42,654	116,368	656,438
Accumulated depreciation	(113,473)	(53,315)	(45,643)	(5,238)	(28,483)	—	(246,152)
Net carrying amount	50,763	141,094	82,888	5,002	14,171	116,368	410,286

* Certain self-owned building of the Group was reclassified to investment properties with original cost of RMB46,128,000 and accumulated depreciation of RMB5,350,000. The investment properties were stated at cost with fair value not less than the carrying amount. The fair value of the investment properties was valued at RMB41,400,000 as at 31 December 2021 by an internal appraiser and was determined based on the income approach.

Notes to the Consolidated Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

	Leasehold improvements RMB'000	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2020							
At 1 January 2020							
Cost	119,844	161,766	79,032	6,690	30,832	59,305	457,469
Accumulated depreciation	(80,165)	(45,699)	(29,030)	(3,349)	(19,865)	—	(178,108)
Net carrying amount	39,679	116,067	50,002	3,341	10,967	59,305	279,361
At 1 January 2020, net of accumulated depreciation	39,679	116,067	50,002	3,341	10,967	59,305	279,361
Additions	14,686	31,455	11,286	2,092	4,418	29,038	92,975
Disposals	(34)	(8,224)	(376)	(10)	(195)	(598)	(9,437)
Depreciation provided during the year (note 8)	(17,426)	(29,149)	(7,551)	(840)	(4,770)	—	(59,736)
Transfers	9,368	33,737	8,667	—	528	(52,300)	—
At 31 December 2020, net of accumulated depreciation	46,273	143,886	62,028	4,583	10,948	35,445	303,163
At 31 December 2020:							
Cost	143,864	195,503	97,981	8,576	35,104	35,445	516,473
Accumulated depreciation	(97,591)	(51,617)	(35,953)	(3,993)	(24,156)	—	(213,310)
Net carrying amount	46,273	143,886	62,028	4,583	10,948	35,445	303,163

As at 31 December 2021, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB44,885,000 (2020: RMB280,000). The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of land, pharmacies and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of pharmacies and office premises generally have lease terms between 3 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) *Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Pharmacies and office premises RMB'000	Land use rights RMB'000	Total RMB'000
As at 1 January 2020	87,714	21,823	109,537
Additions	47,966	8,502	56,468
Depreciation charge	(36,427)	(746)	(37,173)
As at 31 December 2020 and 1 January 2021	**99,253**	**29,579**	**128,832**
Additions	**50,518**	**—**	**50,518**
Depreciation charge	**(41,508)**	**(817)**	**(42,325)**
As at 31 December 2021	**108,263**	**28,762**	**137,025**

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15. LEASES (Continued)

The Group as a lessee (Continued)

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**108,988**	96,153
New leases	**50,518**	47,966
Accretion of interest recognised during the year	**4,406**	3,831
Covid-19-related rent concessions from lessors	**—**	(698)
Payments	**(45,414)**	(38,264)
Carrying amount at 31 December	**118,498**	108,988
Analysed into:		
Current portion	**37,874**	35,772
Non-current portion	**80,624**	73,216

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

(c) *The amounts recognised in profit or loss in relation to leases are as follows:*

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	**4,406**	3,831
Depreciation charge of right-of-use assets	**42,325**	37,173
Expense relating to short-term leases (included in selling and distribution expenses)	**3,518**	3,785
Covid-19-related rent concessions from lessors	**—**	(698)
Total amount recognised in profit or loss	**50,249**	44,091

(d) The total cash outflows for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 33(b) and 34, respectively, to the financial statements.

Notes to the Consolidated Financial Statements

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15. LEASES (Continued)

The Group as a lessor

The Group leases its leased properties under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB2,102,000 (2020: RMB322,000), details of which are included in note 5 to the financial statements.

At 31 December 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021 **RMB'000**	2020 RMB'000
Within one year	**2,407**	234
After one year but within two years	**2,284**	137
After two years but within three years	**2,220**	64
After three years but within four years	**1,110**	—
	8,021	435

16. GOODWILL

	2021 **RMB'000**	2020 RMB'000
At 1 January and 31 December	**1,628**	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in the prior year. Goodwill acquired through the business combination is allocated to the pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the years ended 31 December 2021 and 2020.

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17. OTHER INTANGIBLE ASSETS

	2021 RMB'000	2020 RMB'000
Carrying amount at 1 January	**19,560**	18,559
Additions	**2,012**	3,841
Amortisation provided during the year	**(3,282)**	(2,840)
Carrying amount at 31 December	**18,290**	19,560

18. INVESTMENT IN A JOINT VENTURE

	2021 RMB'000	2020 RMB'000
Share of net assets	**381**	392

Particulars of the joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Scienwi Pharmaceutical Technology Company Limited	Ordinary shares	Macao	48%	Sale of pharmaceutical products

The above investment is held through the wholly-owned subsidiaries of the Company.

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19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Equity investments at fair value through profit or loss		
Listed equity investments, at fair value	**17,559**	17,635
Unlisted equity investments, at fair value	**603**	658
	18,162	18,293

The above listed equity investments at 31 December 2021 were classified as equity investments at fair value through profit or loss as they were held for trading.

The above unlisted equity investments at 31 December 2021 were classified as equity investments at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

20. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**45,366**	46,779
Work in progress	**15,150**	11,599
Finished goods	**207,541**	188,743
	268,057	247,121

Inventories with a value of RMB801,000 (2020: RMB4,711,000) are carried at net realisable value, which is lower than cost.

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21. TRADE AND NOTES RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**249,351**	226,034
Less: Impairment of trade receivables	**(3,549)**	(3,107)
Trade receivables, net	**245,802**	222,927
Notes receivable	**47,757**	60,161
	293,559	283,088

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not more than three months for major customers. As to new customers and one-off purchase order customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to enforce strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and notes receivables relate to customers with good track records, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing. The fair value of trade and notes receivables approximates to their carrying amount.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021 RMB'000	2020 RMB'000
Within 1 month	**144,642**	117,916
1 to 3 months	**53,590**	64,630
3 to 6 months	**29,847**	26,930
6 to 12 months	**15,332**	8,821
Over 12 months	**2,391**	4,630
	245,802	222,927

Notes to the Consolidated Financial Statements

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21. TRADE AND NOTES RECEIVABLES (Continued)

The movement in the loss allowance for impairment of trade receivables is as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	**3,107**	2,713
Impairment losses, net	**442**	394
At end of year	**3,549**	3,107

The Group manages its notes receivable using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are categorised as financial assets measured at fair value through other comprehensive income after the adoption of IFRS 9.

The notes receivable are settled within 180 days. No notes receivable were discounted as at 31 December 2021 and 2020. As at 31 December 2021, the Group continued to recognise endorsed notes receivable and the associated liabilities amounting to RMB27,028,000 (2020: RMB6,084,000). The directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining endorsed notes (note 39).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the ageing analysis for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	**0.75%**	**20.91%**	**100.00%**	**1.42%**
Gross carrying amount (RMB'000)	**245,243**	**3,023**	**1,085**	**249,351**
Expected credit losses (RMB'000)	**1,832**	**632**	**1,085**	**3,549**

As at 31 December 2020

	Less than 1 year	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.82%	19.13%	100.00%	1.37%
Gross carrying amount (RMB'000)	220,109	5,725	200	226,034
Expected credit losses (RMB'000)	1,812	1,095	200	3,107

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22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Current		
Prepayments	**24,095**	40,466
Value added tax recoverable	**13,881**	2,170
Deposits and other receivables	**15,669**	16,427
	53,645	59,063
Non-current		
Prepayments	**5,950**	16,150

23. CASH AND BANK BALANCES

	2021 RMB'000	2020 RMB'000
Cash and bank balances	**153,381**	151,032
Time deposits	**80,000**	143,000
	233,381	294,032
Denominated in:		
— RMB	**229,603**	285,557
— Hong Kong dollars ("HK$")	**3,778**	8,475
	233,381	294,032

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK$. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

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24. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2021 RMB'000	2020 RMB'000
Within 3 months	112,019	96,653
3 to 6 months	1,456	4,905
6 to 12 months	4,556	6,283
over 12 months	2,797	2,598
	120,828	110,439

The trade payables are non-interest-bearing and are normally settled on terms of not exceeding 120 days.

25. OTHER PAYABLES AND ACCRUALS

	Notes	31 December 2021 RMB'000	31 December 2020 RMB'000
Contract liabilities	(a)	10,885	12,030
Other payables	(b)	61,465	69,034
Accruals		742	368
Accrued salaries and welfare		38,977	38,850
Endorsed notes	39	27,028	6,084
Deposits received		56,292	49,082
Payables for purchases of property, equipment and other intangible assets		14,388	10,482
Other tax payables		19,623	15,486
		229,400	201,416

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25. OTHER PAYABLES AND ACCRUALS (Continued)

(a) Details of contract liabilities are as follows:

	31 December 2021 RMB'000	31 December 2020 RMB'000	1 January 2020 RMB'000
Short-term advances received from customers			
Sales of goods	**10,885**	12,030	13,229
Total contract liabilities	**10,885**	12,030	13,229

Contract liabilities include short-term advances received to deliver pharmaceutical products. The decrease in contract liabilities in 2021 and 2020 was mainly due to the decrease in short-term advances received from customers.

(b) Other payables are non-interest-bearing and have an average term of six months.

26. INTEREST-BEARING BANK BORROWINGS

	31 December 2021			31 December 2020		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank overdrafts — unsecured	**1.25-3.90**	**2022**	**57,243**	1.41-3.25	2021	78,915
			57,243			78,915

	2021 RMB'000	2020 RMB'000
Analysed into:		
Bank overdrafts repayable:		
Within one year or on demand	**57,243**	78,915
	57,243	78,915

The Group's unsecured overdraft facilities amounted to RMB120,000,000 (2020: RMB60,000,000) and HK$40,000,000 (2020:HK$70,000,000), of which RMB32,715,000 (2020: RMB20,000,000) and HK$30,000,000 (2020:HK$70,000,000) had been utilised as at the end of the reporting period.

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27. DEFERRED INCOME

	2021 **RMB'000**	2020 RMB'000
At 1 January	**37,713**	37,121
Received amounts	**10,566**	9,511
Released amounts	**(13,925)**	(8,920)
At 31 December	**34,354**	37,712
Current	**18,925**	23,497
Non-current	**15,429**	14,215
	34,354	37,712

Deferred income represents grants received from the government for the purpose of subsidising the expenses arising from research and development activities and the improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the reporting period are as follows:

	2021								
	Deferred tax assets								
	Accruals RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Lease liabilities RMB'000	Unrealised profit from intercompany transactions RMB'000	Fair value adjustments of financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2021	1,048	1,119	466	5,892	755	2,413	4,515	—	16,208
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 11)	870	(915)	66	(559)	9,920	92	737	5,550	15,761
As at 31 December 2021	1,918	204	532	5,333	10,675	2,505	5,252	5,550	31,969

	2020							
	Deferred tax assets							
	Accruals RMB'000	Impairment of inventories RMB'000	Impairment of trade and other receivables RMB'000	Government grants RMB'000	Advertising and promotion expenses RMB'000	Lease liabilities RMB'000	Unrealised profit from intercompany transactions RMB'000	Total RMB'000
At 1 January 2020	943	1,102	406	5,836	—	2,110	2,980	13,377
Deferred tax credited to the statement of profit or loss during the year (note 11)	105	17	60	56	755	303	1,535	2,831
As at 31 December 2020	1,048	1,119	466	5,892	755	2,413	4,515	16,208

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

	2021				
	Deferred tax liabilities				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2021	**(4,233)**	**(1,116)**	**(2,718)**	**(17,790)**	**(25,857)**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	**(2,264)**	**38**	**2,027**	**—**	**(199)**
As at 31 December 2021	**(6,497)**	**(1,078)**	**(691)**	**(17,790)**	**(26,056)**

	2020				
	Deferred tax liabilities				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment on acquisition RMB'000	Fair value adjustment of equity investments at fair value through profit or loss RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2020	(2,045)	(1,158)	(569)	(9,501)	(13,273)
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 11)	(2188)	42	(2,149)	(8,289)	(12,584)
As at 31 December 2020	(4,233)	(1,116)	(2,718)	(17,790)	(25,857)

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28. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

At 31 December 2021, the Group had tax losses arising in Mainland China of RMB17,924,000 (2020: RMB2,503,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of the following item:

	2021 RMB'000	2020 RMB'000
Tax losses	**17,924**	2,503

Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above items can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2021, deferred tax liabilities for withholding taxes have not been provided on unremitted earnings of RMB630,585,000 (31 December 2020: RMB548,937,000) of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

29. ISSUED CAPITAL

	2021	2020
Issued and fully paid: 863,600,000 (2020: 840,000,000) ordinary shares of HK$0.01 each (HK$'000)	**8,636**	8,400
Equivalent to RMB'000	**6,847**	6,650

A summary of movements in the Company's issued capital is as follows:

	Number of issued and fully paid ordinary shares	**Share capital** RMB'000
At 1 January 2020	840,000,000	6,650
Issue of new shares	—	—
At 31 December 2020 and 1 January 2021	**840,000,000**	**6,650**
Issue of new shares*	**23,600,000**	**197**
At 31 December 2021	**863,600,000**	**6,847**

* On 29 June 2021, 23,600,000 subscription shares of HK$1.53 each were issued at a total consideration of HK$36,055,430 as a result of subscription of new Shares by an independent investor.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme was conditionally adopted on 8 June 2015 which became effective on 13 July 2015.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within the date as specified in the offer letter issued by the Company, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Further details of the Company's share option scheme are set out in the Group's Report of the Directors on pages 80 to 81.

No share options were granted during the year ended 31 December 2021 and no share options were outstanding under the Scheme as at 31 December 2021 and 2020.

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31. SHARE AWARD PLAN

A share award plan was adopted on 8 January 2016 (the "Share Award Plan"). The Share Award Plan is a share incentive scheme and is established to recognise the contributions made by certain selected persons and to attract suitable individuals with experience and ability to further develop and expand the business of the Group.

The awarded shares will be either (i) allotted and issued by the Company, by using the general or specific mandates granted or to be granted to the board of directors by the shareholders of the Company at general meetings of the Company from time to time, or (ii) acquired by an independent trustee (the "Trustee") from the open market by utilising the Company's resources provided to the Trustee. The maximum number of shares in respect of which options may be granted under the Share Award Plan cannot result in the aggregate number of shares awarded by the board of directors throughout the duration of the plan exceeding 1% of the issued share capital of the Company.

In order to recognise and reward the contribution of and solidify the relationship with the service providers and distributors, the Board has resolved to increase the limit of the Share Award Plan from 1% of the issued share capital of the Company to 2.5% of the issued share capital of the Company on 25 March 2019.

Subject to any early termination as may be determined by the board of directors pursuant to the terms of the Share Award Plan, the plan will be valid and effective for a term of 10 years commencing on the date of adoption.

In 2017, the Company granted 1,072,500 shares to certain employees on 7 April 2017 and the vesting date of the shares was 7 April 2017. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.70) on the day of the grant, amounting to HK$1,823,000 (equivalent to approximately RMB1,618,000).

The Company granted 127,000 shares to certain employees on 2 January 2019 and the vesting date of the shares was 2 January 2019. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.45) on the day of the grant, amounting to HK$184,000 (equivalent to approximately RMB161,000).

The board of directors also approved to grant certain shares with a maximum number of 5,940,000 shares to certain employees, service providers and distributors (the "Eligible Persons") on 25 March 2019, which was subject to the satisfaction of certain performance target for year 2019. As at 31 December 2019, according to the achievement status of the performance of the Eligible Persons, 1,200,000 shares shall be vested while the remaining was forfeited due to the failure to meet the performance target. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.439) on the day of the grant, amounting to HK$1,727,000 (equivalent to approximately RMB1,477,000).

The Company granted 850,000 shares to certain employees on 2 November 2020 and the vesting date of the shares was 2 November 2020. The fair value of the granted shares is calculated based on the closing market price of the shares (HK$1.52) on the day of the grant, amounting to HK$1,292,000 (equivalent to approximately RMB1,117,000).

31. SHARE AWARD PLAN (Continued)

On 20 October 2020, the board of directors approved to purchase shares as reserve for future grant. From 21 December 2020 to 30 December 2020, the Group purchased 8,677,000 shares in an aggregate amount of HK$14,268,000 (equivalent to approximately RMB12,322,000).

On 17 June 2021, the board of directors approved to purchase shares as reserve for future grant. On 18 June 2021, the Group purchased 3,323,000 shares in an aggregate amount of HK$5,288,000 (equivalent to approximately RMB4,379,000).

The Group recognised a share award expense of RMB1,117,000 and nil for 2020 and 2021, respectively.

As at 31 December 2021, 16,601,500 shares of the Company were held by the Trustee and have yet to be awarded.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity on pages 98.

(a) Merger reserve

The merger reserve of the Group represents the capital contribution from its then shareholders of Zhongzhi Pharmaceutical amounting to RMB31,200,000.

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Share-based payment reserve

The share-based payment reserve represents the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin Investment Limited with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date based on the discounted cash flow method. As there were no future service conditions attached to the share-based payments, the share-based payments were vested immediately in 2012 and were recognised as an employee benefit expense.

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33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2021

	Bank and other loans RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2021	**78,915**	**108,988**	**187,903**
Changes from financing cash flows	**(21,672)**	**(45,414)**	**(67,086)**
New leases	**—**	**50,518**	**50,518**
Interest expense	**—**	**4,406**	**4,406**
At 31 December 2021	**57,243**	**118,498**	**175,741**

2020

	Bank and other loans RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	31,352	96,153	127,505
Changes from financing cash flows	47,563	(38,264)	9,299
New leases	—	47,966	47,966
Interest expense	—	3,831	3,831
Covid-19-related rent concessions from lessors	—	(698)	(698)
At 31 December 2020	78,915	108,988	187,903

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within financing activities	**45,414**	38,264

Notes to the Consolidated Financial Statements

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34. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2021 **RMB'000**	2020 RMB'000
Contracted, but not provided for:		
Leasehold improvements	**14,399**	—
Intangible assets	**13,950**	—
Plant and machinery	**4,850**	65,850
	33,199	65,850

At 31 December 2021 and 31 December 2020, the Group had significant capital commitments, which are authorised but not contracted for, of RMB5,499,000 and RMB71,000,000, respectively.

(b) The Group has various lease contracts that have not yet commenced as at 31 December 2021. The future lease payments for these non-cancellable lease contracts are RMB489,000 due within one year, RMB2,301,000 due in the second to fifth years, inclusive, and RMB188,000 due after five years.

35. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

Amounts due to related parties as at 31 December 2021 and 2020 represent consideration received from the Registered Shareholders as part of the historical reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interests of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed terms of repayment.

(b) Compensation of key management personnel of the Group:

	2021 **RMB'000**	2020 RMB'000
Salaries, allowances and benefits in kind	**9,350**	8,020
Pension scheme contributions	**213**	149
	9,563	8,169

Further details of directors' and the chief executive's emoluments are included in note 9.

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36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

2021

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	—	245,802	245,802
Notes receivable	—	—	47,757	—	47,757
Equity investments at fair value through profit or loss	603	17,559	—	—	18,162
Financial assets included in prepayments, deposits and other receivables	—	—	—	15,669	15,669
Financial assets included in other non-current assets	—	—	—	7,253	7,253
Cash and bank balances	—	—	—	233,381	233,381
	603	17,559	47,757	502,105	568,024

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	64
Trade payables	120,828
Interest-bearing bank borrowings	58,171
Lease liabilities	118,498
Financial liabilities included in other payables and accruals	159,913
Amounts due to related parties	8,786
	466,262

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36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2020

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		
	Designated as such upon initial recognition RMB'000	Held for trading RMB'000	Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	—	—	—	222,927	222,927
Notes receivable	—	—	60,161	—	60,161
Equity investments at fair value through profit or loss	658	17,635	—	—	18,293
Financial assets included in prepayments, deposits and other receivables	—	—	—	16,427	16,427
Financial assets included in other non-current assets	—	—	—	6,704	6,704
Cash and bank balances	—	—	—	294,032	294,032
	658	17,635	60,161	540,090	618,544

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amount due to a joint venture	65
Trade payables	110,439
Interest-bearing bank borrowings	79,785
Lease liabilities	108,988
Financial liabilities included in other payables and accruals	135,050
Amounts due to related parties	8,786
	443,113

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, financial assets included in other non-current assets, trades payables, financial liabilities included in other payables and accruals and an amount due to a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments or immaterial impact on discounting for financial assets included in other non-current assets.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT"), for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Equity investments at fair value through profit or loss	**17,559**	**—**	**603**	**18,162**

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments at fair value through profit or loss	17,635	—	658	18,293

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise financial assets at fair value through profit or loss, interest-bearing bank borrowings, and cash and bank balances. The Group has various other financial assets and liabilities such as trade and notes receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and time deposits at banks. Therefore, the Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

Foreign currency risk

The Group's transactions are mainly denominated in RMB. Certain of the Group's cash and bank deposits are denominated in HK$. In addition, the Company will pay dividends in HK$ in the future. Any significant exchange rate fluctuations of HK$ against RMB may have financial impacts on the Group.

The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rates, and no hedging transaction or forward contract arrangement was made by the Group during the reporting period. Nevertheless, the Group will from time to time review and adjust the Group's hedging and financing strategies based on the RMB and HK$ exchange rate movement.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before (or after) tax RMB'000	Increase/ (decrease) in equity* RMB'000
2021			
If RMB weakens against HK$	**5**	**189**	**7,563**
If RMB strengthens against HK$	**(5)**	**(189)**	**(7,563)**
2020			
If RMB weakens against HK$	5	131	6,803
If RMB strengthens against HK$	(5)	(131)	(6,803)

* Excluding retained profits.

Notes to the Consolidated Financial Statements

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	—	—	—	297,108	297,108
Financial assets included in prepayments, deposits and other receivables					
— Normal**	15,669	—	—	—	15,669
Financial assets included in other non-current assets					
— Normal**	7,253	—	—	—	7,253
Cash and cash equivalents					
— Not yet past due	233,381	—	—	—	233,381
	256,303	—	—	297,108	553,411

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade and notes receivables*	—	—	—	286,195	286,195
Financial assets included in prepayments, deposits and other receivables					
— Normal**	16,427	—	—	—	16,427
Financial assets included in other non-current assets					
— Normal**	6,704	—	—	—	6,704
Cash and cash equivalents					
— Not yet past due	294,032	—	—	—	294,032
	317,163	—	—	286,195	603,358

* For trade and notes receivables to which the Group applies the simplified approach for impairment, the provision for ECLs for notes receivable is considered to be minimal and the information based on the provision matrix of trade receivables is disclosed in note 21 to the financial statements.

** The credit quality of the financial assets included in prepayments, deposits and other receivables and the financial assets included in other non-current assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 21.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of trade payables, bank overdrafts, lease liabilities and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2021					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Amount due to a joint venture	**64**	**—**	**—**	**—**	**—**	**64**
Trade payables	**20,306**	**100,426**	**96**	**—**	**—**	**120,828**
Lease liabilities	**—**	**11,427**	**29,791**	**86,231**	**489**	**127,938**
Financial liabilities included in other payables	**119,480**	**22,028**	**18,325**	**80**	**—**	**159,913**
Interest-bearing bank borrowings	**—**	**19,825**	**27,956**	**10,390**	**—**	**58,171**
Amounts due to related parties	**8,786**	**—**	**—**	**—**	**—**	**8,786**
	148,636	**153,706**	**76,168**	**96,701**	**489**	**475,700**

	2020					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Amount due to a joint venture	65	—	—	—	—	65
Trade payables	43,800	66,639	—	—	—	110,439
Lease liabilities	—	10,322	26,356	67,405	529	104,612
Financial liabilities included in other payables	121,244	9,084	4,643	79	—	135,050
Interest-bearing bank borrowings	—	79,785	—	—	—	79,785
Amounts due to related parties	8,786	—	—	—	—	8,786
	173,895	165,830	30,999	67,484	529	438,737

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a gearing ratio, which is calculated by dividing total interest-bearing bank borrowings by total equity. Capital represents equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratio as at the end of the reporting period was as follows:

	2021 **RMB'000**	2020 RMB'000
Interest-bearing bank borrowings	**57,243**	78,915
Equity attributable to owners of the parent	**898,740**	820,176
Gearing ratio	**6%**	10%

39. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2021 and 2020, the Group endorsed certain notes receivable accepted by certain banks in Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights to the use of the Endorsed Notes, including the sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amount of the Endorsed Notes as at 31 December 2021 was RMB144,454,000 (2020: RMB32,865,000), of which the Endorsed Notes and the associated trade payables with a carrying amount of RMB117,426,000 as at 31 December 2021 (2020: RMB26,781,000) had been fully derecognised. The Group carefully assesses the default risk of the PRC banks. The Group only derecognises the notes receivable that have been accepted by banks with high credit reputation as the directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Notes"). The Derecognised Notes had a maturity of 1 to 9 months at the end of the reporting period. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.

During the years ended 31 December 2021 and 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the years ended 31 December 2021 and 2020 or cumulatively. The Endorsement has been made evenly throughout the years ended 31 December 2021 and 2020.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and the associated trade payables settled of RMB27,028,000 as at 31 December 2021 (2020: RMB6,084,000), as the directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**193,779**	197,431
Right-of-use assets	**307**	96
Total non-current assets	**194,086**	197,527
CURRENT ASSETS		
Prepayments, deposits and other receivables	**219**	219
Cash and bank balances	**2,765**	16,363
Total current assets	**2,984**	16,582
CURRENT LIABILITIES		
Due to subsidiaries	**15,775**	16,241
Other payables and accruals	**198**	204
Interest-bearing bank borrowings	**24,528**	58,915
Lease liability	**310**	99
Total current liabilities	**40,811**	75,459
NET CURRENT LIABILITIES	**(37,827)**	(58,877)
TOTAL ASSETS LESS CURRENT LIABILITIES	**156,259**	138,650
Net assets	**156,259**	138,650
EQUITY		
Issued capital	**6,847**	6,650
Reserves (note)	**149,412**	132,000
Total equity	**156,259**	138,650

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium* RMB'000	Shares held for the share award plan* RMB'000	Share award reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000
At 1 January 2020	243,440	(10,578)	(1,514)	43,320	(47,806)	226,862
Loss for the year	—	—	—	—	(3,201)	(3,201)
Exchange differences on translation of foreign operations	—	—	—	(10,047)	—	(10,047)
Total comprehensive loss for the year	—	—	—	(10,047)	(3,201)	(13,248)
Issue of shares	—	—	—	—	—	—
Shares repurchased	—	(12,322)	—	—	—	(12,322)
Equity-settled share award expense	—	1,683	(565)	—	—	1,118
Final 2019 dividend	(33,241)	—	—	—	—	(33,241)
Interim 2020 dividend	(37,169)	—	—	—	—	(37,169)
At 31 December 2020	173,030	(21,217)	(2,079)	33,273	(51,007)	132,000
Loss for the year	**—**	**—**	**—**	**—**	**(3,684)**	**(3,684)**
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**(4,362)**	**—**	**(4,362)**
Total comprehensive loss for the year	**—**	**—**	**—**	**(4,362)**	**(3,684)**	**(8,046)**
Issue of shares	**29,841**	**—**	**—**	**—**	**—**	**29,841**
Shares repurchased	**—**	**(4,383)**	**—**	**—**	**—**	**(4,383)**
At 31 December 2021	**202,871**	**(25,600)**	**(2,079)**	**28,911**	**(54,691)**	**149,412**

* Included in the reserves in the statement of financial position of the Company.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2022.

Five Year Financial Summary

The following is a summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the Prospectus and published audit financial statements of the Group. This Summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,746,500**	1,603,876	1,342,182	1,142,150	944,634
GROSS PROFIT	**1,061,439**	991,203	834,689	708,272	564,253
PROFIT BEFORE TAX	**61,813**	167,222	155,941	101,823	89,875
Income tax expense	**(9,447)**	(28,603)	(41,247)	(16,754)	(19,819)
PROFIT FOR THE YEAR AND ATTRIBUTABLE TO OWNERS OF THE COMPANY	**52,128**	138,532	114,694	85,069	70,056
Earnings per share – Basic	**RMB0.06**	RMB0.17	RMB0.14	RMB0.10	RMB0.09
– Diluted	**RMB0.06**	RMB0.17	RMB0.14	RMB0.10	RMB0.09

ASSETS AND LIABILITIES

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,524,105**	1,420,521	1,280,539	1,011,486	911,952
TOTAL LIABILITIES	**622,940**	598,758	517,156	304,894	243,677