



國藥控股股份有限公司 SINOPHARM GROUP CO. LTD.*

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

All For Health Health For All



Annual Report 2021

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



COMPANY PROFILE

The Company was established in January 2003 and listed on The Stock Exchange of Hong Kong Limited (stock code: 01099. HK) in September 2009, is a core subsidiary of China National Pharmaceutical Group Co., Ltd. and the largest wholesaler and retailer of pharmaceutical and medical devices and healthcare products, and a leading supply-chain service provider in the PRC.

The Group is mainly engaged in pharmaceutical and medical devices distribution business. Leveraging on its nationwide distribution and delivery network, the Group provides comprehensive distribution, delivery and other value-added services to domestic and foreign manufacturers and suppliers of pharmaceutical products, medical devices and consumables and other healthcare products, and also to downstream customers including hospitals, other distributors, retail drug stores and primary health services institutions.

Meanwhile, the Group manages its network of retail drug stores chain in major cities of China via direct operations and franchises to sell pharmaceutical and healthcare products to end customers. It has become a leader in China's pharmaceutical retail industry.

Besides, the Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies, and actively engaged in the innovation of pharmaceutical, medical services and other health-related industries, to explore the synergistic development of its diversified businesses.

Taking advantage of its superior economies of scale, customer resources, network platforms and brand position, the Group will fully leverage on China's pharmaceutical and healthcare market, which shows steady and healthy growth, and capture opportunities arising from healthcare reform to further consolidate and enhance its market leadership, actively striving to become a pharmaceutical and healthcare service provider with international competitiveness.





CORPORATE VISION

Becoming a distinguished global pharmaceutical and healthcare service provider

CORPORATE PHILOSOPHY

All for Health
Health for All

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Corporate Information

As at the date of this report

Directors

Mr. Yu Qingming
(Executive Director and Chairman)
Mr. Liu Yong *(Executive Director and President)*
Mr. Chen Qiyu
(Non-executive Director and Vice Chairman)
Mr. Hu Jianwei *(Non-executive Director)*
Mr. Ma Ping *(Non-executive Director)*
Mr. Deng Jindong *(Non-executive Director)*
Mr. Wen Deyong *(Non-executive Director)*
Mr. Li Dongjiu *(Non-executive Director)*
Ms. Feng Rongli *(Non-executive Director)*
Mr. Zhuo Fumin
(Independent Non-executive Director)
Mr. Chen Fangruo
(Independent Non-executive Director)
Mr. Li Peiyu *(Independent Non-executive Director)*
Mr. Wu Tak Lung
(Independent Non-executive Director)
Mr. Yu Weifeng
(Independent Non-executive Director)

Supervisors

Ms. Guan Xiaohui *(Chief Supervisor)*
Mr. Liu Zhengdong
Mr. Zhang Hongyu
Ms. Lu Haiqing

Company Secretary

Mr. Wu Yijian

Strategy and Investment Committee

Mr. Yu Qingming *(Chairman)*
Mr. Liu Yong
Mr. Chen Qiyu
Mr. Hu Jianwei
Mr. Ma Ping
Mr. Deng Jindong
Mr. Wen Deyong
Mr. Li Dongjiu
Mr. Chen Fangruo
Mr. Li Peiyu

Audit Committee

Mr. Wu Tak Lung *(Chairman)*
Mr. Deng Jindong
Mr. Li Dongjiu
Mr. Zhuo Fumin
Mr. Li Peiyu

Remuneration Committee

Mr. Li Peiyu *(Chairman)*
Mr. Deng Jindong
Ms. Feng Rongli
Mr. Wu Tak Lung
Mr. Yu Weifeng

Nomination Committee

Mr. Yu Qingming *(Chairman)*
Mr. Hu Jianwei
Ms. Feng Rongli
Mr. Zhuo Fumin
Mr. Chen Fangruo
Mr. Wu Tak Lung
Mr. Yu Weifeng

Legal and Compliance and Environmental, Social and Governance Committee

Mr. Yu Weifeng *(Chairman)*
Mr. Yu Qingming
Mr. Liu Yong

Authorized Representatives

Mr. Yu Qingming
Mr. Wu Yijian

Legal Advisers

As to Hong Kong and United States laws:
DLA Piper UK LLP

As to PRC law:
Guantao Law Firm Shanghai Office
Shanghai Boss & Young Attorneys at Law



Auditor

International auditor:

Ernst & Young
Registered PIE auditor

Domestic auditor:

Ernst & Young Hua Ming LLP

Principal Place of Business in Hong Kong

Room 1601,
Emperor Group Center,
288 Hennessy Road,
Wanchai, Hong Kong

Principal Place of Business and Headquarters in the PRC

Sinopharm Group Building,
No. 385, East Longhua Road, Huangpu District,
Shanghai 200023, the PRC

Registered Office in the PRC

1st Floor, No.385,
East Longhua Road,
Huangpu District,
Shanghai 200023, the PRC

Company's Website

www.sinopharmgroup.com.cn

H Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Stock Code

01099

Principal Banks

Bank of Communications Co., Ltd., Shanghai Branch
China Merchants Bank Co., Ltd., Shanghai Branch
Bank of China Limited, Shanghai Branch
China Minsheng Banking Corp., Ltd., Shanghai Branch
Industrial and Commercial Bank of China Limited, Shanghai Branch
Agricultural Bank of China Co., Ltd., Shanghai Branch
China Construction Bank Co., Ltd., Shanghai Branch

Office of Board of Directors

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Definitions



In this annual report, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“CNPGC”	China National Pharmaceutical Group Co., Ltd. (中國醫藥集團有限公司), a state wholly-owned enterprise incorporated in the PRC and the ultimate controlling shareholder of the Company
“CNPGC Group”	CNPGC and its subsidiaries and associates (excluding the Group)
“Company” or “Sinopharm Group”	Sinopharm Group Co. Ltd. (國藥控股股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability and whose H shares are listed and traded on the Hong Kong Stock Exchange
“CSIMC”	China National Scientific Instruments and Materials Co., Ltd. (中國科學器材有限公司), a company incorporated in the PRC with limited liability
“Directors”	the director(s) of the Company
“Factoring Company”	Sinopharm Puxin Commercial Factoring Company Limited (國藥樸信商業保理有限公司), a company incorporated in the PRC with limited liability
“Finance Company”	Sinopharm Group Finance Co., Ltd. (國藥集團財務有限公司), a company incorporated in the PRC with limited liability, which is a non-bank financial institution
“Fosun High Technology”	Shanghai Fosun High Technology (Group) Company Limited (上海復星高科技(集團)有限公司), a company incorporated in the PRC with limited liability
“Fosun Holdings”	Fosun Holdings Limited (復星控股有限公司), a company incorporated in the PRC with limited liability
“Fosun International”	Fosun International Limited (復星國際有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Hong Kong Stock Exchange
“Fosun Pharma”	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星醫藥(集團)股份有限公司), a joint stock company established in the PRC, the H shares and A shares of which are listed and traded on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“Group”	the Company and its subsidiaries



“Henlius”	Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Natong Group Company”	Beijing Natong Technology Group Co., Ltd. (北京納通科技集團有限公司), a company incorporated in the PRC with limited liability
“PBOC”	the People’s Bank of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company
“Sinopharm Accord”	China National Accord Medicines Corporation Ltd. (國藥集團一致藥業股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose A shares and B shares are listed and traded on the Shenzhen Stock Exchange
“Sinopharm (CNCM LTD)”	China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose A shares are listed and traded on the Shanghai Stock Exchange
“Sinopharm Investment”	Sinopharm Industrial Investment Co., Ltd. (國藥產業投資有限公司), a company incorporated in the PRC with limited liability
“Supervisor(s)”	the supervisor(s) of the Company



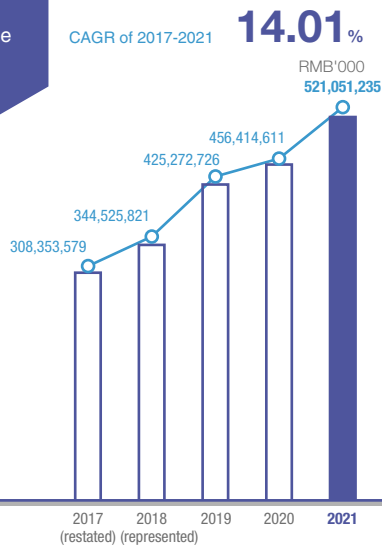
Financial Highlights



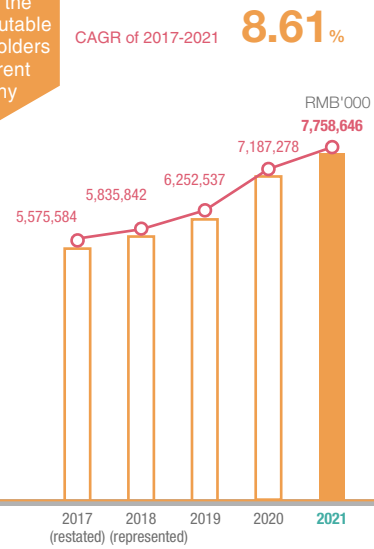
RMB'000

	2017	2017 (restated)	2018	2018 (represented)	2019	2020	2021
Operating results							
Revenue	277,717,018	308,353,579	344,525,821	344,525,821	425,272,726	456,414,611	521,051,235
Gross profit	23,076,554	26,048,865	31,228,092	31,228,092	37,531,303	40,323,311	44,050,608
Operating profit	11,905,966	13,140,388	15,396,806	14,067,974	16,136,744	17,759,975	19,711,976
Earnings before interest and tax	12,706,623	13,996,518	16,321,803	14,992,971	16,903,274	18,545,111	20,406,031
Profit for the year attributable to equity holders of the parent company	5,283,091	5,575,584	5,835,842	5,835,842	6,252,537	7,187,278	7,758,646
Profitability							
Gross margin	8.31%	8.45%	9.06%	9.06%	8.83%	8.83%	8.45%
Operating margin	4.29%	4.26%	4.47%	4.08%	3.79%	3.89%	3.78%
Net profit margin	2.83%	2.81%	2.73%	2.73%	2.50%	2.65%	2.51%
Asset status							
Total assets	169,539,028	190,693,400	235,771,077	235,771,077	269,888,371	311,236,706	335,412,321
Equity attributable to equity holders of the parent company	35,257,635	38,301,481	42,821,826	42,821,826	47,422,146	56,358,845	61,886,015
Total liabilities	118,269,374	132,746,210	167,495,310	167,495,310	192,949,004	221,289,385	235,758,386
Cash and cash equivalents	29,011,436	32,240,796	40,298,985	40,298,985	39,191,967	50,178,265	43,529,428
Gearing ratio	69.76%	69.61%	71.04%	71.04%	71.49%	71.10%	70.29%
Liquidity ratio							
Current ratio (times)	1.31	1.31	1.28	1.28	1.29	1.31	1.33
Inventory turnover ratio (days)	37	37	38	38	36	39	37
Trade receivables turnover ratio (days)	95	92	99	99	98	107	111
Trade payables turnover ratio (days)	94	91	90	90	85	92	91
Data per share (RMB)							
Earnings per share – Basic	1.91	1.88	1.97	1.97	2.11	2.31	2.49
Earnings per share – Fully diluted	1.91	1.88	1.96	1.96	2.10	2.31	2.49

Revenue



Profit for the year attributable to equity holders of the parent company



Revenue over **RMB520 billion**
Year-on-year growth of

14.16%

Year-on-year growth in operating profit of

10.99%

Year-on-year growth in earnings before interest and tax of

10.03%

Year-on-year growth in profit for the year of

8.00%





ALL FOR HEALTH

HEALTH FOR ALL

Adhering to the corporate philosophy of “All for Health, Health for All”, Sinopharm Group has always been devoting itself to be the “leader and consolidator of China’s pharmaceutical distribution industry”.







Chairman's Statement



Yu Qingming

Chairman & Executive Director

Dear shareholders,

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

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



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

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

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

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

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

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

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

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



Chairman's Statement



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

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

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

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

Yu Qingming
Chairman & Executive Director

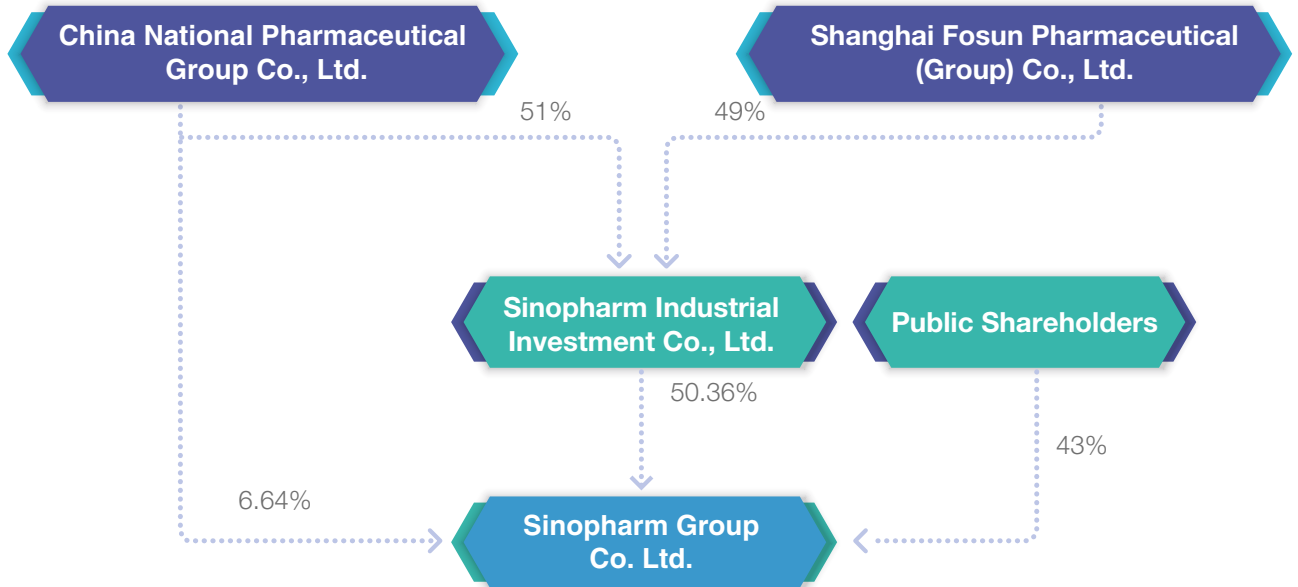
Shanghai, the PRC
18 March 2022



Shareholding Structure of the Company



As at the date of this report, the simplified structure of the Company was as follows:





Management Discussion and Analysis



Liu Yong

President & Executive Director

Industry Overview

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

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

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



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

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

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

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

Business Review

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

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

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

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



Management Discussion and Analysis

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

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

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

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

Maintained high growth rate with business layout gradually expanded

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

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



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

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

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

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

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



Management Discussion and Analysis

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

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

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

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

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

Technology empowerment boosted synergy, operational quality and efficiency both improved

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

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

Future Plan

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

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

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

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

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

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

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

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



Management Discussion and Analysis

Enhance positioning and diversify business, promote synergy through technology empowerment

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

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

Accelerate technological innovation, solidify the potential for continuous development

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

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

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

Financial Summary

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

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

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

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



Revenue

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

- Pharmaceutical distribution segment: during the Reporting Period, the revenue from pharmaceutical distribution of the Group was RMB389,954.79 million, which accounted for 72.62% of the total revenue of the Group and represented an increase of 11.96% as compared with RMB348,294.38 million for the twelve months ended 31 December 2020. The increase was primarily due to a remarkable development of the pharmaceutical distribution business and the further expansion of its distribution network of the Group.
- Medical device segment: during the Reporting Period, the revenue from medical device of the Group was RMB108,129.21 million, which accounted for 20.14% of the total revenue of the Group and represented an increase of 20.95% as compared with RMB89,402.25 million for the twelve months ended 31 December 2020. The increase was primarily due to the expansion through acquisition and business growth of the medical device business of the Group.
- Retail pharmacy segment: during the Reporting Period, the revenue from retail pharmacy of the Group was RMB29,059.25 million, which accounted for 5.41% of the total revenue of the Group and represented an increase of 20.26% as compared with RMB24,164.34 million for the twelve months ended 31 December 2020. The increase was primarily due to the growth of the retail pharmaceutical market and the expansion of network of the Group's retail pharmacy.
- Other business segments: during the Reporting Period, revenue from other business of the Group was RMB9,820.97 million, representing an increase of 28.35% as compared with RMB7,651.68 million for the twelve months ended 31 December 2020.

Cost of Sales

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

Gross Profit

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

Other Income

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



Management Discussion and Analysis

Selling and Distribution Expenses

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

Administrative Expenses

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

Operating Profit

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

Other Gains – Net

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

Other Expenses

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

Finance Costs – Net

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

Share of Profits and Losses of Associates

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

Share of Profits and Losses of Joint Ventures

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



Income Tax Expenses

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

Profit for the Year

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

Profit Attributable to Owners of the Parent

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

Profit Attributable to Non-controlling Interests

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

Liquidity and Capital Resources

Working capital

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

Cash flow

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

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



Management Discussion and Analysis

Net cash generated from operating activities

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

Net cash used in investing activities

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

Net cash generated from/(used in) financing activities

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

Capital Expenditure

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

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

Capital Structure

Fiscal resources

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

The Group's borrowings are mainly denominated in RMB.

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

Indebtedness

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

Gearing ratio

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

Foreign Exchange Risks

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

Pledge of Assets

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

Major Acquisitions and Disposals

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

Major Investment

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

Going Concern

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

Contingent Liabilities and Material Litigations

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

Human Resources

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



Management Discussion and Analysis

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

The Group follows the performance-oriented principle while giving consideration to balance. The Group adopts a diversified structure and makes dynamic adjustments. For the value created, we distribute the incremental value. We share benefits and risks with our employees. Based on the principle of aligning with market benchmarks and international standards, the Group has adopted a combination of short-term and medium- and long-term incentives to determine Directors’ remuneration incentive policies, and designed a compensation structure comprising “basic remuneration, performance-based remuneration, and medium- and long-term incentives”. The basic annual salary is the basic fixed income; the performance-based annual salary is the immediate floating income based on the completion of the annual performance goals, which is paid after evaluation; the “medium and long-term incentive” is the share incentive scheme, which is contingent on the excellent performance in the medium and long term, designed to bind interests and share risks with shareholders. Details of the employee benefit expenses of the Group during the Reporting Period are set out in Note 11 to the Consolidated Financial Statements.

Compliance with Laws and Regulations

The Group must comply with a number of laws and regulations, which mainly include the Company Law of the PRC, the Civil Code of the PRC, the Drug Administration Law of the PRC, domestic and foreign securities laws, regulations and exchange rules such as the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Securities and Futures Ordinance (Cap. 571) etc., as well as other applicable regulations, policies and regulatory legal documents promulgated pursuant to the aforementioned laws, regulations and rules.

Through various measures such as internal control, compliance management, business approval procedures and employee training, the Group ensures the compliance with applicable laws, regulations, and regulatory legal documents (especially those that have significant impact on the main business). Whenever there are any changes to the applicable laws, regulations, and regulatory legal documents, the Group will notify the relevant employees and the operating team from time to time.

During the year, the Directors of the Company are not aware of any non-compliance with the relevant laws and regulations which would have a material impact on the Group.

Relationship with Employees, Suppliers and Customers

The Group endeavours to maintain sustainable development in the long term, continuously create value for its employees and customers, and foster good relationships with its suppliers. The Group understands that employees are its valuable assets, and the realisation and enhancement of employees’ values will facilitate the achievement of the Group’s overall goals. For the year ended 31 December 2021, the Group adhered to the talent-oriented corporate culture and played an active role in cultivating first-class talents. It also attached great importance to the exploration, management and development planning of human resources, striving to create a harmonious working environment as well as a remuneration and benefit system with market competitiveness for its employees, so as to ensure the Group’s advantages in terms of human resources for future development. The Group also understands the importance of maintaining good relationships with its suppliers and customers to the overall development of the Group. The Group places emphasis on supplier selection and encourages fair and open competition to foster long-term relationships with quality suppliers on the basis of mutual trust. To maintain the competitiveness of the Group’s brand and products, the Group abides by the principles of honesty and trustworthiness and commits itself to consistently provide quality products to establish a reliable service environment for its customers. For the year ended 31 December 2021, there was no significant and material dispute between the Group and its suppliers and/or customers.

Corporate Governance Report

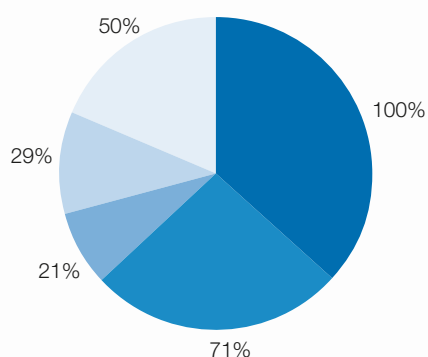


The Company is committed to upholding high standards of corporate governance which, it believes, is crucial to the development of the Company and protection of the interests of the Shareholders of the Company. The Company has adopted sound governance and disclosure practices, and will continuously improve these practices and create a highly ethical corporate culture.

Composition of the Board

As at the date of this report, the Board consisted of 14 directors, including two executive Directors, namely Mr. Yu Qingming and Mr. Liu Yong; seven non-executive Directors, namely Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong, Mr. Li Dongjiu and Ms. Feng Rongli; and five independent non-executive Directors, namely Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng. To the knowledge of the Company, there is no financial, business and family relationships or material/relevant relationships among members of the Board, members of senior management and between Directors and senior management.

The Board of the Company have the skills, experience and diversity background related to the strategy, governance and business of the Company, each member of the Board have its own profession, and can make the Board of Directors give a play to effect and improve efficiency, the profession and experience structure of each member of the Board of Directors of the Company are as follows.



- Having experience in administrative leadership and strategy management/ the experience related to acting as directors or senior management in other listed companies
- Having professional knowledge related to the pharmaceutical and medical device industry/ experience in industry management
- Having Professional knowledge in finance/having experience in financial management
- Major in legal/having experience in compliance management
- Having professional knowledge and experience related to capital market

Note: The percentages shown in the above chart refer to the ratio of Directors with relevant expertise and experiences to all Directors.

Biographical details of the Directors are set out in the section headed “Biographies of Directors, Supervisors and Senior Management” of this annual report.



Corporate Governance Report

Major Responsibilities of the Board

The Board is the core of the Company's corporate governance framework and it takes several roles in representing interests, supervising resources and coordinating interests. The main functions of the Board are strategic planning, guidance on operation management and inspection and supervision. The responsibilities of the Board include implementing the resolutions of general meetings, formulating operation plans and investment proposals of the Company, preparing the proposed annual budgets and final accounts of the Company, assessing the performance of the Company and overseeing the work of senior management, formulating and reviewing the corporate governance policies and practices of the Company.

The Board shall represent the long-term interest of the Company and the interest of Shareholders and related party when making scientific and strategic decisions, be effectively supervised and evaluated when controlling corporate resources and conducting operation management and maintain effective stimulation and supervision over the senior management when duly delegating its power to the senior management. The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. Being different from the function and duties of the Board, the senior management of the Company are mainly in charge of the Company's production, operation and management; organizing the implementation of the Company's annual business plan and investment proposal; drafting plans for the establishment of the Company's internal management structure; drafting plans for the establishment of the Company's branch offices; drafting the Company's basic internal management system and formulating basic rules and regulations of the Company; within the authority delegated by the Board, appointing, changing or recommending shareholder representatives, directors and supervisors in its holding subsidiary or joint stock subsidiary; deciding on the establishment of the Company's branches; and other powers delegated by the Board.

The Company has separated the roles of Chairman and President. The Chairman is responsible for managing the Board, steering the Board to formulate overall strategies and business development plans, ensuring the receipt of sufficient, complete and reliable information by each Director and the receipt of reasonable explanations for all the issues raised in the Board meetings. The President is responsible for managing the business of the Company and implementing policies, business objectives and plans formulated by the Board, and is accountable to the Board for the Company's overall operation.

During the Reporting Period, the duties of the Chairman and President of the Company have been performed by different individuals. Mr. Yu Qingming served as the Chairman of the Company and Mr. Liu Yong served as the President of the Company.

The Board has established an audit committee, a remuneration committee, a nomination committee, a strategy and investment committee and a legal and compliance and environmental, social and governance committee. Please see below for the composition and responsibilities of each special committee. Each committee shall provide its recommendations to the Board based on its respective terms of reference. The decisions of the Board on such recommendations shall be final, unless otherwise clearly stated in the terms of reference of these committees.

During the Reporting Period, the Board made a lot of efforts in improving the corporate governance system of the Company and enhancing the corporate governance standards, including amending relevant internal management rules in accordance with the requirements of relevant laws, regulations and regulatory rules as amended from time to time, as well as the practice of the Company; monitoring and organizing the Directors and company secretary to participate in relevant training courses; regularly reviewing the Company's compliance with the domestic and overseas regulatory requirements and its implementation of various internal corporate governance rules and policies, and reviewing the Company's compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report.



Changes of Directors and Supervisors

- (1) On 12 January 2021, Mr. Li Zhiming tendered his resignation as the chairman of the fifth session of the Board of the Company, an executive director, the chairman of the nomination committee, the chairman of the strategy and investment committee and a member of the legal and compliance and environmental, social and governance committee.
- (2) On 14 January 2021, as considered and approved by the Board, Mr. Yu Qingming was elected as the chairman of fifth session of the Board of the Company for a term from 14 January 2021 until the expiry of the term of the current session of the Board.
- (3) On 14 January 2021, as considered and approved by the Board, Mr. Yu Qingming was elected as the chairman of the strategy and investment committee of the fifth session of the Board of the Company for a term of office equal to that of his directorship, and the chairman of the nomination committee of the fifth session of the Board for a term of office equal to that of his directorship; and Mr. Liu Yong was elected as a member of the legal and compliance and environmental, social and governance committee of the fifth session of the Board of the Company for a term of office equal to that of his directorship.
- (4) On 1 March 2021, Ms. Li Xiaojuan resigned as a Supervisor of the Company due to work arrangement.
- (5) On 19 March 2021, Ms. Guan Xiaohui tendered her resignation as a non-executive Director of the Company, a member of the strategy and investment committee of the Board and a member of the audit committee of the Board due to the work arrangement, which shall take effect from the appointment of her placement at the general meeting of the Company.
- (6) On 19 March 2021, the Board proposed to appoint Mr. Li Dongjiu as a non-executive Director, a member of the strategy and investment committee of the Board and a member of the audit committee of the Board, which took effect upon the approval at the general meeting of the Company held on 10 June 2021.
- (7) On 19 March 2021, Mr. Wu Yifang tendered his resignation as a Supervisor and a chief Supervisor of the Company due to the work arrangement, which took effect from the appointment of his replacement at the general meeting of the Company held on 10 June 2021.
- (8) On 19 March 2021, Ms. Guan Xiaohui was nominated as a Supervisor of the fifth session of the Supervisory Committee of the Company, which took effect upon the approval at the general meeting of the Company held on 10 June 2021. On the same date, the Supervisory Committee elected Ms. Guan Xiaohui as the Chief Supervisor of the fifth session of the Supervisory Committee.

Please refer to the section headed “Biographies of Directors, Supervisors and Senior Management” for details about the latest biographies of the Director and Supervisors of the Company, which includes the latest information of the Directors and Supervisors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.



Board Meetings and General Meetings

The Board convened nineteen Board meetings, fourteen of which were by voting through electronic means of communications, and three general meetings (namely the annual general meeting, the H shareholders' class meeting and domestic shareholders' class meeting) during the Reporting Period. All Directors actively participated in the affairs of the Company.

During the Reporting Period, the attendance record of each Director at the Board meetings and general meetings is as follows:

Directors	Board meetings Attendance/ No. of meetings held during the term of office	General meetings Attendance/ No. of meetings held during the term of office
Executive Directors		
Mr. Yu Qingming	19/19	3/3
Mr. Liu Yong	19/19	3/3
Mr. Li Zhiming (resigned)	1/1	0/0
Non-executive Directors		
Mr. Chen Qiyu	18/19	3/3
Mr. Ma Ping	18/19	0/3
Mr. Hu Jianwei	17/19	3/3
Mr. Deng Jindong	19/19	3/3
Mr. Wen Deyong	19/19	3/3
Mr. Li Dongjiu	11/11	0/0
Ms. Feng Rongli	19/19	3/3
Ms. Guan Xiaohui (resigned)	8/8	3/3
Independent Non-executive Directors		
Mr. Zhuo Fumin	19/19	3/3
Mr. Chen Fangruo	18/19	3/3
Mr. Li Peiyu	19/19	3/3
Mr. Wu Tak Lung	19/19	3/3
Mr. Yu Weifeng	19/19	3/3

Note: The Directors of the Board who did not attend the meeting in person have all entrusted proxies to attend the meeting, which was not counted into their attendance record.

At Board meetings, the Company's senior management reported the information of business activities and data of development of the Company to all Directors on a timely basis. If any Director has conflict of interests in any proposed resolution to be considered at the Board meeting, such Director shall abstain from voting on such resolution. The Chairman also met with the independent non-executive Directors on a regular basis for their opinions on the Company's business development and operations.



Training for Directors

The management of the Company has provided members of the Board with appropriate and sufficient information including the financial briefings so as to update them with the latest operations and developments of the Company and facilitate their discharge of duties. The Company regularly sends the monthly legal insights on Hong Kong capital market provided by overseas compliance lawyers to all Directors. Meanwhile, all Directors have participated in continuing professional development by attending training or reading relevant materials to broaden their knowledge base and sharpen their skills.

The training record of Directors during the Reporting Period is as follows:

Directors	Special training (Notes)	Training for new Directors
Executive Directors		
Mr. Yu Qingming	A, B	
Mr. Liu Yong	A, B	
Non-executive Directors		
Mr. Chen Qiyu	A, B	
Mr. Ma Ping	A, B	
Mr. Hu Jianwei	B	
Mr. Deng Jindong	A, B	
Mr. Wen Deyong	A, B	
Mr. Li Dongjiu	B	✓
Ms. Feng Rongli	A, B	
Independent Non-executive Directors		
Mr. Zhuo Fumin	A, B	
Mr. Chen Fangruo	A, B	
Mr. Li Peiyu	A, B	
Mr. Wu Tak Lung	A, B	
Mr. Yu Weifeng	A, B	

Notes:

- A. On 27 April 2021, DLA Piper, the Hong Kong legal adviser, provided training on common issues and management of connected transactions and matters relating to controlling shareholders' trading of listed companies' shares.
- B. Review of the monthly legal insights on Hong Kong capital market during the Reporting Period.

In addition, the company secretary Mr. Wu Yijian completed the professional training for no less than 15 hours, including the training on the joint member ECPD seminar provided by The Hong Kong Chartered Governance Institute during the Reporting Period.

Audit Committee

As at the date of this report, the audit committee of the Company (the "Audit Committee") comprised five Directors, including three independent non-executive Directors, namely Mr. Wu Tak Lung, Mr. Zhuo Fumin, Mr. Li Peiyu and two non-executive Directors, namely Mr. Deng Jindong and Mr. Li Dongjiu, with Mr. Wu Tak Lung serving as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to inspect, review and supervise the Company's financial information and reporting process for financial information. These responsibilities include, among others:



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- making recommendations to the Board on the appointment, re-appointment and removal of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- formulating and implementing policies on the engagement of an external auditor to supply non-audit services; and
- monitoring integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in the statements and reports.

During the Reporting Period, five meetings were held by the Audit Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held during the term of office
Mr. Wu Tak Lung	5/5
Mr. Deng Jindong	5/5
Mr. Li Dongjiu	2/2
Mr. Zhuo Fumin	5/5
Mr. Li Peiyu	5/5
Ms. Guan Xiaohui (resigned)	3/3

Note: The member of the Audit Committee who did not attend the meeting in person has all entrusted proxies to attend the meeting, which was not counted into their attendance record.

During the Reporting Period, the Audit Committee reviewed the Group's 2020 annual results, 2021 interim results, 2021 first quarterly results and 2021 third quarterly results, and received the auditor's report on the audit results. The Audit Committee also reviewed the resolutions on audit fees for 2020, appointment of auditors for 2021, internal control self-assessment report for the year, internal control system work report for 2020 and report on the arrangement for internal control system construction for 2021, and report on the progress of the arrangement for internal control system construction for 2021,

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021 and believes that the Company has complied with all applicable accounting standards and regulations and made sufficient disclosures. The audit committee has reviewed all material internal control rules, including the financial and operational and compliance controls, as well as risk management in 2021. In addition, the audit committee has also accepted the adequacy of resources, qualification and experiences of employees in relation to the accounting, internal audit and financial reporting function of the Company and the adequacy of training courses taken by the employees and the relevant budgets. The Audit Committee has also reviewed the 2021 annual results announcement and the 2021 annual report of the Company.

Nomination Committee

As at the date of this report, the nomination committee of the Company (the "Nomination Committee") comprised seven Directors, including four independent non-executive Directors, namely Mr. Zhuo Fumin, Mr. Chen Fangruo, Mr. Wu Tak Lung, Mr. Yu Weifeng; two non-executive Directors Mr. Hu Jianwei, Ms. Feng Rongli; and one executive Director Mr. Yu Qingming with Mr. Yu Qingming as the chairman of the Nomination Committee. The primary responsibilities of the Nomination Committee are to formulate the nomination procedures and standards for candidates for Directors. These responsibilities include, among others:



- reviewing the structure, size and composition of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;
- assessing the independence of independent non-executive Directors;
- making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors, and the succession plans for Directors (in particular the Chairman and the President); and
- formulating, implementing and reviewing from time to time the policy concerning diversity of Board members.

The nomination procedures of the Directors are as follows: the nomination committee shall firstly propose and consider a list of candidates for Directors, which shall then be submitted by the committee to the Board for review; the Board shall then submit the relevant proposal to the general meeting for Shareholders' approval.

The examination procedures of the candidates for Directors are: (1) to collect, or require relevant department of the Company to collect the particulars of the occupation, education, designation, detailed work experience and all part-time jobs of the candidates and summarize the same in written materials; (2) to hold nomination committee meetings to examine the qualifications of the candidates in accordance with the requirements applicable to a Director and to state the opinion and recommendations on appointments in the form of proposals; and (3) to carry out other relevant work arrangement according to decisions of or feedback from the Board.

To ensure the diversity level of members of the Board and improve the governance effect of the Company, the Board approved and modified the diversity policy of the Board proposed by the nomination committee in January 2021. The policy sets out the policies adopted by the Company to achieve the diversity of members of the Board and thus to improve the decision-making quality and efficiency of the Board. To achieve the diversity target of the Board, when forming the Board, the Company will set measurable diversity target for members of the Board on the basis of a series of diversity categories and taking into account of business modes and specific demand of the Company, in addition to meeting relevant provisions of laws, regulations and rules (including but not limited to the Company Law of the People's Republic of China, Listing Rules and Articles of Association). The Company will consider a series of diversity perspectives, including but not limited to gender, age, professional qualification, industrial experience, culture and education background, races and other factors deemed as applicable by the Board. The Company shall appoint at least one female director. Ms. Feng Rongli currently serves as a non-executive Director of the Company. The Board will employ talents and gradually improve the percentage of female members and optimize the age structure when identifying and electing the candidates of the Directors. The Board will consider the expectation of stakeholders and refer to requirements or suggestions of relevant laws and regulations, in order to properly balance the composition of male and female members of the Board. The Board will also seek for a proper percentage of members of the Directors with direct experience of the industrial market of the Group and different profession backgrounds, reflecting the strategy of the Group. The Company will identify candidates of the Directors according to the nomination policy of the Company and make the final decision based on the merits and contribution that the candidate will bring to the Board. The nomination committee of the Board will regularly review the diversity policy of the Board to ensure that it's effective. When supervising the execution of the diversity policy of the Board and reviewing the composition of members of the Board, the Board will consider all benefits related to diversity levels, and comply with the diversity policy of the Board when proposing appointment of the Directors. The Company will provide each new Director with specially customized and comprehensive pre-job training, to ensure that such Director has a sound understanding of the management, policy and role and responsibility of Directors with his or her relevant knowledge gap filled up. The Company will also provide Directors with relevant training from time to time in order to facilitate the Directors' performance of their duties.



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During the Reporting Period, two meetings were held by the Nomination Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held during the term of office
Mr. Yu Qingming	1/1
Mr. Hu Jianwei	1/2
Ms. Feng Rongli	2/2
Mr. Zhuo Fumin	2/2
Mr. Chen Fangruo	2/2
Mr. Wu Tak Lung	2/2
Mr. Yu Weifeng	2/2
Mr. Li Zhiming (resigned)	1/1

Note: The member of the Nomination Committee who did not attend the meeting in person has all entrusted proxies to attend the meeting, which was not counted into their attendance record.

During the Reporting Period, the Nomination Committee mainly reviewed the resolution on nominating Mr. Li Dongjiu as a non-executive Director of the fifth session of the Board of the Company and the resolution on amendments to the diversity policy of the Board. The Nomination Committee carefully discussed the work experience and professional qualifications of Director candidates and the benefits they may bring to the Board while fully considering factors under the board diversity policy, and recommended the candidates to the Board after arriving at opinions at the Nomination Committee's meeting.



Remuneration Committee

As at the date of this report, the remuneration committee of the Company (the “**Remuneration Committee**”) comprised five Directors, including three independent non-executive Directors, namely Mr. Li Peiyu, Mr. Wu Tak Lung and Mr. Yu Weifeng, and two non-executive Directors Mr. Deng Jindong and Ms. Feng Rongli, with Mr. Li Peiyu serving as the chairman of the Remuneration Committee. The primary responsibilities of the Remuneration Committee are to formulate and review the remuneration policies and schemes for the Directors and senior management of the Company. These responsibilities include, among others:

- making recommendations to the Board on the Company’s overall remuneration policies and structure for Directors and senior management of the Company;
- determining the specific remuneration packages of all executive Directors and senior management, and making recommendations to the Board in relation to the remuneration of non-executive Directors; and
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives determined by the Board from time to time.

During the Reporting Period, five meetings were held by the Remuneration Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held during the term of office
Mr. Li Peiyu	5/5
Mr. Wu Tak Lung	5/5
Mr. Yu Weifeng	5/5
Mr. Deng Jindong	5/5
Ms. Feng Rongli	5/5

During the Reporting Period, the Remuneration Committee mainly reviewed the following resolutions: Resolution on the Advance Payment Standards of Salaries to the Newly Appointed Members of the Management Team of the Company, Resolution on Determination of the Remuneration of the Directors of the Fifth Session of the Board of the Company for the Year 2021, Resolution on Assessment Scheme for the Management Team of the Company for the Year 2021, Resolution on the Management Method of the Total Wage Filing System of the Company, Resolution on the Selection, Employment and Contracting Management Measures of Professional Managers of the Company, Resolution on the Contracting Management Measures for Salary of the Management of the Company (provisional), Resolution on the Measures for Contracted Performance Management of the Management of the Company (provisional), Resolution on the Assessment Scheme of Tenure System of the Management of the Company, Resolution on the Assessment Results and Annual Salary Settlement for the Management Team of the Company for the Year 2020, Resolution on Settlement of Excess Profit Reward of the Management Team of the Company for the Year 2020, and Resolution on the Annual Salary Standard of the Management Team of the Company for the Year 2021.



Strategy and Investment Committee

As at the date of this report, the strategy and investment committee of the Company (the “**Strategy and Investment Committee**”) comprised ten Directors, including two executive Directors, namely Mr. Yu Qingming and Mr. Liu Yong, six non-executive Directors, namely Mr. Chen Qiyu, Mr. Hu Jianwei, Mr. Ma Ping, Mr. Deng Jindong, Mr. Wen Deyong and Mr. Li Dongjiu; and two independent non-executive Directors, namely Mr. Chen Fangruo and Mr. Li Peiyu, with Mr. Yu Qingming serving as the chairman of the Strategy and Investment Committee.

The Strategy and Investment Committee is a special operating organization under and accountable to the Board. It is mainly responsible for conducting research and making recommendations on the long-term development strategies and major investment decisions of the Company, and reviewing the annual operation plans and considering the significant investment and financing proposals under the authorization of the Board.

During the Reporting Period, five meetings were held by the Strategy and Investment Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held during the term of office
Mr. Yu Qingming	5/5
Mr. Chen Qiyu	5/5
Mr. Hu Jianwei	4/5
Mr. Ma Ping	3/5
Mr. Deng Jindong	5/5
Mr. Liu Yong	5/5
Mr. Wen Deyong	5/5
Mr. Li Dongjiu	3/3
Mr. Chen Fangruo	5/5
Mr. Li Peiyu	5/5
Mr. Li Zhiming (resigned)	1/1
Ms. Guan Xiaohui (resigned)	2/2

Note: The members of the Strategy and Investment Committee who did not attend the meeting in person have all entrusted proxies to attend the meeting, which was not counted into their attendance record.

During the Reporting Period, the Strategy and Investment Committee mainly heard the Report on the “14th Five Year” Plan of the Company, the Discussion on the Idea of Innovative Transformation Work of Sinopharm Group and various equity investment projects.



Legal and Compliance and Environmental, Social and Governance Committee

As at the date of this report, the Legal and Compliance and Environmental, Social and Governance Committee of the Company (“Legal and Compliance and Environmental, Social and Governance Committee”) comprised three Directors, including one independent non-executive Director, namely Mr. Yu Weifeng and two executive Directors, namely Mr. Yu Qingming and Mr. Liu Yong, with Mr. Yu Weifeng as the chairman of the Legal and Compliance and Environmental, Social and Governance Committee.

The Legal and Compliance and Environmental, Social and Governance Committee is a special operating organization under and accountable to the Board. It is mainly responsible for promoting the rule of law of the Company and guiding the Company’s compliance management works and is responsible for promoting and guiding the Company’s environmental, social and governance works.

During the Reporting Period, two meetings were held by the Legal and Compliance and Environmental, Social and Governance Committee. The attendance record of the committee members at the meeting during the Reporting Period is as follows:

Directors	Attendance/No. of meetings held during the term of office
Mr. Yu Weifeng	2/2
Mr. Yu Qingming	2/2
Mr. Liu Yong	2/2

During the Reporting Period, the Legal and Compliance and Environmental, Social and Governance Committee mainly reviewed the Report on the Preparation and Release of the 2020 ESG Report of the Company and the Periodic Report on the Work of the Rule of Law of the Company.



Term of Office of Non-executive Directors

Name	Position	Commencement Date	Expiry Date
Chen Qiyu	Non-executive Director	18 September 2020	17 September 2023
Hu Jianwei	Non-executive Director	18 September 2020	17 September 2023
Ma Ping	Non-executive Director	18 September 2020	17 September 2023
Deng Jindong	Non-executive Director	18 September 2020	17 September 2023
Wen Deyong	Non-executive Director	18 September 2020	17 September 2023
Li Dongjiu	Non-executive Director	10 June 2021	17 September 2023
Feng Rongli	Non-executive Director	18 September 2020	17 September 2023
Zhuo Fumin	Independent Non-executive Director	18 September 2020	17 September 2023
Chen Fangruo	Independent Non-executive Director	18 September 2020	17 September 2023
Li Peiyu	Independent Non-executive Director	18 September 2020	17 September 2023
Wu Tak Lung	Independent Non-executive Director	18 September 2020	17 September 2023
Yu Weifeng	Independent Non-executive Director	18 September 2020	17 September 2023

Compliance with the Corporate Governance Code

The Company has adopted all the code provisions contained in the Corporate Governance Code as the Company's code on corporate governance. During the Reporting Period, the Company had complied with the code provisions set out in the Corporate Governance Code.

Securities Transactions by Directors and Supervisors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the standards for governing the transactions of the Company's listed securities by the Directors and the Supervisors. Having made specific enquiries with all Directors and Supervisors, all of them confirmed that they had complied with the requirements set out in the Model Code during the Reporting Period.

Remuneration of Auditors

The Company's domestic auditors, Ernst & Young Hua Ming LLP and overseas auditors, Ernst & Young has served as the independent external auditors of the Group since the date of 2016 AGM. The remuneration paid and payable by the Group to Ernst & Young Hua Ming LLP and Ernst & Young in respect of the services provided during the Reporting Period is as follows:

Services provided	Fee paid and payable
Statutory audit service provided for 2021	RMB54,948,000
Non-statutory audit service provided for 2021	RMB2,956,000
Non-audit service – tax consultancy services	RMB80,000



Confirmation by the Directors and Auditors

The Directors have reviewed the effectiveness of the internal control system of the Group. The review covered all the material aspects of its internal controls, including the supervision of the financial and operational and compliance affairs, as well as risk management.

The Directors are responsible for supervising the preparation of annual accounts in order to give a true and fair view of the financial position, operating results and cash flow of the Company during the year. For the purpose of the preparation of the financial statements for the Reporting Period, the Directors have selected appropriate accounting policies, adopted applicable accounting principles, made judgments and assessments that are prudent and reasonable and ensured the financial statements were prepared on a going concern basis. The Directors have confirmed that the Group's financial statements were prepared in accordance with the requirements of laws and applicable accounting principles.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast doubt upon the ability of the Company to operate as a going concern. The statement of auditors about their reporting responsibilities on the financial statements is set out in the section headed "Independent Auditor's Report" of this report.

Shareholders' Rights

Two or more Shareholders representing a total of over 10% (inclusive) shares carrying the right to vote at the meeting to be convened may sign one or more written requests of the same format and contents, and submitted to the Board for the convening of an extraordinary general meeting or a class meeting. The Board shall furnish a written reply stating its agreement or disagreement to convene the extraordinary general meeting or a class meeting within ten days upon receipt of such requisition.

When the Company convenes a general meeting, Shareholders who individually or jointly hold three percent (3%) or more of the shares of the Company shall be entitled to propose provisional motions and submit the same in writing to the Board ten (10) days prior to the date of the general meeting, the details of which please refer to Article 58 of the Articles of Association of the Company.

The Shareholders may put proposals or enquiries to the Board via the office phone number and email address of the Board office as stated in this annual report.

Effective Communications with Investors

In 2021, the work of investor relations of the Group was conducted orderly under the guidance and support of the Board of Directors and operational management. In response to regulatory requirements for pandemic prevention and control, the Group actively used various online communication means, regularly convened results announcement conferences, and fulfilled its information disclosure obligations, communicating effectively with domestic and overseas shareholders and investment institutions. In addition, the Group also hosted and participated in numerous investor exchanges and company presentation roadshows to further deepen the market's understanding of the Company's industry positioning and development strategies, and allow it to feel the leading industrial position and competitive edge of the Company. In 2022, the Group will continue to arrange investor communication and discussion, company road shows as well as general meeting, etc. to keep close communication with Shareholders and investors of the Company, perform the information disclosure obligation according to laws and regulations to ensure the interests of the investors.



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Implementation of Non-Competition Agreement

The independent non-executive Directors have reviewed the compliance by CNPGC of the Non-Competition Agreement and confirmed that CNPGC has complied with the terms of such agreement during the year ended 31 December 2021. CNPGC also confirmed to the Company that it has complied with the terms of the Non-Competition Agreement.

The independent non-executive Directors were not aware of any breach of the terms of the Non-Competition Agreement by CNPGC and therefore, no remedy action was taken by the Company during the year ended 31 December 2021.

In accordance with the Non-Competition Agreement entered into between the Company and CNPGC, if CNPGC or any of its subsidiaries (other than the Company) is aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competes with the core business of the Company (the “Business Opportunity”), it will inform the Company of the aforesaid Business Opportunity in writing immediately in the first place. Whether to take up the Business Opportunity is up to the independent non-executive Directors.

During the Reporting Period, the independent non-executive Directors of the Company did not make any decisions in relation to the exercise or termination of the option or the right of first refusal or take up or waive such Business Opportunity.

Risk Management and Internal Control

The Board has established a risk management and internal control system in accordance with the requirements of paragraph C.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules and continues to monitor and review the effectiveness of its operation. The system is designed to manage rather than eliminate the risk of failure to meet business objectives, to promote effective and efficient operations, to provide reasonable (not absolute) assurance against material misstatement or loss and comply with applicable laws and regulations, as well as to safeguard the assets of the Group.

Characteristics of the Risk Management and Internal Control Organisation System

In accordance with the requirements of code provision C.2.2 of the Corporate Governance Code of Appendix 14 of the Listing Rules, the Group has established a sound risk management and internal control organization system which includes the Board, its Audit Committee, management of the Company, the risk and operation management department, legal compliance department, audit department, discipline inspection committee and other departments to ensure that the Group has sufficient resources, qualified and experienced staffs, training courses and related budget for risk management and internal audit. The Company’s subsidiaries and business units at all levels serve as the frontline in risk management and internal control; and the Audit Committee under the Board, the management, the risk and operation management department, the legal compliance department and the related functions are the higher level supervisors for risk management and internal control; while the highest level of supervision is carried out by the audit department and the discipline inspection committee, with the audit department and the discipline inspection committee serving as an independent supervision department that conducts internal audit for the Group’s risk management system. As the highest decision maker for the Group’s risk management and internal control, the Board assumes the full responsibility for the establishment of a sound risk management and internal control system as well as the effectiveness of the risk management work carried out across the Group.



Implementation of Risk Management and Internal Control

Through reviewing the works conducted by the audit department, discipline inspection committee and external consultants such as the auditors and reviewing reports prepared by the management in respect of risk management, regulatory compliance, legal and other matters, the Group reviews the effectiveness of the risk management and internal control systems every year and assesses all important aspects of internal control such as supervision on financial, operation and compliance affairs, etc. based on the five elements of internal control, namely, the internal environment, risk assessment, control activities, information and communication as well as internal supervision.

After risk assessment, the three major risks faced by the Company in 2021 were policy risk, cash flow risk and market competition risk.

In terms of policy risk, the pharmaceuticals industry is significantly affected by the national policies, and with new policies issued frequently, the market pattern has been continuously adjusted and changed in a short time. Since 2020, the expansion of volume-based procurement (VBP) policy in “4+7” pilot cities, the second and third batches of national drug VBP have been implemented gradually in various provinces, VBP of high value consumables and local VBP have been conducted successively, resulting in more and more intensive competition in pharmaceuticals industry. In addition, the country’s entering the normalized control stage of COVID-19 pandemic also brings challenges to the operation of the Company.

In terms of cash flow risk, since 2020, due to the breakout and reoccurrence of COVID-19 pandemic, the diagnosis and treatment as well as operation volume of the hospitals decreased significantly, resulting in delay in the payment collection from the medical institutions. In addition, the continuous slowing down of economic growth caused the overall capital shortage in the industrial chain of the pharmaceuticals industry.

In terms of market competition risk, with the deepening of medical reform policy, the overall growth rate of the pharmaceutical market has slowed down, the concentration of the pharmaceutical distribution industry has gradually increased, and the competition for market share among leading enterprises in the industry has intensified. Cross-industry competitors used their own superior resources to participate in industry competition, incited the pattern of the pharmaceutical field and changed industry rules. The outbreak of COVID-19 pandemic has brought uncertainty to the market competition pattern of pharmaceutical industry.

In 2021, the Group formulated practical and feasible management proposals based on its actual situation and carried out effective risk management in various approaches.

The Group strived to further improve its risk and internal control management system, establish sound system and procedures and implement its supervision work effectively. It also sought to carry out the risk control thoroughly by means of prevention in advance, supervision during the process and following up afterwards. Upon identification of the internal control defects, the Group shall require the relevant departments to rectify immediately, and formulate rectification plan for those internal control defects which cannot be rectified immediately for pushing forward the progress of rectification. In 2021, the Company continued to carry out the risk control supervision and inspection work in 2020, and carried out on-site inspection work for five subsidiaries, prompting risks regarding issues discovered during the on-site inspection, issuing feedback notice and continuously following up the rectifying, reforming and implementation. At the same time, the Company organized a series of training courses on “Internal Control in Business Cycle” in the first quarter of 2021, and then organized the companies at all levels to update and improve the key link systems in key areas in combination with the training contents. In the fourth quarter of 2021, the Company carried out the first round of system “abolishment, modification and new formulation” for the subsidiaries at all levels, and practically strengthened the standardized management of system construction. In 2021, the Company held two meetings of the Compliance Management Committee, carried out on-site compliance inspection and related rectification work for 14 subsidiaries, carried out the “ten consecutive inquiries” investigation



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activity on the construction of compliance management systems for the subsidiaries at all levels, revised and completed the Compliance Manual of Sinopharm Group (2021 Version), revised and completed the Prevention and Control List of Key Compliance Issues of Sinopharm Group for the Year 2021, and organized the revision and signing of the Responsibility Letter for Compliance Operation and Integrity Practice.

Meanwhile, the Group continued to strengthen its management on each professional business in its headquarters as well as its supervision on and guidance to the second-tier subsidiaries. It also enhanced its audit supervision and inspection on the implementation of key internal control systems by its subsidiaries in every level by conducting follow-up activities, inspection and special audit thereon. Based on an interactive supervision mechanism, departments including, among others, the audit, legal compliance and discipline inspection departments cooperated in the supervision to form resultant force in order to strengthen management vulnerabilities, ensure implementation of the system, carry out rectification and follow-up activities and improve the accountability mechanism.

Formation of a Long-term Risk Management and Internal Control Mechanism

Every year, the Group instructs each department to identify, analyse and assess the material risks of the Group on the basis of the changing internal and external environment and taking into consideration the possibility and impact of the risk. In light of the actual operation and management of its professional business, each department formulates detailed risk management proposals against material risks on a case by case basis.

During the Reporting Period, the risk and operation management department prepares the Report on Internal Control Systems of the Sinopharm Group to summarise the risk and internal control management work of the previous year and review the supervision, inspection and timely rectification of all material risks. The report also sets out the risk and internal control management plan for the next year as well as resources and events that need coordination and further instruction, and is finally submitted to the management of the Company and the Board for approval.

The Group's management procedures for financial reporting, information disclosure and connected transactions, etc. are in strict compliance with the requirements of the Listing Rules. The Board of Directors enacted the Rules on the Inside Information Management of Sinopharm Group Co. Ltd., and has set up unified and standard control procedures for information collection, classification, approval and disclosure. Prior to disclosing relevant inside information to the public, the Group will ensure that such information is kept strictly confidential and will maintain a registration of insiders as required. The Supervisory Committee is responsible for the supervision of inside information management. The Company is also aware of its obligations under the SFO and the Listing Rules for the handling and disclosure of inside information, and unless the information falls within the "Safe Harbour", the Company will disclose such inside information to the public as soon as practicable.

On the Board meeting held on 18 March 2022, the Board made an annual review of the risk management and internal control during the Reporting Period and concluded that there had been no deficiency in material risk control nor any weakness in material risk control based on the outcome of the risk management and internal control work implemented by the Group during the period from 1 January 2021 to the date of this report. The Board was of the view that the risk management and internal control system of the Group is effective and sufficient.

With respect to the control of connected transactions, the Group shall take certain measures to strengthen the control. For details, please refer to the announcement of the Company dated 18 March 2022.



Biographies of Directors, Supervisors and Senior Management



Directors

Mr. Yu Qingming, aged 58, is the secretary of Party Committee, chairman and executive Director of the Company. Mr. Yu has over 35 years of working experience in the pharmaceuticals industry, especially in the management of pharmaceuticals and medical devices, and holds the professional title of senior engineer. Mr. Yu graduated from Shanghai Medical Equipment College (now known as Shanghai University of Medicine & Health Sciences) in 1987, and graduated from the Party School of the Central Committee of C.P.C majoring in economic management in July 2001 with a master degree. From July 1987 to February 1997, Mr. Yu successively worked at Beijing Pharmaceutical Station of CNPGC, China Medical Instrument Corporation and State Pharmaceutical Administration; from February 1997 to August 2010, Mr. Yu successively held senior management positions in Zhuhai United Laboratories Co., Ltd. and China Medical Instrument Corporation. Mr. Yu has taken senior management positions of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. since August 2010. He currently serves as the director of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd.. Mr. Yu joined the Group since December 2018 and currently serves as secretary of Party Committee, chairman and executive Director of the Company. Mr. Yu currently serves as director and general manager of Sinopharm Investment. Mr. Yu is currently also a representative of the 13th National People's Congress, vice president of China Association for Medical Devices Industry, vice chairman of China Association of Medical Equipment, and vice president of China Association for Vaccines etc. He is appointed as part-time professor in various universities such as East China University of Science and Technology and Beijing Jiaotong University (formerly known as Northern Jiaotong University).

Mr. Liu Yong, aged 53, is an executive Director, president and deputy secretary of Party Committee of the Company. Mr. Liu has over 30 years of working experience, over 27 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Liu obtained a bachelor's degree in science, majoring in business administration of pharmaceutical enterprises, from China Pharmaceutical University in July 1992, a master's degree in business administration from Fudan University in January 2000 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University in June 2016. Mr. Liu is a chief pharmacist and a practicing pharmacist. Mr. Liu joined the Group since July 1992. He worked at Shanghai Pharmaceutical Station, China National Pharmaceutical Group Shanghai Co., Ltd., Shanghai Guoda Drug Chain Store Co., Ltd. and Sinopharm Holding Shenyang Co., Ltd.. Mr. Liu held senior management positions in the Company since January 2009, and is currently also an executive Director, president and deputy secretary of Party Committee of the Company. Mr. Liu currently serves as the director of Sinopharm Investment and Sinopharm (CNCM LTD), the chairman of Sinopharm Accord, and also takes senior management positions in a number of subsidiaries.



Biographies of Directors, Supervisors and Senior Management

Mr. Chen Qiyu, aged 50, is a non-executive Director and vice chairman of the Company. Mr. Chen has nearly 29 years of working experience. He obtained a bachelor's degree in genetics from Fudan University in July 1993 and an executive master's degree in business administration from China Europe International Business School in September 2005. Mr. Chen joined Fosun Pharma Group (namely Fosun Pharma and its holding subsidiaries/units, hereafter the same) since 1994, and is currently the executive director and joint chief executive officer of Fosun International (a company listed on the Hong Kong Stock Exchange (stock code: 00656)), the non-executive director of Fosun Pharma (a company listed on the Shanghai Stock Exchange (stock code: 600196) and the Hong Kong Stock Exchange (stock code: 02196)), non-executive director of Henlius (a company listed on the Hong Kong Stock Exchange (stock code: 02696)), co-chairman of New Frontier Health Corporation (a company delisted from the NYSE in January 2022), director of Beijing Sanyuan Food Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600429) and non-executive director of Gland Pharma Limited (a company listed on Bombay Stock Exchange and National Stock Exchange of India, stock code: GLAND and GLAND). Mr. Chen joined the Company since January 2003, and has served as the chief Supervisor and non-executive Director of the Company, and is currently the non-executive Director and vice chairman of the Company. Mr. Chen is also the deputy chairman of Sinopharm Investment. Mr. Chen is currently also the chairman of China Medical Pharmaceutical Material Association, vice chairman of China Pharmaceutical Innovation and Research Development Association, honorary chairman and chief supervisor of Shanghai Biopharmaceuticals Industry Association and the standing member of the 13th Shanghai Committee of the Chinese People's Political Consultative Conference.

Mr. Hu Jianwei, aged 48, is a non-executive Director of the Company. Mr. Hu worked at government agencies for a long time from July 1994 to November 2017. He has in-depth research on macroeconomic operation and management and is familiar with medical and health work. He has served as a member of Party Committee and deputy general manager of CNPGC since December 2017, and general counsel since January 2019, mainly responsible for work such as strategic planning, branding, operation and legal affairs. Mr. Hu has served as non-executive Director of the Company since he joined the Company in December 2018.

Mr. Ma Ping, aged 66, is a non-executive Director of the Company. Mr. Ma has over 39 years of working experience. Mr. Ma received a bachelor degree from chemistry department of Fudan University in 1982. Mr. Ma worked at Ministry of Labor and Personnel, National Pharmaceutical Administration and State Planning Commission from February 1982 to March 1992. He also took senior management positions in London Export Corporation, Hoechst (China), Lotus Healthcare, BMP, Sinogen International Ltd. and United Medical Industrial Group respectively from March 1992 to March 2000. He served as a director and a vice general manager of Tonghua Golden-horse Group (a company listed on the Shenzhen Stock Exchange, stock code: 000766) from March 2000 to September 2001. He served as a director and a general manager of BMP from September 2001 to December 2005. He served as an external director of CNPGC from May 2016 to June 2021, and a director of China National Biotec Group Co., Ltd. from May 2016 to July 2021. Mr. Ma currently serves as a director of BioPro Pharmaceutical Inc. and a project consultant of Principle Capital. Mr. Ma has been serving as a non-executive Director of the Company since joining the Company in October 2016.



Mr. Deng Jindong, aged 58, is a non-executive Director of the Company. He has over 34 years of working experience, over 29 years of which is financial management experience. Mr. Deng obtained a bachelor's degree in economics from Hangzhou Electronics Industry Institution (currently known as Hangzhou Dianzi University) in July 1986 and a master's degree in economics from Central Institute of Finance and Economics (currently known as Central University of Finance & Economics) in January 1991. He is a non-practicing PRC certified public accountant. Mr. Deng was previously the chief financial officer of Economic Information Network Data Co., Ltd., senior audit manager of Taikang Life Insurance Co., Ltd. and the head of the finance department of CNPGC from April 2000 to October 2004. Mr. Deng has been the chief accountant of CNPGC from October 2004 to May 2017, and has served as its vice general manager since May 2017. Mr. Deng has been a non-executive Director since he joined the Company in August 2007. He is currently also the chairman of Sinopharm Investment.

Mr. Wen Deyong, aged 51, is a non-executive Director of the Company. Mr. Wen graduated from Donghua University and received a master's degree in business administration in December 2007. Mr. Wen joined Fosun Pharma Group in May 2002, and is currently the joint president of Fosun Pharma, president of Shanghai Fosun Pharmaceutical Industry Development Co., Ltd., co-chairman and president of generic drug and manufacturing division, director of pharmaceutical business management committee. Mr. Wen worked at Chongqing Yaoyou Pharmaceutical Co., Ltd. and Chongqing Healthman Pharma Co., Ltd. from September 1995 to May 2016. Mr. Wen has served as the non-executive Director of the Company since September 2017. Mr. Wen is currently also the director of Sinopharm Investment and Sinopharm (CNCM LTD), and a supervisor of Sinopharm Accord. Mr. Wen was also the director of Anhui Sunhere Pharmaceutical Excipients Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300452) and C.Q.Pharmaceutical Holding Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000950).

Mr. Li Dongjiu, aged 57, is a non-executive director of the Company. Mr. Li has over 34 years of working experience in the pharmaceutical industry, over 29 years of which relates to management experience in the pharmaceutical and healthcare products industry. Mr. Li is a professor – level senior engineer and Doctor of Engineering. Mr. Li obtained a bachelor's degree in chemical engineering from Dalian University of Technology in July 1987, a master's degree in management science and engineering from Wuhan Transportation University in July 1998, a master's degree of arts in international economic and trade relations from the Flinders University of South Australia in October 2005, a PhD degree of transportation planning and management from Wuhan University of Technology in June 2013, and an EMBA degree from China Europe International Business School. Mr. Li held senior management positions in North China Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600812) from July 1987 to December 2009. Mr. Li joined Fosun Pharma Group for the first time in December 2009 and successively served as vice president and senior vice president of Fosun Pharma between December 2009 and January 2018; and rejoined Fosun Pharma Group in March 2021 and is currently serving as senior vice president of Fosun Pharma. Mr. Li served as a non-executive Director of the Company from October 2013 to January 2018 and served as a vice president and chief legal advisor of the Company from January 2018 to March 2021. Mr. Li once served as a director of Sinopharm (CNCM LTD) and Sinopharm Accord. Mr. Li has been a non-executive director of the Company since June 2021.



Biographies of Directors, Supervisors and Senior Management

Ms. Feng Rongli, aged 47, is a non-executive Director of the Company. Ms. Feng graduated from Shanghai University with a major in microcomputer application in July 1996 and obtained a master's degree in business administration from Columbia Southern University in February 2002. Ms. Feng has extensive experience in the field of human resources management. Ms. Feng held human resources management positions in Sealed Air Packaging (Shanghai) Co., Ltd. (希悦爾包裝(上海)有限公司), Grundfos Pumps (Shanghai) Co., Ltd. (格蘭富水泵(上海)有限公司), Emerson Electric (China) Holdings Co., Ltd. (艾默生電氣(中國)投資有限公司), Dow Chemical (China) Co., Ltd. (陶氏化學(中國)有限公司), Shanghai Roche Pharmaceutical Co., Ltd. (上海羅氏製藥有限公司), and F. Hoffmann-La Roche AG from July 1996 to February 2015. Ms. Feng served as the deputy chief human resources officer of Fosun High Technology and the managing director of the human resources of Shanghai Fosun Venture Capital Investment Management Co., Ltd. (上海復星創業投資管理有限公司) from July 2018 to April 2020. Ms. Feng joined Fosun Pharma Group since April 2020 and is currently serving as the senior vice president of Fosun Pharma. Ms. Feng currently serves as the chairman of the supervisory committee of Henlius (a company listed on the Hong Kong Stock Exchange, stock code: 02696) and the non-executive director of Sisram Medical Ltd (a company listed on the Hong Kong Stock Exchange, stock code: 01696). Ms. Feng has served as the non-executive Director of the Company since June 2020.

Mr. Zhuo Fumin, aged 71, is an independent non-executive Director of the Company. Mr. Zhuo has more than 46 years of experience in the field of enterprise management and capital markets. Mr. Zhuo graduated from Shanghai Jiaotong University of Engineering Science (currently known as Shanghai University of Engineering Science) in 1983. He subsequently obtained a master's degree in economics from Fudan University in 1997. Mr. Zhuo currently serves as the chairman and managing partner of V Star Capital. Between 1987 and 1995, Mr. Zhuo served positions including an office head and an officer assistant of the Shanghai Government Economic System Reform Committee. Between 1995 and 2002, Mr. Zhuo held in turn various positions such as the managing director and CEO at Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0363). Mr. Zhuo has served as the chairman and the chief executive officer of Vertex China Investment Co., Ltd. (a wholly-owned subsidiary of Vertex Management Group, a global venture capital management company), founder and chairman of Shanghai Kexing Investment Co., Ltd. and managing partner of GGV Capital, a venture capital fund since 2002. Mr. Zhuo has served as the independent non-executive Director of the Company since March 2016. Mr. Zhuo is also an independent director of Daqo New Energy Corp. (a company listed on the New York Stock Exchange, stock code: DQ), Shanghai Shine-Link International Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603648) and Dazhong Transportation (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600611), a non-executive director of Besunyen Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0926), and an independent non-executive director of SRE Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1207).

Mr. Chen Fangruo, aged 57, is an independent non-executive Director of the Company. Mr. Chen graduated from Shanghai Jiao Tong University in 1985 with dual Bachelor's Degrees in Shipbuilding and Marine Engineering and Computer Science and Technology. In 1987, he obtained a Master's Degree from the Moore School of Electrical Engineering, University of Pennsylvania. He then received his Ph.D. degree from the Wharton School at the University of Pennsylvania. Mr. Chen worked at Columbia Business School in 1992, successively serving as the Assistant Professor, Associate Professor, Lifetime Associate Professor, and Full Professor. In 2005, he became the Lifetime Chair Professor. During the foregoing period, Mr. Chen acted as a distinguished visiting professor at Stanford School of Business, Cheung Kong Graduate School of Business, Chinese Academy of Sciences, Shanghai Jiao Tong University, Peking University, Tianjin University and other prestigious universities at home and abroad. Mr. Chen has served as the independent non-executive Director of the Company since December 2018. Mr. Chen has served as a visiting chair professor at Shanghai Jiao Tong University since 2017. He is currently a "Guangqi" fund sponsored professor at Shanghai Jiao Tong University, the Dean of Antai College of Economics and Management at Shanghai Jiao Tong University, and concurrently as the Dean of the Industry Research Institute of Shanghai Jiao Tong University. Since 2019, he has served concurrently as the vice chairman of the National MBA Education Instruction Committee and a director of the AMBA & BGA's International Management Board. Currently, Mr. Chen also served as the independent director of Yunnan Jianzhijia Health-Chain Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 605266).

Mr. Li Peiyu, aged 59, is an independent non-executive Director of the Company. Mr. Li obtained a bachelor's degree of engineering in Power System and Automation from Tsinghua University, a master's degree of engineering in Management Engineering from the Department of Economics, School of Economics and Management, Tsinghua University, and PhD of management in Management Science and Engineering from School of Economics and Management, Tsinghua University in July 1984, July 1987 and January 2004, respectively, and obtained a Master of Public Administration (MPA) from Harvard University in June 1998. Mr. Li has worked in the areas of economics, finance and management for more than 31 years. From July 1987 to September 2000, he held positions in the Development Research Center of the State Council. From September 2000 to December 2007, Mr. Li successively served as the deputy director of Henan Provincial Development Planning Committee and the mayor of Hebi City in Henan Province. From December 2007 to November 2020, Mr. Li successively served as director of alternative investment department of China Investment Corporation, inspector of the research office of the State Council, chairman of China Reinsurance (Group) Corporation, and managing director of Beijing Zhongyu Green Investment Management Co., Ltd., managing director of CASIC Investment Fund Management (Beijing) Limited Company (航天科工投資基金管理(北京)有限公司) and the partner of the Beijing Qiyuanhouji Investment Management Co., Ltd. (北京啟源厚積投資管理有限公司). Mr. Li has served as the independent non-executive Director of the Company since September 2020. Mr. Li has served as the managing director of Lotus Lake Venture Capital Management (Beijing) Co., Ltd. (荷塘創業投資管理(北京)有限公司) since January 2022.



Biographies of Directors, Supervisors and Senior Management

Mr. Wu Tak Lung, aged 56, is an independent non-executive Director of the Company. Mr. Wu received a bachelor's degree in Business Administration from the Hong Kong Baptist University and a master's degree in business administration jointly from the University of Manchester and the University of Wales, respectively. Mr. Wu currently serves as an independent non-executive director of Sinomax Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1418), Kam Hing International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2307), Henan Jinma Energy Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 6885), Zhongguancun Science-Tech Leasing Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1601) and Minth Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0425). In the last three years, Mr. Wu was an independent non-executive director of China Machinery Engineering Corporation and Beijing Media Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1000) and an independent director of Olympic Circuit Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603920). On 10 February 2022, the Listing Committee of the Stock Exchange published a statement to criticize certain members and former members of the board of directors of Beijing Media Corporation Limited. Particulars of Mr. Wu as the former independent non-executive director of the company, are set out in the announcement of the Company dated 14 February 2022. Mr. Wu has received relevant trainings mentioned in such announcement. Mr. Wu had worked in Deloitte Touche Tohmatsu, an international accounting firm, for five years. Mr. Wu has served as an independent non-executive Director of the Company since September 2020. Mr. Wu is currently a member of Hong Kong Institute of Certified Public Accountants, a fellow member of Hong Kong Securities and Investment Institute, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong, and the Hong Kong Institute of Chartered Secretaries.

Mr. Yu Weifeng, aged 51, is an independent non-executive Director of the Company. Mr. Yu is a lawyer with more than 26 years of working experience as a practicing lawyer. Mr. Yu obtained a bachelor's degree in laws from Fudan University in June 1995 and a master's degree in business administration from China Europe International Business School in July 2015. In July 2019, he completed the Senior Management Leadership Program of Harvard Business School. From July 1995 to December 1998, Mr. Yu served as a paralegal and lawyer in Shanghai Pu Dong International Law Office (now renamed as Shanghai Pu Dong Law Office). Mr. Yu has served as a partner in Links Law Offices since December 1998, and served as a director thereof from January 2014 to June 2020. Mr. Yu currently serves as an independent director of Deppon Logistics Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603056) and Shenergy Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600642) and an external director of Jiahua Chemicals Inc.. Mr. Yu has served as the independent non-executive Director of the Company since September 2020. Currently, Mr. Yu is also a director of Foreign Affairs Committee of the All China Lawyers Association, president of Shanghai Arbitration Association, a member and an arbitrator of Shanghai Arbitration Commission, and an arbitrator of Shanghai International Economic and Trade Arbitration Commission (Shanghai International Arbitration Center).

Supervisors

Ms. Guan Xiaohui, aged 51, is the chief Supervisor of the Company. Ms. Guan obtained a bachelor's degree in economics from Jiangxi University of Finance and Economics and obtained a master's degree in accounting for senior accountant from the Chinese University of Hong Kong in December 2007. Ms. Guan is qualified as Chinese Certified Public Account (CPA) and a member of The Association of Chartered Certified Accountants (ACCA). Ms. Guan joined Fosun Pharma Group in May 2000 and currently serves as an executive director and vice chairman of Fosun Pharma. Ms. Guan worked at Jiangxi Provincial Branch of the Industrial and Commercial Bank of China from July 1992 to May 2000. Ms. Guan served as the non-executive Director of the Company from March 2019 to March 2021 and also once served as a supervisor of Sinopharm Accord. Ms. Guan serves as the Supervisor and the chief Supervisor of the Company since June 2021, and currently also serves as a non-executive director of Henlius (a company listed on the Hong Kong Stock Exchange, stock code: 02696), a director of Gland Pharma Limited (a company listed on Bombay Stock Exchange and National Stock Exchange of India, stock code: GLAND and GLAND) and a supervisor of Sinopharm Industrial Investment Co., Ltd..

Mr. Liu Zhengdong, aged 52, is a Supervisor of the Company. Mr. Liu is a lawyer who has more than 28 years of working experience as a practicing lawyer. Mr. Liu graduated from East China University of Political Science and Law (formerly known as East China School of Political Science and Law) with a bachelor's degree in Law in 1991, and juris master's degree in 2002. He served as an assistant prosecutor in Railway Transportation branch of Shanghai People's Procuratorate from July 1991 to June 1994. From June 1994 to October 1998, Mr. Liu worked at Shanghai Hongqiao Law Firm and has been serving as a lawyer. Mr. Liu worked at Shanghai Junyue Law Firm from October 1998 and February 2022, and served as director and chief partner successively. Mr. Liu has been working in Jun He Law Offices Shanghai Branch since February 2022 as a partner. Mr. Liu has served as the independent non-executive Director of the Company from September 2014 to September 2020 and has been a Supervisor of the Company since September 2020. Mr. Liu served as president of the Eighth Session of Shanghai Bar Association and was also honored as National Excellent Lawyer and Shanghai Excellent Non-litigation Lawyer. Currently, Mr. Liu serves as deputy to the Shanghai 15th People's Congress, director of the National Lawyers Association, president of Shanghai Bankruptcy Administrators Association (上海市破產管理人協會), vice president of Shanghai General Chamber of Commerce. Mr. Liu also serves as arbitrators of China International Economic and Trade Arbitration Commission (CIETA), Shanghai International Economic and Trade Arbitration Commission (SHIAC) and Shanghai Arbitration Commission (SAC).

Mr. Zhang Hongyu, aged 60, is an employee representative Supervisor of the Company. Mr. Zhang has over 36 years of working experience. Mr. Zhang obtained a bachelor's degree in political economics from East China Normal University in July 1985 and a master's degree of EMBA from Shanghai Jiao Tong University in December 2007. Mr. Zhang held human resources management position in China Worldbest Group Co., Ltd. from November 1999 to December 2006. Mr. Zhang joined the Group in March 2007, and served as deputy party secretary and head of Human Resources Department of Sinopharm Logistics Co., Ltd., head of Human Resources Department of Distribution Business Department of the Company, deputy head of Human Resources Department of the Company, head of the Party Affairs Department of the Company and deputy secretary of Discipline Inspection Commission and deputy chairman of Labour Union of the Company as well as the secretary of Discipline Inspection Commission of the Company. Mr. Zhang has been an employee representative Supervisor of the Company since January 2018. Mr. Zhang currently serves as a member of the Party Committee and a member of Discipline Inspection Commission of the Company.



Biographies of Directors, Supervisors and Senior Management

Ms. Lu Haiqing, aged 48, is an employee representative Supervisor of the Company. Ms. Lu obtained a master's degree in accounting from the Chinese University of Hong Kong in December 2012. Ms. Lu is a non-executive member of the Chinese Institute of Certified Public Accountants (CPA) and a non-executive member of the International Certified Internal Auditor (CIA) Association. Ms. Lu has approximately 28 years' working experience, with all audit experience obtained from February 2000 to June 2006. She had served successively as the project manager of the audit department of Guangxi GuiXinCheng Certified Public Accountants Co., Ltd. (廣西桂鑫誠會計事務所), the project manager of the audit department of Shanghai Huadong Certified Public Accountants Co., Ltd., Guangxi Branch (上海華東會計師事務所有限公司廣西分所), the project manager of the investment department of Shanghai Kangrun Investment Co., Ltd. (上海康潤投資有限公司), and the audit manager of the audit department of Bosideng Corporation Limited (波司登股份有限公司). Since she joined the Group in July 2006, Ms. Lu has been serving as the deputy head of the audit department of the Company and has served as an employee representative Supervisor of the Company since September 2020. Ms. Lu currently also takes senior management positions in a number of subsidiaries.

Company Secretaries

Mr. Wu Yijian, the company secretary, is also secretary to the Board of the Company. Please refer to the section headed "Senior Management" for Mr. Wu's biography.

Senior Management

Mr. Liu Yong, is currently an executive Director and the President of the Company. Please refer to the section headed "Directors" above for Mr. Liu's biography.

Mr. Li Yang, aged 44, is a vice president of the Company. Mr. Li has more than 22 years of working experience, with more than 20 years of operation and management experience in the medical devices industry. Mr. Li obtained a bachelor of Economics in International Enterprise Management from Dalian Maritime University in July 2000. Mr. Li is qualified as an assistant economist. Mr. Li worked at China National Pharmaceutical Group Corporation, General Electric (China) Co., Ltd. and IBA (China) Co., Ltd. from July 2000 to January 2011. Mr. Li has been serving as the senior management of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. since January 2011. Mr. Li currently serves as the chairman of China National Scientific Instruments and Materials Co., Ltd. and China National Medical Device Co., Ltd. and takes senior management positions in a number of subsidiaries of the Company. Mr. Li joined the Company as a vice president of the Company in November 2018.

Mr. Jiang Xiuchang, aged 58, is a vice president of the Company. Mr. Jiang has over 35 years of working experience, over 24 years of which is management experience in the pharmaceutical and healthcare products industry. Mr. Jiang obtained a bachelor's degree in financial accounting from Zhongnan University of Economics and Law in July 1986, and graduated from the class for advanced studies of postgraduate courses in corporate management from the School of International Business Management of University of International Business and Economics in January 2005. Mr. Jiang was qualified as a senior economist and senior accountant. Mr. Jiang served at CNPGC from July 1986 to March 2002. Mr. Jiang served at Sinopharm (CNCM LTD) from March 2002 to May 2010 and successively served as deputy head, head of the finance department and chief financial officer. Mr. Jiang served as the chief financial officer of the Company from May 2010 to March 2021, and has served as the vice president of the Company since July 2013. Mr. Jiang was a director of Sinopharm Accord. Mr. Jiang is currently the chairman of Sinopharm (CNCM LTD) and takes senior management positions in a number of subsidiaries of the Company.

Mr. Lian Wanyong, aged 52, is a vice president of the Company. Mr. Lian has over 25 years of working experience, all of which is management experience. Mr. Lian obtained a bachelor's degree in medicine, majoring in clinical medicine, from Hunan University of Medicine (currently known as Central South University Xiangya School of Medicine) in July 1993, a master's degree in medicine, majoring in pharmacology, from Zhongshan Medicine University (currently known as Zhongshan School of Medicine, Sun Yat-Sen University) in July 1996 and a master's degree in business administration from the University of Miami in May 2002, respectively. Mr. Lian served at CNPGC from July 2005 to January 2018, and successively served as deputy head of the financial assets management department, head of the investment management department and vice director of policy research office. Mr. Lian served as the non-executive Director and Supervisor of the Company from December 2008 to January 2018, and joined the Company as a vice president in January 2018. Mr. Lian is currently also the director of Sinopharm (CNCM LTD) and Sinopharm Accord and takes senior management positions in a number of subsidiaries of the Company.

Mr. Cai Maisong, aged 52, is a vice president of the Company. Mr. Cai has over 29 years of working experience. Mr. Cai received a bachelor degree of pharmacy from School of Pharmacy of Beijing Medical University in July 1992, and later received a master degree in business administration from Nankai University. Mr. Cai served at Guangzhou Baiyunshan Pharmaceutical General Factory, Les Laboratoires Servier Industrie, Tianjin purchase station of China National Pharmaceutical Group Corp. and China National Pharmaceutical Group Corp. Tianjin Co., Ltd. from July 1992 to December 2002. Mr. Cai served as a director of commerce department and director of operation management center in Sinopharm Holding Tianjin Co., Ltd. from January 2003 to July 2006, and served as the director of risk and operation management department of the Company from July 2006 to December 2010. Mr. Cai served as the vice director and the director of risk and operation management department and the vice director of policy research office of CNPGC from January 2011 to August 2017. Mr. Cai served as a supervisor of CNPGC from December 2012 to January 2018, and served as a vice principal in Sichuan Province Food and Drug Administration from June 2016 to January 2018. Mr. Cai joined in the Company as a vice president in January 2018 and has served as the general counsel of the Company since November 2021. Mr. Cai currently takes senior management positions in a number of subsidiaries of the Company.

Ms. Li Xiaojuan, aged 46, is the chief financial officer of the Company. Ms. Li has over 20 years of working experience. Ms. Li obtained a bachelor's degree in real estate operation and management from investment economics department of Dongbei University of Finance & Economics in July 1998 and a master's degree in national economics (investment economics) with specialty in securities investment from investment economics department of Dongbei University of Finance & Economics in April 2001. Ms. Li is a non-practicing certified public accountant, a senior economist and a certified asset valuer. Ms. Li served as the project manager of Beijing Tianhua Accounting Firm and the vice director of strategic cooperation department of Xi'an TopSun Group from April 2001 to February 2005. Ms. Li served as the manager of finance department, the director of auditing and supervision office and the manager of auditing department of China National Pharmaceutical Industry Corporation from February 2005 to August 2010. Ms. Li served at CNPGC from August 2010 to March 2021, and served as its vice director of investment management department, the vice director of auditing department, the director of auditing department, the director of finance department and the vice director of policy research office. Ms. Li has served as the Supervisor of the Company from January 2016 to March 2021 and has served as the chief financial officer of the Company since March 2021. Ms. Li is currently a director of Sinopharm Accord and Sinopharm (CNCM LTD), and takes senior management positions in a number of subsidiaries of the Company.



Biographies of Directors, Supervisors and Senior Management

Mr. Chen Zhanyu, aged 51, is a vice president of the Company. Mr. Chen graduated from Xi'an University of Finance and Economics with a college degree in accounts in July 1992, and obtained his master's degree in business administration from Northwest University in 2005, and his master's degree in accounts from the Chinese University of Hong Kong in 2015. Mr. Chen holds the qualification of PRC Certified Public Accountant (CPA). From 1992 to 2011, Mr. Chen took financial management positions at Baoji Pharmaceutical Machinery Plant, Xi'an Fifth Grinding Wheel Factory, Xi'an Omeya Beauty Products Co., Ltd., Xi'an Topsun Science and Technology Co., Ltd. and Shandong Buchang Pharmaceutical Co., Ltd.. Mr. Chen served as vice president, vice chief financial officer and general manager of the Finance Department in Fosun Pharma Group and served as senior management of several subsidiaries of Fosun Pharma Group from June 2011 to March 2021. Since joining the Company in March 2021, Mr. Chen has served as a vice president of the Company. Currently, Mr. Chen also takes senior management positions in a number of subsidiaries of the Company.

Mr. Xu Shuangjun, aged 54, is a non-executive vice president of the Company. He has over 36 years of working experience, over 28 years of which is management experience in the pharmaceutical and healthcare products industry. He graduated from the School of Pharmacy of the Second Military Medical University in Shanghai and obtained a bachelor's degree in medicine in 2001. He further obtained a master's degree in business administration from the Macau University of Science and Technology in 2006 and has the qualifications of practicing pharmacist and chief pharmacist. He was the manager of the operating branch and the deputy general manager of Shijiazhuang City Medicines and Herbs Co., Ltd., the chairman and general manager of Hebei Zhongrui Medicines Co., Ltd., the general manager and secretary of the Party Committee of Shijiazhuang Lerentang Pharmaceutical Co., Ltd., and the chairman, general manager and secretary of the Party Committee of Lerentang Pharmaceutical Group Co., Ltd. from March 1999 to May 2011. Mr. Xu is currently the chairman of Sinopharm Lerentang Pharmaceutical Co., Ltd.. Mr. Xu has been a non-executive vice president of the Company since May 2011.

Mr. Wu Yijian, aged 52, is the secretary to the Board of the Company. Mr. Wu graduated from Shanghai Medical University with a bachelor's degree in preventive medicine in July 1993. Mr. Wu obtained his master's degree in business administration from Tsinghua University in July 2003, his joint master's degree in professional accounting for senior accountant from the Chinese University of Hong Kong and Shanghai National Accounting Institute in July 2013. Mr. Wu worked at Sanjiu Enterprise from July 1993 to May 2004 and served as sales director of Sanjiu Pharmaceutical Trading Co., Ltd., the chief operating officer of Sanjiu Pharmaceutical Chain Co., Ltd. and the deputy general manager of Shanghai Sanjiu Pharmaceutical Technology Development Co., Ltd.. Mr. Wu worked at Fosun Pharma from June 2004 to December 2018, and served as its vice general manager of the investment department and president assistant. Mr. Wu has served as the vice president of Shanghai Yuyuan Tourist Mart Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600655) from November 2014 to December 2015. Mr. Wu was a non-executive Director of the Company from June 2016 to September 2017 and from March 2018 to December 2018. He joined the Company as the secretary to the Board in January 2019. Mr. Wu is currently also a director of Sinopharm Accord and takes senior management positions in a number of subsidiaries of the Company.



Biographies of Directors, Supervisors and Senior Management



Mr. Zhou Song, aged 40, was the former vice president of the Company. Mr. Zhou obtained a master's degree in law from the School of Law of Renmin University of China in July 2004. Mr. Zhou served at the authorities at both the central and national level from July 2004 to May 2018 with relevant strategic vision, management experience and professional levels. Mr. Zhou served as the secretary of Discipline Inspection Commission, general counsel and supervisor in China National Biotech Group Company Limited from May 2018 to March 2021. Mr. Zhou served as a vice president of the Company from March 2021 to November 2021. Mr. Zhou has served as a director of Sinopharm Accord and takes senior management positions in a number of subsidiaries of the Company.

Mr. Zhou Xudong, aged 53, was the former vice president of the Company. Mr. Zhou has over 31 years of working experience. Mr. Zhou received an associate degree of audit from department one from Nanjing Audit University in July 1990. From November 1992 to December 2002, Mr. Zhou worked at Nantong City Chemical Pharmaceutical Raw Material Company, and finally served as its vice general manager. Mr. Zhou served as a general manager and chairman in Nantong City Pharmaceutical Sales Co., Ltd. from December 2002 to December 2011. Mr. Zhou served as a general manager of Sinopharm Holding Nantong Co., Ltd. and a general manager of Sinopharm Holding Jiangsu Co., Ltd. from December 2011 to June 2019. Mr. Zhou served as a vice president of the Company from January 2018 to January 2022. Mr. Zhou has served as a director of Sinopharm (CNCM LTD) and takes senior management positions in a number of subsidiaries of the Company.



Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2021.

Principal Business

Our Group is the largest distributor of pharmaceutical products, and a leading supply chain services provider in the PRC; it also operates the largest national pharmaceutical distribution network in the PRC according to the information of China Association of Pharmaceutical Commerce. The Group has been able to rapidly increase its market share and profits in a highly fragmented industry by taking advantage of its economies of scale and nationwide distribution network, through which the Group offers a wide range of value-added supply chain services for its customers and suppliers.

The Group has integrated operations in the following business segments, namely:

- **Pharmaceutical distribution segment:** Pharmaceutical distribution is the Group's principal business. The Group provides distribution, logistics and other value-added services for domestic and international pharmaceutical and healthcare products manufacturers and other suppliers. The Group differentiates itself from its competitors in China by its strengths of geographic coverage, the breadth of its product portfolio and the comprehensive supply chain services provided to its customers and suppliers, etc.
- **Medical devices segment:** The Group is engaged in the distribution of medical devices in China.
- **Retail pharmacy segment:** The Group has established a network of retail drug stores in major cities of China via direct operations and franchises.
- **Other business segment:** The Group is also engaged in the production and sale of pharmaceutical products, chemical reagents and laboratory supplies.

Please refer to the sections headed "Management Discussion and Analysis" and "Corporate Governance Report" for a fair review and the analysis using financial key indicators on the Group's business, major risks, subsequent events and uncertainties faced by the Group, and the future development of the Group's business. Those sections also form a part of this Report of the Board of Directors.

Results

The operating results of the Group during the Reporting Period are set out in the consolidated statement of profit or loss on page 84 of this annual report.

Dividends

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



According to the Articles of Association of the Company, the Final Dividends will be denominated and declared in Renminbi. Final Dividend on domestic shares of the Company and for investors investing in the H shares of the Company through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect (the “**Southbound Trading**”) (the “**Southbound Trading Shareholders**”) will be paid in Renminbi, and the Final Dividend for other holders of H shares of the Company will be paid in Hong Kong dollars. The amount of the Final Dividend payable in Hong Kong dollars shall be calculated based on the average exchange rate of Renminbi to Hong Kong dollars as announced by the People’s Bank of China for the calendar week prior to 23 June 2022 (being the date of declaration of the Final Dividend).

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

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

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

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



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

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

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

Dividend Policy

The Company has established a dividend policy. Under the PRC Company Law and the Articles of Association, all of our shareholders have equal rights to dividends and distribution. The declaration of dividends by the Company will be proposed by the Board after taking into account the following factors, and is subject to the approval of the shareholders:

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

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

Purchase, Sale and Redemption of Listed Securities

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

Principal Subsidiaries

Details of the names, principal places of business, places of incorporation and issued share capital of the Company's principal subsidiaries are set out in Note 47 to the Consolidated Financial Statements.

Reserves

Details of movements in reserves of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on page 89 of this annual report and Note 40 to the Consolidated Financial Statements.

Distributable Reserves

In accordance with the PRC Company Law, the Company may only distribute dividends out of its distributable profits of the year (i.e. the Company's profit after tax after offsetting:

- (i) the accumulated losses brought forward from the previous years; and
- (ii) the allocations to the statutory surplus reserve and, if any, the discretionary common reserve (in such order of priorities)).

According to the Articles of Association, for the purpose of determining distributable profit, the distributable profit of the Company shall be the lower of its profit after tax determined in accordance with: (i) the PRC accounting standards and regulations; and (ii) the HKFRSs.

In 2021, the distributable reserves of the Group, calculated based on the above principles, amounted to approximately RMB36,729 million, which is prepared in accordance with the HKFRSs.



Report of the Board of Directors

Property, Plant, Equipment and Investment Properties

Details of changes in investment properties and property, plant and equipment of the Group during the Reporting Period are set out in Notes 17 and 18 to the Consolidated Financial Statements.

Borrowings

Details of borrowings of the Group are set out in Note 33 to the Consolidated Financial Statements.

Debenture

In order to facilitate the adjustment of the debt structure of the Group and reduce financing costs, the Group issued corporate bonds of RMB4 billion and super short-term commercial papers of RMB17 billion in 2021.

Details of issued bonds of the Group during the Reporting Period are set out in Note 33 to the Consolidated Financial Statements.

Use of Proceeds from Placing of H Shares

On 17 January 2020, the Company entered into the placing agreement, the terms of which were set out in the announcement of the Company dated 17 January 2020. On 23 January 2020, the Company completed the placing of 149,000,000 new H shares ("**Placing Shares**") to not less than six placees, who are professional, institutional or other investors (the "**H Share Placing**"). The aggregate nominal value of Placing Shares was RMB149,000,000, with a nominal value of RMB1 each. The placing price of HK\$27.30 per H share represented a discount of approximately 7.3% over the closing price of HK\$29.45 per H share as quoted on the Hong Kong Stock Exchange on 16 January 2020 (namely the last trading date before entering into the placing agreement). The actual net proceeds from the H Share Placing amounted to HK\$4,027 million, equivalent to RMB3,567 million (the "**Net Proceeds**") and the net price raised per H Share upon completion of the Placing was approximately HK\$27.02. As stated in the announcement of the Company dated 21 August 2020, the net proceeds will be used to expand the pharmaceutical distribution, retail network and medical device business of the Company and its subsidiaries, to improve the working capital of the Company and its subsidiaries as well as to repay the interest-bearing debts of the Company. As at the beginning of the Reporting Period, a total of RMB129 million of the net proceeds has not been used.



The table below sets out the details of the use of the net proceeds from the H Share Placing as of the end of the Reporting Period:

Unit: RMB million

Use of proceeds	Amount intended to be invested	Amount invested during the Reporting Period	Cumulative amount invested as of the end of the Reporting Period	Unutilised amount as of the end of the Reporting Period	Expected utilisation timetable
Expansion of pharmaceutical distribution, retail network and medical device business of the Company and its subsidiaries	378	0	378	0	Fully utilised
Improvement of working capital of the Company and its subsidiaries	2,589	129	2,589	0	Fully utilised
Repayment of the interest-bearing debts of the Company	600	0	600	0	Fully utilised

Major Customers and Suppliers

During the Reporting Period, purchases of goods and services from its 5 largest suppliers were less than 30% of the Group's total purchases, and the goods and services sold to its 5 largest customers were less than 30% of the Group's total sales.

Permitted Indemnity Provisions

The Company has maintained directors' liability insurance to protect the Directors of the Company against any potential losses arising from his/her actual or alleged misconduct. Such insurance was in force during the Reporting Period and remained effective as of the date of this report.

Connected Transactions

Pursuant to the requirements of the Listing Rules, the transactions between the Company and its connected persons (as defined under the Listing Rules) constitute connected transactions of the Company. The Company regulates and manages such transactions in compliance with the Listing Rules. The followings are the non-exempt connected transactions conducted by the Group during the Reporting Period.



Non-Exempt Continuing Connected Transactions

For the year of 2021, the Group entered into several non-exempt continuing connected transactions. The annual caps for and the actual transaction amounts of the non-exempt continuing connected transactions by the Group are set out below:

Transactions between the Group and the CNPGC Group under the Procurement Framework Agreement and Sales Framework Agreement	Annual cap for the year 2021 (RMB million)	Actual transaction amounts for the year ended 31 December 2021 (RMB million)
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Transactions between the Group and the CNPGC Group under the Procurement Framework Agreement ⁽¹⁾	7,000	7,969
Transactions between the Group and the CNPGC Group under the Sales Framework Agreement ⁽¹⁾	1,800	2,626

Transactions between the Group and Sinopharm Group Finance Company under the Financial Services Framework Agreement	Annual cap for the year 2021 (RMB million)	Actual transaction amounts for the year ended 31 December 2021 (RMB million)
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Maximum daily balance of the deposits placed with Sinopharm Group Finance Company by the Group (including accrued interest)	2,420	2,419
Interests/service fees incurred by the Group for the provision of other financial services by Sinopharm Group Finance Company	500	109

Transaction between the Group and the CNPGC Group under the EPC General Contracting Services Framework Agreement	Annual cap for the year 2021 (RMB million)	Actual transaction amounts for the year ended 31 December 2021 (RMB million)
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Amount payable by the Group to the CNPGC Group under the EPC General Contracting Services Framework Agreement	300	5
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Transaction between the Group and the Factoring Company under the Factoring Services Framework Agreement	Annual cap for the year 2021 (RMB million)	Actual transaction amounts for the year ended 31 December 2021 (RMB million)
Interests/service fees payable by the Group to the Factoring Company under the Factoring Services Framework Agreement	150	89

Transactions between the Group and the Natong Group under the Procurement Framework Agreement	Annual cap for the year 2021 (RMB million)	Actual transaction amounts for the year ended 31 December 2021 (RMB million)
Amount paid by the Group to the Natong Group under the Procurement Framework Agreement	1,800	746

- (1) As disclosed in the announcement of the Company dated 18 March 2022, the actual transaction amounts of the transactions between the Group and the CNPGC Group under the Procurement Framework Agreement for the year ended 31 December 2021 exceeded the annual cap for the year and the actual transaction amounts of the transactions between the Group and the CNPGC Group under the Sales Framework Agreement for the year ended 31 December 2021 exceeded the annual cap for the year. On 18 March 2022, the Board of the Company held the board meeting to propose to (1) ratify the actual transaction amounts of the transactions between the Group and the CNPGC Group under the Procurement Framework Agreement and the Sales Framework Agreement for the year ended 31 December 2021; and (2) revise the annual caps for the years of 2022 and 2023 for the transactions contemplated under the Procurement Framework Agreement and the Sales Framework Agreement, which shall be subject to the approval at the general meeting of the Company. For the details, please refer to the aforesaid announcement.

The continuing connected transactions between the Group and the CNPGC Group under the Procurement Framework Agreement

In order to regulate the continuing connected transactions in respect of the procurement of pharmaceutical products between the Group and CNPGC Group, the Company and the CNPGC renewed the Procurement Framework Agreement of Pharmaceutical Products, Personal-care Supplies and Medical Devices (“**Procurement Framework Agreement**”) on 22 October 2020, and set up the annual caps for the continuing connected transactions contemplated under the Procurement Framework Agreement for the three years ending 31 December 2023 to be RMB7,000 million, RMB8,000 million and RMB9,000 million, respectively.

Pursuant to the Listing Rules, the above-mentioned Procurement Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023 have been approved by the independent shareholders of the Company. On 18 March 2022, the Board of the Company resolved to propose to increase the annual caps for the year ending 31 December 2022 and the year ending 31 December 2023 to RMB10,600 million and RMB12,200 million, respectively, which shall be subject to the approval of independent shareholders of the Company.

Pursuant to the Procurement Framework Agreement, the Group has agreed to purchase pharmaceutical products, personal-care supplies, medical devices and health products from the CNPGC Group, and the CNPGC Group has agreed to sell such products to the Group.



Report of the Board of Directors

Under the Procurement Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products and medical devices to be purchased by the Group from the CNPGC Group under the Procurement Framework Agreement, which will be determined after mainly taking into account (a) the final price according to which the relevant product is sold to hospitals, pharmacies and other institutions; (b) the distribution costs of the relevant members of the Group; and (c) the profit level of the Group on relevant product, which will be determined by the parties through arm's length negotiation; (ii) The price of personal-care supplies and health products to be purchased by the Group from the CNPGC Group under the Procurement Framework Agreement, which will be determined by the parties through arm's length negotiation after mainly taking into account the guiding retail price provided by relevant members of the CNPGC Group for the related products, the distribution costs of the relevant members of the Group, and the profit level of the Group on relevant product; (iii) Before purchasing products such as pharmaceutical products, personal-care supplies, medical devices and health products from the relevant member of the CNPGC Group, the Company and/or its subsidiaries will (a) consider a variety of factors relating to the relevant products, including but not limited to the price, quality, credit period, delivery method, after-sales service, gross profit and average price in the industry; and (b) go through all necessary internal review and approval procedures by the president and/or various departments of the Company and/or its subsidiaries (including but not limited to the procurement department, finance department, legal department, quality department and operation department). For products with public bidding price/public procurement price (such as pharmaceutical products), after taking into account the tender price won in the public bidding process which is held by the tender offices of relevant levels of the PRC government or hospitals in respect of particular product, geographical location of the products, the market size of products and the above factors stated in (a), the Company and/or its subsidiaries will determine whether to accept the price of the products as offered by members of the CNPGC Group. After considering such factors and going through such internal procedures, the Company and/or its subsidiaries will determine whether to accept the procurement price of the products as offered by members of the CNPGC Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the CNPGC Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to purchase such products from the CNPGC Group.

The Procurement Framework Agreement is for a term of three years with effect from 1 January 2021 and ended on 31 December 2023. Upon expiry, the Procurement Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 22 October 2020.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Procurement Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the Sales Framework Agreement

In order to regulate the continuing connected transactions in respect of the sales of pharmaceutical products between the Group and the CNPGC Group, the Company and the CNPGC renewed the Sales Framework Agreement in respect of pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products ("**Sales Framework Agreement**") on 22 October 2020, and set up the annual caps for the continuing connected transactions contemplated under the Sales Framework Agreement for the three years ending 31 December 2023 to be RMB1,800 million, RMB2,000 million and RMB2,150 million, respectively.



Pursuant to the Listing Rules, the above-mentioned Sales Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023 have been approved by the Board of the Company. On 18 March 2022, the Board of the Company resolved to propose to increase the annual caps for the year ending 31 December 2022 and the year ending 31 December 2023 to RMB4,200 million and RMB5,500 million, respectively, which shall be subject to the approval of independent shareholders of the Company.

Pursuant to the Sales Framework Agreement, the Group has agreed to sell products such as pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products to the CNPGC Group; and the CNPGC Group has agreed to purchase such products from the Group.

Under the Sales Framework Agreement, the sales price shall be determined in accordance with the following pricing principles: (i) The price of pharmaceutical products, personal-care supplies, medical devices, chemical reagents, laboratory supplies and health products sold by the Group to the CNPGC Group under the 2020 Sales Framework Agreement, which will be determined after mainly taking into account (a) the purchase cost (including products cost, cost of capital, logistic cost and others) for relevant products purchased by relevant members of the Group and (b) the profit level of the Group on related products, which will be determined by the parties through arm's length negotiation; (ii) The finance department of the Company will be responsible for collecting data of the continuing connected transactions conducted by itself or any of its subsidiaries on a regular basis. The president and various departments (including but not limited to the procurement department, finance department, legal department, quality department and operation department) of the Company and/or its subsidiaries will carry out all necessary internal review and approval procedures, and examine and compare specific agreements for such continuing connected transactions with those entered into with independent third parties, so as to ensure that the pricing policies of the relevant products offered by the Company and/or its subsidiaries to the CNPGC Group are comparable to those offered to independent third parties.

The Sales Framework Agreement is for a term of three years with effect from 1 January 2021 and ended on 31 December 2023. Upon expiry, the Sales Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 22 October 2020.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Sales Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and Sinopharm Group Finance Company under the Financial Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the utilization of financial services between the Group and Finance Company, the Company and Sinopharm Group Finance Company renewed the Financial Services Framework Agreement (“**Financial Services Framework Agreement**”) on 18 December 2020, and set up the annual caps for the maximum daily balance of the deposits under the Financial Services Framework Agreement for each of the three years ending 31 December 2023 to be RMB2,420 million, and the annual caps for the interests/service fees payable for the provision of other financial services under the renewed Financial Services Framework Agreement for each of the three years ending 31 December 2023 to be RMB500 million.



Report of the Board of Directors

Pursuant to the Listing Rules, the Financial Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023 have been approved by the Board of the Company.

Pursuant to the Financial Services Framework Agreement, the Company and/or its subsidiaries will, from time to time, utilize the following financial services available from Sinopharm Group Finance Company as is deemed necessary. Such services include: deposit services; loan and entrusted loan services; bill discounting and acceptance services, finance lease services, and settlement services; and other services as approved by CBIRC.

Fees and charges payable by the Company and/or its subsidiaries to Sinopharm Group Finance Company under the Financial Services Framework Agreement are determined on the following basis:

- (1) deposit services: interest rates shall be in compliance with the requirements on interest rates prescribed by the PBOC for such type of deposits, and shall not be lower than each of (i) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of deposits; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of deposits.
- (2) loan services: interest rates shall be in compliance with the requirements on interests prescribed by the PBOC for such type of loans, and shall not be higher than each of (i) the interest rates offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of loans; and (ii) the interest rates offered to the Company and/or its subsidiaries by general commercial banks for the same category of loans.
- (3) other financial services: the interests or service fees charged for other financial services shall (i) comply with the standard rates as promulgated by the PBOC or CBIRC from time to time (if applicable); (ii) be not higher than the the interests or service fees offered to the Company and/or its subsidiaries by general commercial banks for the same category of financial services; and (iii) be not higher than the interests or service fees offered to other members of the CNPGC Group by Sinopharm Group Finance Company for the same category of financial services.

Sinopharm Group Finance Company may provide other services to the Company and/or its subsidiaries as may be approved by CBIRC in the future. The fees and charges for such services to be provided shall: (i) comply with the standard rates as promulgated by the PBOC or CBIRC from time to time (if applicable) for such kind of services; (ii) be not higher than the fees charged by commercial banks from the Company and/or its subsidiaries for the same category of financial services; and (iii) be not higher than the fees charged by the Sinopharm Group Finance Company from other members of the CNPGC Group for the same category of financial services.



The Financial Services Framework Agreement is effective for a term of three years from 1 January 2021 to 31 December 2023. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 18 December 2020.

Sinopharm Group Finance Company is a subsidiary of the ultimate controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Financial Services Framework Agreement between the Company and Sinopharm Group Finance Company constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the CNPGC Group under the EPC General Contracting Service Framework Agreement

In order to regulate the continuing connected transactions in respect of the EPC general contracting service between the Group and the CNPGC Group, the Company and the CNPGC renewed the EPC General Contracting Service Framework Agreement (“**EPC General Contracting Service Framework Agreement**”) on 22 October 2020, and set up the annual caps for the continuing connected transactions contemplated under the EPC General Contracting Service Framework Agreement for each of the three years ending 31 December 2023 to be RMB300 million.

Pursuant to the Listing Rules, the EPC General Contracting Service Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2023 have been approved by the Board of the Company.

Pursuant to the EPC General Contracting Service Framework Agreement, the CNPGC Group will provide EPC (Engineering, Procurement, and Construction) general contracting services to the Group according to the engineering project general contracting agreements obtained by CNPGC Group through bidding process.

Under the EPC General Contracting Service Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) Under the EPC General Contracting Service Framework Agreement, the service provider and the price of EPC general contracting services shall be determined through a bidding process in principle and in compliance with applicable laws, regulations and rules. The CNPGC Group shall bid by stringently following the steps and/or measurements as stipulated by The Invitation And Submission of Bids Law of the PRC and the specific requirements in bidding invitation documents made by the Group; (ii) The bid invitation documents made by the Group include all substantial requirements and all key terms for the conclusion of contracts, including: the project’s technical requirements, the criteria for examination of the contractors, the requirements for the bid price and the standard of evaluation of the bid and etc. The Group’s tender committee is responsible for (a) adhering the process is in accordance with The Invitation And Submission of Bids Law of the PRC; (b) reviewing, evaluating and monitoring documents from outsourcing service providers based on the technical, commercial and pricing criteria and payment terms of relevant service fees, which will ensure the terms obtained by the Group from the CNPGC Group is no less favorable than those available from independent third parties; and (c) grading the service providers and writing recommendation advice. The Group’s tender committee is responsible for deciding which service provider will be awarded the EPC General Contracting Service Framework Agreement.



Report of the Board of Directors

The EPC General Contracting Service Framework Agreement is for a term of three years with effect from 1 January 2021 and ended on 31 December 2023. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 22 October 2020.

CNPGC is the ultimate controlling shareholder of the Company and a connected person of the Company under the Listing Rules. The transactions under the EPC General Contracting Service Framework Agreement between the Company and the CNPGC constitute continuing connected transactions of the Company.

The continuing connected transactions between the Group and the Factoring Company under the Factoring Services Framework Agreement

In order to regulate the continuing connected transactions in respect of the factoring services between the Group and Factoring Company, the Company and the Factoring Company entered into the Factoring Services Framework Agreement (“**Factoring Services Framework Agreement**”) on 22 October 2020, and set up the annual caps of interests/fees payable by the Group for commercial factoring services for each of the three years ending 31 December 2023 under the Factoring Services Framework Agreement to be RMB150 million, RMB180 million and RMB200 million, respectively.

Pursuant to the Listing Rules, the Factoring Services Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for three years ending 31 December 2023 have been approved by the Board of the Company.

Pursuant to the Factoring Services Framework Agreement, the Factoring Company will provide recourse and non-recourse factoring and other commercial factoring services (including sales sub-account management services, accounts receivable collection services and other permitted business of the Factoring Company) to the Group.

Pursuant to the Factoring Services Framework Agreement, the comprehensive pricing (including interest and fees) of the commercial factoring services charged by the Factoring Company shall be fair and reasonable and shall not be higher than the comprehensive pricing of the same commercial factoring services provided by independent third parties to the Group during the same period.

The Factoring Services Framework Agreement shall be effective from 1 January 2021 to 31 December 2023. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 22 October 2020.

The Factoring Company is a subsidiary of the Company’s ultimate controlling shareholder, and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Factoring Services Framework Agreement constitute continuing connected transactions of the Company.



The continuing connected transactions between the Group and the Natong Group under the Natong Procurement Framework Agreement

In order to effectively regulate the continuing connected transactions in respect of the procurement of medical devices between the Group and Natong Group Company, its subsidiaries and 30%-controlled companies (collectively the “**Natong Group**”), the Company and the Natong Group Company entered into the Procurement Framework Agreement (“**Natong Procurement Framework Agreement**”) for medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products on 28 July 2020, and set up the annual caps for the continuing connected transactions contemplated under the Natong Procurement Framework Agreement for the three years ending 31 December 2022 to be RMB1,500 million, RMB1,800 million and RMB2,000 million, respectively.

Pursuant to the Listing Rules, the Natong Procurement Framework Agreement and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2022 have been approved by the Board of the Company.

Pursuant to the Natong Procurement Framework Agreement, the Group has agreed to procure medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products from the Natong Group, and the Natong Group has agreed to sell such products to the Group.

The Group will procure relevant products from the Natong Group on a voluntary and non-compulsory basis and is entitled to procure aforementioned products from any other third parties.

Under the Natong Procurement Framework Agreement, the price shall be determined in accordance with the following pricing principles: (i) The price of medical devices including orthopedic consumables, surgical instruments and other related or auxiliary products procured by the Group from the Natong Group under the Natong Procurement Framework Agreement will be offered by members of the Natong Group based on the bid-winning price won by members of the Natong Group in the public bidding procedures of the tender offices of Chinese government or hospitals, or the procurement price from medical institutions, deducting the gross profit of distributors at each level; (ii) The Natong Group will on a semi-annual basis, provide the Company and its subsidiaries with the procurement price list of all the specific varieties of related products of the same business type. In the event of major changes in product prices due to changes in industry policies, it will further provide the latest price list of related products in a timely manner; (iii) The Company and/or its subsidiaries, after considering comprehensively a variety of factors relating to the specific product, including but not limited to the price, quality, terms of payment, delivery method, after-sales service, gross profit and average price in the industry and going through all necessary internal review and approval procedures of the president and various departments including but not limited to business department, finance department, operation department and quality department of the Company and/or its subsidiaries, will determine whether to accept the procurement price of specific product as offered by members of the Natong Group. If the Company and/or its subsidiaries, after taking into consideration all the above-mentioned factors, consider that the procurement price offered by members of the Natong Group is not in the best interest of the Company and its shareholders, or is not fair and reasonable, they will make the decision not to procure such products from the Natong Group.



Report of the Board of Directors

The Natong Procurement Framework Agreement is for a term from 28 July 2020 and ending on 31 December 2022. Upon expiry, the Natong Procurement Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years. For details of the transactions, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 28 July 2020.

The Natong Group Company is the holding company of Beijing Natong Shichuang Investment Management Co., Ltd. (北京納通實創投資管理有限公司), a substantial shareholder of CSIMC (a significant subsidiary of the Company) and a connected person of the Company under the Listing Rules. Therefore, the transactions under the Natong Procurement Framework Agreement between the Company and the Natong Group Company constitute continuing connected transactions of the Company.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2021 has followed the pricing principles of such continuing connected transactions.

The independent non-executive Directors had reviewed the above continuing connected transactions and confirmed that these transactions had been entered into:

- i. in the ordinary and usual course of business of the Group;
- ii. either on normal commercial terms or on terms no less favourable to the Company; and
- iii. in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the continuing connected translations and the auditors have reported the factual findings on these procedures to the Board.

The auditors of the Company had informed the Board and confirmed that with respect to the above-mentioned continuing connected transactions, they did not:

- i. notice anything that would cause them to believe that the above-mentioned continuing connected transactions have not been approved by the Board of the Company;
- ii. for the transaction involving the provision of goods or services by the Group, notice anything that would cause them to believe that the transactions were not conducted in accordance with the Group's pricing policy in all material aspects;
- iii. notice anything that would cause them to believe that the above-mentioned continuing connected transactions were not entered into in accordance with the relevant agreements governing such transactions in all material aspects; and
- iv. with respect to the amount of the continuing connected transactions, notice anything that would cause them to believe that the above-mentioned continuing connected transactions exceeded the annual cap set by the Company, except that the actual transaction amounts of the transactions between the Group and the CNPGC Group under the Procurement Framework Agreement exceeded the annual cap for 2021 thereunder and the actual transaction amounts of the transactions between the Group and the CNPGC Group under the Sales Framework Agreement exceeded the annual cap for 2021 thereunder.

Save as disclosed above, for the year ended 31 December 2021, there is no other related party transaction or continuing related party transaction set out in Note 46 to the Consolidated Financial Statements which constitutes discloseable connected transaction or continuing connected transaction under the Listing Rules. Save as disclosed above, in respect of the connected transactions and the continuing connected transactions, the Company has complied with all requirements (including disclosure requirements) of the Listing Rules (as amended from time to time).

Directors' and Supervisors' Service Contracts

Each of the Directors and Supervisors has entered into a service contract with the Company. None of the Directors and Supervisors has entered into any service contract with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Biographies of Directors, Supervisors and Senior Management

Biographies of the Directors, Supervisors and senior management are set out from page 43 to 53 of this annual report.

The list of Directors during the Reporting Period and as at the date of this report (unless otherwise stated) is set out below:

Name	Position	Commencement Date	Expiry Date
Executive Directors			
Yu Qingming	executive Director	18 September 2020	17 September 2023
Liu Yong	executive Director	18 September 2020	17 September 2023
Li Zhiming (resigned)	executive Director	18 September 2020	12 January 2021
Non-executive Directors			
Chen Qiyu	non-executive Director	18 September 2020	17 September 2023
Hu Jianwei	non-executive Director	18 September 2020	17 September 2023
Ma Ping	non-executive Director	18 September 2020	17 September 2023
Deng Jindong	non-executive Director	18 September 2020	17 September 2023
Wen Deyong	non-executive Director	18 September 2020	17 September 2023
Li Dongjiu	non-executive Director	10 June 2021	17 September 2023
Feng Rongli	non-executive Director	18 September 2020	17 September 2023
Guan Xiaohui (resigned)	non-executive Director	18 September 2020	10 June 2021
Independent Non-executive Directors			
Zhuo Fumin	independent non-executive Director	18 September 2020	17 September 2023
Chen Fangruo	independent non-executive Director	18 September 2020	17 September 2023
Li Peiyu	independent non-executive Director	18 September 2020	17 September 2023
Wu Tak Lung	independent non-executive Director	18 September 2020	17 September 2023
Yu Weifeng	independent non-executive Director	18 September 2020	17 September 2023



Report of the Board of Directors

Remunerations of Directors, Supervisors, Senior Management and Five Highest Paid Individuals

The Remuneration Committee determines and makes recommendation to the Board (as appropriate) on the remuneration and other benefits payable to the Directors. The committee regularly reviews the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors based on their qualifications, experience and contributions, to attract and retain its Directors as well as to control costs.

Details of the remuneration of the Directors and Supervisors in 2021 are set out in Note 49 to the Consolidated Financial Statements.

Details of the five highest paid individuals of the Group in 2021 are set out in Note 11 to the Consolidated Financial Statements. Details of the remuneration of the current senior management of the Company by band for the year ended 31 December 2021 are set out as follows:

Range	Number of individuals
Below RMB3,000,000	4
RMB3,000,000 to RMB6,000,000	4
RMB6,000,000 to RMB9,000,000	1

Interests of Directors and Supervisors in Transaction, Arrangement or Contract

Save as the non-exempt connected transactions disclosed in this annual report, for the year ended 31 December 2021, there was no transaction, arrangement and contract of significance to which the Company, its holding company, its subsidiaries or a subsidiary of its holding company was a party and in which a Director, Supervisor or their connected entity has or had at any time during that period, in any way, whether directly or indirectly, a material interest.

Interests of Directors in Competing Business

As at 31 December 2021, none of the Directors of the Company has any interests in the competing business which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 31 December 2021, the interests or short positions held by the Directors, Supervisors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code are as follows:

Name	Class of shares	Nature of interest and the capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
Yu Qingming	H shares	Beneficial owner	100,000	0.00	0.01	Long position
Liu Yong	H shares	Beneficial owner	59,009	0.00	0.00	Long position

Note: The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk), the above-mentioned "approximate percentage to the total number of shares of the Company" is calculated based on the total number of issued shares of the Company of 3,120,656,191 as at 31 December 2021, and the "approximate percentage to the relevant class of shares" is calculated based on the total number of issued H shares of the Company of 1,341,810,740 as at 31 December 2021.

Save as disclosed above, as at 31 December 2021, none of the Directors, Supervisors and the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements of the Model Code.

Rights to Purchase Shares or Debentures of Directors, Supervisors and Chief Executive

No arrangements to which the Company, any of its subsidiaries, its holding company or any subsidiary of its holding company is or was a party enabling the Directors, Supervisors and the chief executive of the Company to acquire benefits by means of acquisitions of shares or debentures of the Company or any other body corporate subsisted during the Reporting Period.



Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2021, to the best knowledge of the Directors, the interests or short positions of the following persons (other than the Directors, Supervisors or the chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO are as follows:

Name	Class of shares	Nature of interest and the capacity	Number of shares held	Approximate percentage to the total number of shares of the Company (%)	Approximate percentage to the relevant class of shares (%)	Long position/ short position
CNPGC	Domestic shares	Beneficial owner	207,289,498 (Note 2)	6.64	11.65	Long position
	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 2)	50.36	88.35	Long position
Sinopharm Investment	Domestic shares	Beneficial owner	1,571,555,953 (Notes 1 and 2)	50.36	88.35	Long position
Fosun Pharma	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 3)	50.36	88.35	Long position
Fosun High Technology	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 4)	50.36	88.35	Long position
Fosun International	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 5)	50.36	88.35	Long position
Fosun Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 6)	50.36	88.35	Long position
Fosun International Holdings	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 7)	50.36	88.35	Long position
Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	1,571,555,953 (Notes 1 and 8)	50.36	88.35	Long position
Citigroup Inc.	H Shares	Interest of controlled corporation	3,551,101	0.11	0.27	Long position
			6,115,525	0.20	0.46	Short position
		Approved lending agent (Note 9)	93,058,253	2.98	6.94	Long position
BlackRock, Inc.	H Shares	Interest of controlled corporation (Note10)	81,120,286	2.60	6.05	Long position
			1,914,000	0.06	0.14	Short position
FMR LLC	H Shares	Interest of controlled corporation (Note11)	147,687,769	4.73	11.01	Long position



Notes: The information was disclosed based on the data available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

- (1) Such 1,571,555,953 domestic shares belong to the same batch of shares.
- (2) CNPGC is interested in 207,289,498 domestic shares directly and 1,571,555,953 domestic shares indirectly through Sinopharm Investment. As CNPGC owns 51% equity interest in Sinopharm Investment, it is deemed to be interested in the shares held by Sinopharm Investment for the purposes of the SFO.
- (3) Fosun Pharma is the beneficial owner of 49% equity interest in Sinopharm Investment and, therefore, Fosun Pharma is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (4) Fosun High Technology is the beneficial owner of 39.40% equity interest in Fosun Pharma and, therefore, Fosun High Technology is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (5) Fosun International is the beneficial owner of 100% equity interest in Fosun High Technology and the beneficial owner of 0.23% equity interest in Fosun Pharma and, therefore, Fosun International is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (6) Fosun Holdings is the beneficial owner of 72.66% equity interest in Fosun International and, therefore, Fosun Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (7) Fosun International Holdings Ltd. (“Fosun International Holdings”) is the beneficial owner of 100% equity interest in Fosun Holdings and, therefore, Fosun International Holdings is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (8) Mr. Guo Guangchang is the beneficial owner of 85.29% equity interest in Fosun International Holdings and 0.004% equity interest in Fosun Pharma and, therefore, Mr. Guo Guangchang is deemed to be interested in the domestic shares owned by Sinopharm Investment for the purposes of the SFO.
- (9) Citigroup Inc. is interested in an aggregate of long position of 96,609,354 H Shares of the Company (including 93,058,253 H Shares available for lending) and short positions of 6,115,525 H Shares of the Company.
- (10) BlackRock, Inc. is interested in long positions of 81,120,286 H shares of the Company and short positions of 1,914,000 H shares of the Company.
- (11) FMR LLC is interested in an aggregate of long positions of 147,687,769 H shares of the Company.
- (12) The above-mentioned “approximate percentage to the total number of shares of the Company” is calculated based on the number of 3,120,656,191 total issued shares of the Company as at 31 December 2021. For H shares, the term of “approximate percentage to the relevant class of shares” is calculated based on the total number of 1,341,810,740 issued H shares of the Company as at 31 December 2021. For domestic shares, the term of “approximate percentage to the relevant class of shares” is calculated based on the total number of 1,778,845,451 issued domestic shares of the Company as at 31 December 2021.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2021, no person (other than the Directors, Supervisors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.



Report of the Board of Directors

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association and the laws of the PRC which oblige the Company to offer pre-emptive rights of new shares to existing shareholders on their shareholding proportion.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, there was sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules during the year of 2021 and as at the latest practicable date prior to the issue of this annual report.

Management Contract

There was no contract concerning the management or administration of the whole or any substantial part of the business of the Company which was entered into or existed during the Reporting Period.

Pension Scheme

During the Reporting Period, details of the pension scheme of the Group are set out in Note 37 to the Consolidated Financial Statements.

Donation

During the Reporting Period, details of the donation of the Group are set out in Note 9 to the Consolidated Financial Statements.

Environmental Policy and Performance

The Company complies with the Environmental Protection Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and other laws and regulations. Following the principle of "synergy of anti-pollution and carbon reduction", the Company conducts environmental protection work in an orderly manner, and continuously improving the environmental management system. A series of energy-saving and environmental protection management policies, such as the Safety and Environmental Protection Management Manual and the Implementation Rules on Environmental Protection and Energy Saving and Emission Reduction Management, have been updated and revised. In addition, the Company has established an energy conservation and environmental protection leading group, headed by the chairman of the Company with the senior management serving as the vice leaders. Executives of each subsidiary are the primary personnel for environmental protection, which raise the awareness of environmental protection among the leaders and cadres of each enterprise.

To ensure the effective implementation of the management systems, the Company has formulated the Supervision and Assessment Management Measures for Environmental Protection and Energy Conservation to clarify the responsibilities for energy saving and emission reduction. The performance of environmental protection has been included in the annual evaluation of the executives of the subsidiary with regular monitoring and assessment, realizing the management of the target-oriented responsibility system. In 2021, the Company has fully achieved and exceeded its energy-saving target set in the beginning of the year. Besides, in daily environmental management, the Company regularly conducts detection and rectification of potential environmental hazards, while improving and developing energy conservation and emissions reduction monitoring system, as well as environmental performance indicators system and information platform, so as to continuously strengthen pollution control and utility usage management.

The Company has been actively responding to the national "dual carbon" goal and continuously developing greenhouse gas emission reduction operation by promoting clean production, resource recycling and energy conservation, to avoid or reduce greenhouse gas generation at source. The Company also explore the construction of solar photovoltaic and other clean energy projects to minimize fossil fuel consumption and greenhouse gas emissions.



The Company continues to implement environmental information disclosure and has been publishing sustainability reports or social responsibility reports for years, which include detailed information on the Company's environmental management and performance. The annual sustainability report of this year will be published in May 2022.

Overdue Time Deposit

As at 31 December 2021, the Company did not have any time deposit which could not be withdrawn upon maturity.

Tax Relief and Exemption

Save as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Confirmation of Independence by Independent Non-executive Directors

The Company had received annual confirmation of independence from each of the independent non-executive Directors. Based on the confirmation, the Company considers that all independent non-executive Directors are independent under the Listing Rules.

Auditor

The financial statements set out in this annual report have been audited by Ernst & Young.

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

Shanghai, the PRC
18 March 2022



Report of the Supervisory Committee

During the Reporting Period, all members of the supervisory committee of the Company (the “**Supervisory Committee**”) have complied with the principle of integrity and earnestly performed their supervisory duties in accordance with the relevant regulations set out in the PRC Company Law, the Articles of Association and Rules of Procedures for the Supervisory Committee of the Company to protect the interests of the shareholders and the Company.

Works of The Supervisory Committee During the Reporting Period

For the year 2021, the Supervisory Committee held three meetings and the details are as follows:

On 19 March 2021, the second meeting of the fifth session of the Supervisory Committee was convened to consider and approve the “Resolution on the Election of Ms. Guan Xiaohui as a Supervisor of the Fifth Session of the Supervisory Committee of the Company”, “Report of the Supervisory Committee of 2020”, “2020 Annual Results Report” and “Resolution on Determination of 2021 Remuneration of Supervisors of the Fifth Session of the Supervisory Committee at the General Meeting”.

On 10 June 2021, the third meeting of the fifth session of the Supervisory Committee was convened to consider and approve the “Resolution on the Election of the Chairman of the Fifth Session of the Supervisory Committee of the Company” and “Resolution on Determination of 2021 Remuneration of Ms. Guan Xiaohui, a Supervisor of the Company”.

On 20 August 2021, the fourth meeting of the fifth session of the Supervisory Committee was convened to consider and approve the “Resolution on 2021 Interim Results Report of the Company”.

Comments of The Supervisory Committee on Certain Matters of the Company in 2021

During the Reporting Period, the members of the Supervisory Committee adhered to the principles of fidelity and accountability to all shareholders and duly performed their duties and works according to the relevant laws and regulations. The Supervisory Committee worked actively, supervised the regulatory compliance and operation, financial condition, use of proceeds and internal control, etc. of the Company through attending shareholders’ general meetings and board meetings as non-voting delegates and onsite inspections. The Supervisory Committee has arrived at the following opinions:

1. Regulatory compliance of the operation of the Company. During the Reporting Period, the Board earnestly exercised the rights and performed the obligations conferred by the PRC Company Law and the Articles of Association to make decisions in time on material matters including production and operation plans and development objectives, and implemented all resolutions adopted by the shareholders’ general meetings and board meetings.



2. Evaluation of financial condition of the Company. During the Reporting Period, the Supervisory Committee has supervised and reviewed the financial structure and position of the Company. The Supervisory Committee is of the opinion that the financial structure of the Company was healthy and standardized and the Company was in a good financial position. The 2021 Audit Report of the Company has truly, accurately and completely reflected the financial condition, results of operation and cash flows of the Company.
3. The use of funds raised by the Company. The Supervisory Committee is of the opinion that the use of proceeds complied with the provisions of relevant laws and regulations and the Articles of Association without violating the interests of the Company and its shareholders. The Supervisory Committee will continue to supervise and monitor the use of proceeds.
4. Acquisition and disposal of assets of the Company. The acquisitions and disposals of the assets of the Company during the Reporting Period were based on fair and reasonable prices. No insider dealing or any action that may injure shareholders' interests or cause any loss of assets of the Company has been found.
5. Connected transactions of the Company. During the Reporting Period, save as disclosed in the 2021 annual report, the connected transactions between the Company and all connected persons conformed to applicable regulations of the Hong Kong Stock Exchange. The connected transactions were based on fair and reasonable prices and were carried out in accordance with the principles of reasonableness, fairness and justice. No harm to the interests of the Company and unrelated shareholders has been found.
6. Preparation and review of annual report of the Company. The preparation and review procedures of the 2021 annual report of the Company conformed to all the relevant regulations of the Hong Kong Stock Exchange and relevant regulators. No breach of confidentiality provisions by any person involved in the preparation or review of annual report has been found.

In the coming year, the Supervisory Committee will continue to arduously perform its supervisory and monitoring duties with an aim to strengthen the overall competitiveness and sustainable profitability of the Company and to protect the interests of shareholders and the Company.

Guan Xiaohui
Chief Supervisor

Shanghai, the PRC
18 March 2022



Independent Auditor's Report



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To the shareholders of Sinopharm Group Co. Ltd.

(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Sinopharm Group Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 232, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 ("HKSA") issued by the 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.

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 matters (continued)

Key audit matter

How our audit addressed the key audit matter

Impairment of goodwill

The carrying value of goodwill amounting to RMB7,199 million as at 31 December 2021 was allocated to the Group's cash-generating units ("CGUs") of pharmaceutical distribution, retail pharmacy, medical devices and other business segments. Under HKFRSs, the Group is required to perform an impairment test for goodwill annually. The impairment test is based on the recoverable amounts of the respective CGUs to which the goodwill is allocated. Management performed the impairment test to compare the carrying amount of CGUs with the recoverable amount determined based on fair value less cost or value in use based on the discounted cash flow method and also involved external experts to perform an impairment assessment on part of the CGUs. Assumptions of items such as the discount rate and the long-term growth rate were made by applying estimates and significant judgements.

The Group's disclosures about impairment of goodwill are included in Note 2 (2)(v) Summary of significant accounting policies, Note 4 (8) Critical accounting estimates and judgements and Note 19 Intangible assets to the consolidated financial statements, which specifically explain the key assumptions that management used in the valuation.

Our audit procedures included, among others, the following:

- Assessed the competence, capabilities and objectivity of the Group's external experts and involved our internal valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group and external experts, in particular, the discount rate and the long-term growth rate; and
- Evaluated management's forecasts used in the impairment test by comparing the forecasts with the historical performance of the respective CGUs, and the business development plan for certain selected significant CGUs.

We also read and assessed the Group's disclosures of goodwill.



Independent Auditor's Report



Key audit matters (continued)

Key audit matter

(continued)

How our audit addressed the key audit matter

(continued)

Impairment of trade receivables

At as 31 December 2021, the gross carrying value of trade receivables amounted to RMB161,397 million, for which a loss allowance of RMB2,655 million was recorded.

Management applied judgement in assessing the expected credit losses ("ECLs"). Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for loss allowance. ECLs are also estimated by grouping the remaining receivables based on shared credit risk characteristics and ageing of billing and collectively assessed for the likelihood of recovery, taking into account the nature of the customers, product types, and ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the receivables.

The ECL rates are determined based on historical credit loss experience and are adjusted to reflect the current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit loss allowance of the trade receivables.

The Group's disclosures about loss allowance for trade receivables are included in Note 2 (13) and Note 2 (15) Summary of significant accounting policies, Note 3 (1)(iii) Financial risk management, Note 4 (4) Critical accounting estimates and judgements, and Note 29 Trade and bills receivables to the consolidated financial statements.

Our procedures in relation to management's ECL assessment on trade receivables included:

- Reviewed and assessed the application of the Group's policy for calculating the ECLs;
- Evaluated the techniques and methodology in the ECL model against the requirements of HKFRS 9;
- Evaluated management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates were adjusted based on the current economic conditions and forward-looking information and assessing whether there was an indication of management bias when recognising loss allowances; and
- Inquired management regarding the status of each of the material trade receivables with long ageing as at the year end and evaluated management's assessment of collectability by performing public search of credit profile of selected customers, obtaining an understanding of on-going business relationship with the customers based on trade records, and checking historical and subsequent settlement records and other correspondence with the customers.

We also read and assessed the relevant disclosures made in the consolidated financial statements, including disclosures of the basis for this estimation.



Other information included in the Annual Report

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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.

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 HKFRSs issued by the HKICPA 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.



Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with HKSA's, 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.

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.



Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

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 WU Hsu Lung.

Ernst & Young

Certified Public Accountants

Hong Kong

18 March 2022



Consolidated Statement of Profit or Loss

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	6	521,051,235	456,414,611
Cost of sales	10	(477,000,627)	(416,091,300)
Gross profit		44,050,608	40,323,311
Other income	7	589,193	652,002
Selling and distribution expenses	10	(15,437,533)	(14,141,741)
Administrative expenses	10	(7,760,993)	(7,049,812)
Impairment losses on financial and contract assets	8	(598,478)	(750,224)
Losses on derecognition of financial assets measured at amortised cost		(1,130,821)	(1,273,561)
Operating profit		19,711,976	17,759,975
Other gains – net	9	218,420	138,880
Other expenses	9	(594,233)	(341,207)
Finance income		558,562	673,532
Finance costs		(3,961,431)	(3,620,547)
Finance costs – net	12	(3,402,869)	(2,947,015)
Share of profits and losses of:			
Associates	21	1,069,173	985,562
Joint ventures		695	1,901
		1,069,868	987,463
Profit before tax		17,003,162	15,598,096
Income tax expense	13	(3,938,389)	(3,500,805)
Profit for the year		13,064,773	12,097,291
Attributable to:			
Owners of the parent		7,758,646	7,187,278
Non-controlling interests		5,306,127	4,910,013
		13,064,773	12,097,291
Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)			
– Basic	14	2.49	2.31
– Diluted	14	2.49	2.31



Consolidated Statement of Comprehensive Income

Year ended 31 December 2021



	Notes	2021 RMB'000	2020 RMB'000
Profit for the year		13,064,773	12,097,291
Other comprehensive income/(loss):			
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Remeasurements of post-employment benefit obligations	13	(8,943)	(20,043)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		(4,994)	20,443
Income tax effect		1,248	(5,111)
Fair value changes on financial asset, net of tax	13	(3,746)	15,332
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		(12,689)	(4,711)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		3,049	8,595
Share of other comprehensive loss of associates		(2,061)	(1,967)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		988	6,628
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(11,701)	1,917
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,053,072	12,099,208
Attributable to:			
Owners of the parent		7,750,366	7,188,059
Non-controlling interests		5,302,706	4,911,149
		13,053,072	12,099,208



Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	16	6,983,410	6,828,091
Investment properties	17	588,366	634,050
Property, plant and equipment	18	12,424,342	12,067,755
Intangible assets	19	10,391,727	10,729,302
Investments in joint ventures		27,002	35,341
Investments in associates	21	8,387,677	7,735,431
Equity investments designated at fair value through other comprehensive income	22	81,045	87,353
Financial assets at fair value through profit or loss	23	688,555	614,750
Finance lease receivables	24	11,816	33,504
Deferred tax assets	26	1,787,093	1,601,660
Other non-current assets	27	3,119,147	3,259,496
Total non-current assets		44,490,180	43,626,733
Current assets			
Inventories	28	51,499,625	47,085,450
Trade and bills receivables	29	171,389,603	145,336,963
Contract assets	30	1,184,017	711,114
Prepayments, other receivables and other assets	31	13,611,275	14,208,872
Financial assets at fair value through profit or loss	23	11,749	39,141
Finance lease receivables	24	1,915	1,130
Pledged deposits and restricted cash	32	9,694,529	10,029,693
Cash and cash equivalents	32	43,529,428	50,178,265
Total current assets		290,922,141	267,609,973
Non-current assets held for sale		–	19,345
Total assets		335,412,321	311,236,706

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	39	3,120,656	3,120,656
Treasury shares held for share incentive scheme		(3,838)	(3,838)
Reserves	40	58,769,197	53,242,027
		61,886,015	56,358,845
Non-controlling interests		37,767,920	33,588,476
Total equity		99,653,935	89,947,321
LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	8,418,680	8,918,726
Lease liabilities	16	3,249,870	3,243,011
Deferred tax liabilities	26	1,022,792	1,111,742
Post-employment benefit obligations	37	387,697	396,417
Contract liabilities	35	56,750	51,459
Other non-current liabilities	38	3,316,048	3,590,931
Total non-current liabilities		16,451,837	17,312,286



Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	55,151,650	54,958,954
Lease liabilities	16	1,548,046	1,406,139
Trade and bills payables	34	128,431,227	112,632,393
Contract liabilities	35	6,085,953	7,323,794
Accruals and other payables	36	26,229,755	25,969,087
Dividends payable		246,214	216,891
Tax payable		1,613,704	1,469,841
Total current liabilities		219,306,549	203,977,099
TOTAL LIABILITIES		235,758,386	221,289,385
TOTAL EQUITY AND LIABILITIES		335,412,321	311,236,706

The financial statements were approved by the Board of Directors on 18 March 2022 and were signed on its behalf by:

Yu Qingming
Director

Wu Tak Lung
Director



Consolidated Statement of Changes in Equity

Year ended 31 December 2021



		Attributable to owners of the parent						
Notes	Share capital RMB'000 (Note 39)	Treasury shares held for share incentive scheme RMB'000	Reserves RMB'000 (Note 40)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000		
	At 1 January 2021	3,120,656	(3,838)	53,242,027	56,358,845	33,588,476	89,947,321	
	Total comprehensive income for the year	-	-	7,750,366	7,750,366	5,302,706	13,053,072	
	Effect of transactions with non-controlling interests	44(c)	-	-	(96,048)	(96,048)	(47,778)	(143,826)
	Capital injection from non-controlling shareholders of subsidiaries		-	-	-	-	508,151	508,151
	Acquisition of subsidiaries	45	-	-	-	-	156,221	156,221
	Disposal of subsidiaries	43	-	-	-	-	(5,098)	(5,098)
	Dividends paid to non-controlling interests		-	-	-	-	(1,732,271)	(1,732,271)
	Dividend declared		-	-	(2,153,253)	(2,153,253)	-	(2,153,253)
	Share of changes in equity other than comprehensive income/ (loss) and distributions received from associates		-	-	19,304	19,304	(308)	18,996
	Share of changes in equity other than comprehensive income and distributions received from joint ventures		-	-	862	862	-	862
	Others		-	-	5,939	5,939	(2,179)	3,760
	At 31 December 2021	3,120,656	(3,838)	58,769,197	61,886,015	37,767,920	99,653,935	



Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the parent					
	Share capital RMB'000 (Note 39)	Treasury shares held for share incentive scheme RMB'000	Reserves RMB'000 (Note 40)	Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	2,971,656	(60,212)	44,510,702	47,422,146	29,517,221	76,939,367
Total comprehensive income for the year	–	–	7,188,059	7,188,059	4,911,149	12,099,208
Issue of ordinary shares	149,000	–	3,418,383	3,567,383	–	3,567,383
Effect of transactions with non-controlling interests	–	–	(30,381)	(30,381)	(18,958)	(49,339)
Capital injection from non-controlling shareholders of subsidiaries	–	–	–	–	714,246	714,246
Acquisition of subsidiaries	–	–	–	–	151,049	151,049
Disposal of subsidiaries	–	–	–	–	(42,288)	(42,288)
Forfeited and lapsed shares from the share incentive scheme	–	56,448	–	56,448	–	56,448
Dividend on shares released from the share incentive scheme	–	(74)	74	–	–	–
Equity-settled share incentive scheme	–	–	(36,406)	(36,406)	(5,519)	(41,925)
Dividends paid to non-controlling interests	–	–	–	–	(1,638,420)	(1,638,420)
Dividend declared	–	–	(1,865,123)	(1,865,123)	–	(1,865,123)
Share of changes in equity other than comprehensive income/ (loss) and distributions received from associates	–	–	58,651	58,651	(173)	58,478
Others	–	–	(1,932)	(1,932)	169	(1,763)
At 31 December 2020	3,120,656	(3,838)	53,242,027	56,358,845	33,588,476	89,947,321



Consolidated Statement of Cash Flows

Year ended 31 December 2021



	Notes	2021 RMB'000	2020 RMB'000
Cash flows from operating activities:			
Cash generated from operations	41(a)	13,382,206	14,810,087
Income tax paid		(4,074,121)	(3,655,478)
Net cash generated from operating activities		9,308,085	11,154,609
Cash flows from investing activities:			
Proceeds from disposal of intangible assets		5,828	7,651
Proceeds from disposal of right-of-use assets		32,004	50,104
Proceeds from disposal of property, plant and equipment		134,010	173,496
Proceeds from disposal of investment properties		1,135	7,192
Proceeds from disposal of financial assets at fair value through profit or loss		64,108	23,654
Proceeds from disposal of an associate		12,380	179,984
Interest received from long-term deposits		84,712	88,700
Disposal of subsidiaries, net of cash disposed of	43	6,122	100,304
Dividends received from associates		393,756	386,055
Dividends received from joint ventures		10,236	833
Dividends received from financial assets at fair value through profit or loss		31,038	31,411
Interest income from asset-backed securities		-	2,826
Dividends received from financial assets at fair value through other comprehensive income		947	1,001
Prepayments of right-of-use assets		(22,840)	(24,329)
Purchase of property, plant and equipment		(2,073,911)	(1,897,430)
Purchase of intangible assets		(158,891)	(165,565)
Withdrawal/(payment) of long-term deposits		234,519	(208,274)
Acquisition of financial assets at fair value through profit or loss		(75,000)	(11,400)
Acquisition of financial assets at fair value through other comprehensive income		-	(28,626)
Acquisition of subsidiaries, net of cash acquired	45	(89,803)	(2,494,234)
Consideration paid for prior year acquisition of subsidiaries		(407,415)	(73,008)
Acquisition of associates and joint ventures		(9,640)	(140,450)
Decrease in restricted cash	32	559,743	1,787,347
Net cash flows used in investing activities		(1,266,962)	(2,202,758)



Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Cash flows from financing activities:			
Proceeds from borrowings from banks		60,864,878	69,958,717
Proceeds from borrowings from related parties		4,364,382	35,607
Proceeds from borrowings from other financial institutions		13,692,470	8,200,036
Repayments of borrowings from banks		(70,155,761)	(59,587,348)
Repayments of borrowings from related parties		(18,571)	(49,906)
Repayments of borrowings from other financial institutions		(10,692,762)	(6,190,923)
Repayments of bonds		(23,840,010)	(31,010,000)
Proceeds from issuance of bonds		21,000,000	26,675,716
Proceeds from issuance of shares		–	3,567,383
Capital injections from non-controlling shareholders of subsidiaries		508,151	714,246
Dividends paid to owners of the parent of the Company		(2,153,253)	(1,865,123)
Dividends paid to non-controlling shareholders of subsidiaries		(1,702,948)	(1,789,750)
Transactions with non-controlling interests of subsidiaries		(227,275)	(426,849)
Release of shares under the share incentive scheme		–	33,019
Interest paid		(4,575,123)	(4,643,625)
Principal portion of lease payments		(1,757,185)	(1,595,346)
Net cash generated from/(used in) financing activities		(14,693,007)	2,025,854
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(6,651,884)	10,977,705
Cash and cash equivalents at the beginning of year	32	50,178,265	39,191,967
Effect of foreign exchange rate changes, net		3,047	8,593
Cash and cash equivalents at the end of year	32	43,529,428	50,178,265



Notes to the Consolidated Financial Statements

31 DECEMBER 2021



1. General information

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

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

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

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

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

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

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(1) Basis of preparation

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



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(i) Revised HKFRSs adopted by the Group

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, *Interest Rate Benchmark Reform– Phase 2*
HKFRS 4 and HKFRS 16

Amendment to HKFRS 16 *Covid-19-Related Rent Concessions*
beyond 30 June 2021 (early adopted)

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

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

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

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(i) Revised HKFRSs adopted by the Group (continued)

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

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

(ii) Issued but not yet effective HKFRSs

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{2, 5}</i>
Amendments to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information²</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{2, 4}</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41¹</i>



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

- 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
- 4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
- 5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than KFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to HKFRS 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 June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group 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.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) 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 resulting from a downstream transaction 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 HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 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.

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

Amendments to HKAS 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 HKAS 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 HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 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 HKFRS 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 HKAS 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.

Amendments to HKAS 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.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(1) Basis of preparation (continued)

(ii) Issued but not yet effective HKFRSs (continued)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, 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 HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The 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 HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. 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.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

Basis of consolidation

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.

(i) **Business combinations not under common control**

The Group applies the acquisition method of accounting to account for business combinations not under common control. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(i) Business combinations not under common control (continued)

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.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of the consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

(ii) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter year, regardless of the date of the common control combination.

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(ii) Merger accounting for common control combinations (continued)

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous financial year end or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using the merger accounting are recognised as expenses in the year in which they are incurred.

(iii) Changes in ownership interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Disposal of subsidiaries

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 earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(v) Goodwill

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.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(2) Subsidiaries (continued)

Basis of consolidation (continued)

(v) Goodwill (continued)

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.

(vi) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(3) Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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 associates and 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2. Summary of significant accounting policies (continued)

(3) Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, 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 associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

(4) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating committee (comprising the CEO and the CEO office) that makes strategic decisions.

(5) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(5) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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 measured. 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.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of financial year end;
- (b) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from translation of net investments in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income.

(6) Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the statement of profit or loss during the year in which they are incurred.



2. Summary of significant accounting policies (continued)

(6) Property, plant and equipment (continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives as follows:

Buildings	8-45 years
Plant and machinery	5-15 years
Furniture, fittings and equipment	3-15 years
Motor vehicles	3-10 years

Construction in progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains – net, in the consolidated statement of profit or loss.

When an item of property, plant and equipment is classified as held for sale or when it is part of any classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale".

(7) Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

The land component of leasehold investment property is accounted for as a right-of-use asset.

The building component of investment properties is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 25 to 50 years.



Notes to the Consolidated Financial Statements

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2. Summary of significant accounting policies (continued)

(7) Investment property (continued)

The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each financial year end. The effects of any revision are included in the statement of profit or loss when the changes arise.

(8) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable

Non-current assets classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

(9) Intangible assets other than goodwill

(i) Sales network

Sales network represents customer relationship and distribution channels acquired in business combinations, which are recognised at fair value at the acquisition date and are amortised using the straight-line method over their estimated useful lives of 3 to 20 years.

(ii) Trademarks and patent rights

Separately acquired trademarks are shown at historical cost. Trademarks acquired in business combinations are recognised at fair value at the acquisition date. Trademarks with a finite useful life are amortised using the straight-line method over their estimated useful lives of 5 to 20 years. Trademarks with an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Patent rights are initially recorded at cost and are amortised using the straight-line method over the estimated useful lives of 5 to 15 years.

(iii) Exclusive distribution rights

Exclusive distribution rights are measured initially at cost and amortised using the straight-line method over their useful life of 10 years according to the contracts.

(iv) Favourable leasing rights

Favourable leasing rights acquired in business combinations are recognised at fair value at the acquisition date and are amortised using the straight-line method over 17 to 20 years.

2. Summary of significant accounting policies (continued)

(9) Intangible assets other than goodwill (continued)

(v) Software

Acquired software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 10 years.

(vi) Internally generated product development cost

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset upon the completion of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the product development phase is recognised as intangible asset only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- there is an ability to use or sell the product development result;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as intangible asset in the statement of financial position.

Internally generated product development costs recognised as assets are amortised over their estimated useful lives of 3 to 5 years.

The assets' useful lives are reviewed, and adjusted if appropriate, at each financial year end.



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2. Summary of significant accounting policies (continued)

(10) 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. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. 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:

Land	20-50 years
Buildings	8-45 years
Plant and machinery	5-15 years
Furniture, fittings and equipment	3-15 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.

2. Summary of significant accounting policies (continued)

(10) 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.

(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 that is considered to be of low value.

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. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.



Notes to the Consolidated Financial Statements

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2. Summary of significant accounting policies (continued)

(11) Fair value measurement

The Group measures its equity investments and debt investments 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.

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.



2. Summary of significant accounting policies (continued)

(12) Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). 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. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(13) 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 are measured at the transaction price determined under HKFRS 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.



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31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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.

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 designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

2. Summary of significant accounting policies (continued)

(13) Investments and other financial assets (continued)

Financial assets at amortised cost (debt instruments) (continued)

Financial assets designated at fair value through other comprehensive income (equity investments) (continued)

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of 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, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of 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.

(14) Derecognition of financial assets

A financial asset 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.

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.



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2. Summary of significant accounting policies (continued)

(15) 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.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers 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.

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 receivables and contract assets which apply the simplified approach as detailed below.

2. Summary of significant accounting policies (continued)

(15) Impairment of financial assets (continued)

General approach (continued)

- 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 to 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 receivables, commercial acceptance and contract assets 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 receivables, commercial acceptance and contract assets 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.

(16) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

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, other payables and interest-bearing bank borrowings.

Subsequent measurement

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



Notes to the Consolidated Financial Statements

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2. Summary of significant accounting policies (continued)

(16) Financial liabilities (continued)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, bank loans 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 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 profit or loss.

(17) 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.

(18) 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.

(19) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(20) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and other financial institutions, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and separate statement of financial positions, bank overdrafts are shown within borrowings in current liabilities.



2. Summary of significant accounting policies (continued)

(21) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(22) Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(23) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial year end.

(24) Borrowing costs

General and specific borrowing costs directly attributable to construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(25) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(25) Current and deferred income tax (continued)

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates and joint ventures, except an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

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.

2. Summary of significant accounting policies (continued)

(26) Share-based payments

The Company operates a share incentive 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 with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Asian Options model.

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 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.

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 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 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.



Notes to the Consolidated Financial Statements

31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(26) Share-based payments (continued)

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.

(27) Other employee benefits

Pension scheme

The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to make contributions of 12% to 20% (2020: 12% to 20%) of its 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.

The Group did not have any forfeited contribution for reporting period in connection with the defined contribution plan operated by local governments.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(28) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.



2. Summary of significant accounting policies (continued)

(28) Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(29) 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.

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 HKFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Installation and maintenance services

The Group provides installation and maintenance services that are either sold separately or bundled together with the sale of goods to a customer. The installation services can be obtained from other providers and do not significantly customise or modify the products.



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31 DECEMBER 2021

2. Summary of significant accounting policies (continued)

(29) Revenue recognition (continued)

Installation and maintenance services (continued)

Revenue from installation and maintenance services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

(30) Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

(31) 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).

(32) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the year necessary to match them with the costs that they are intended to compensate.



2. Summary of significant accounting policies (continued)

(32) Government grants (continued)

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

(33) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(34) 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; and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);



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2. Summary of significant accounting policies (continued)

(34) Related parties (continued)

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

3. Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and fair value and cash flow interest rate risk), credit risk and liquidity risk.

The Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge its risk exposures on changes in foreign currency exchange rates and interest rates.

(i) Foreign currency risk

The Group mainly operates in the PRC with most of the Group's transactions denominated and settled in RMB. However, the Group has certain cash and cash equivalents, borrowings from banks and other financial institutions and trade payables denominated in foreign currencies, mainly United States Dollars ("USD"), Hong Kong Dollars ("HKD") and Euro ("EUR"), which are exposed to foreign currency translation risk. The Group has not hedged its foreign currency risk.

As at 31 December 2021, if RMB had strengthened/weakened by 10% against USD, HKD and EUR with all other variables held constant, the impact on post-tax profit for the year ended 31 December 2021 would have been immaterial.

(ii) Fair value and cash flow interest rate risk

Except for deposits in banks or other financial institutions which earn interest at floating rates, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(ii) Fair value and cash flow interest rate risk (continued)

As at 31 December 2021, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2021 would have been RMB180,363,000 (2020: RMB170,495,000) lower/higher, mainly as a result of higher/lower interest expense on borrowings.

(iii) Credit risk

The carrying amounts of pledged bank deposits, cash and cash equivalents, trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets.

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.

For the financial assets measured at amortised cost included in trade and commercial acceptance to which the Group applies the simplified approach for impairment, information based on the provision matrix is set as below.

As at 31 December 2021

	Expected credit loss rate	Gross carrying amount (RMB'000)	Expected credit losses (RMB'000)
Provision on individual basis		7,315,647	461,701
Provision on collective basis -Ageing			
Within 1 year	1%	154,838,976	1,589,855
1 to 2 years	10%	2,465,447	246,545
2 to 3 years	30%	680,897	204,269
3 to 4 years	50%	134,876	67,438
4 to 5 years	80%	51,698	41,358
Over 5 years	100%	84,735	84,735
		165,572,276	2,695,902

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3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

As at 31 December 2020

	Expected credit loss rate	Gross carrying amount (RMB'000)	Expected credit losses (RMB'000)
Provision on individual basis		6,145,550	353,396
Provision on collective basis -Ageing			
Within 1 year	1%	130,170,188	1,343,727
1 to 2 years	10%	3,148,309	314,831
2 to 3 years	30%	305,443	91,633
3 to 4 years	50%	82,712	41,356
4 to 5 years	80%	62,713	50,171
Over 5 years	100%	75,768	75,768
		139,990,683	2,270,882

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

For contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is set as below.

As at 31 December 2021

Expected credit loss rate	4.10%
	RMB'000
Gross carrying amount	1,234,634
Expected credit losses	50,617
As at 31 December 2020	
Expected credit loss rate	4%
	RMB'000
Gross carrying amount	744,144
Expected credit losses	33,030

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iii) Credit risk (continued)

For the financial assets included in other receivables to which the Group applies the general approach for impairment, information based on the provision matrix is set as below.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs	
	Stage 1	Stage 2	Stage 3
Financial assets included in other receivables	2,268,669	3,237,236	–

As at 31 December 2020

	12-month ECLs	Lifetime ECLs	
	Stage 1	Stage 2	Stage 3
Financial assets included in other receivables	2,232,118	2,871,689	–

The Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/reviews. The majority of trade receivables are with customers having an appropriate credit history.

The Group has policies to place its cash and cash equivalents only with major financial institutions and other financial institutions controlled by CNPGC. As at 31 December 2021, most of the restricted bank deposits and cash and cash equivalents were deposited with major financial institutions in Mainland China and Hong Kong except the deposit placed in a related party as disclosed in Note 46.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities, and discounting of bank acceptance notes to banks or other financial institutions. The Group's objective is to maintain adequate committed credit lines to ensure sufficient and flexible funding is available to the Group.

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3. Financial risk management (continued)

(1) Financial risk factors (continued)

(iv) Liquidity risk (continued)

At the reporting date, the Group held cash and cash equivalents of RMB43,529,428,000 (2020: RMB50,178,265,000) and trade and bills receivables of RMB171,389,603,000 (2020: RMB145,336,963,000) that are expected to readily generate cash inflows for managing liquidity risk. The Group also has agreed to receive bank acceptance notes from certain customers with long-term business trading history and most of these notes are guaranteed by major banks in Mainland China. The maturity of these bank acceptance notes ranges from 3 to 6 months. To maintain flexibility in the Group's funding requirements, a major portion of these bank acceptance notes are discounted to banks or other financial institutions with effective interest rates ranging from 1.03% to 6.50% per annum.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Less than 1 year RMB'000	1 and 2 years RMB'000	2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As at 31 December 2021					
Interest-bearing bank and other borrowings	55,816,676	4,517,324	4,186,310	-	64,520,310
Trade and other payables	150,715,716	-	-	-	150,715,716
Dividends payable	246,214	-	-	-	246,214
Lease liabilities	1,548,046	1,510,956	1,907,523	613,754	5,580,279
Other non-current liabilities	-	174,150	-	-	174,150
	208,326,652	6,202,430	6,093,833	613,754	221,236,669
As at 31 December 2020					
Interest-bearing bank and other borrowings	55,889,466	5,195,066	3,752,243	-	64,836,775
Trade and other payables	134,829,790	-	-	-	134,829,790
Dividends payable	216,891	-	-	-	216,891
Lease liabilities	1,406,139	1,376,904	1,996,989	897,080	5,677,112
Other non-current liabilities	-	11,400	-	-	11,400
	192,342,286	6,583,370	5,749,232	897,080	205,571,968

Note: The calculation of expected interest to be paid is based on borrowings as at 31 December 2021 and 2020 and the interest rates as at 31 December 2021 and 2020.

3. Financial risk management (continued)

(2) Capital risk management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on the total liabilities divided by the total assets.

The gearing ratios are as follows:

	2021 RMB'000	2020 RMB'000
Total liabilities	235,758,386	221,289,385
Total assets	335,412,321	311,236,706
Gearing ratio	70.29%	71.10%

(3) Fair value estimation

The table below shows the analysis of financial instruments carried at fair value by the valuation method. The different levels have been defined as follows:

- Quoted prices unadjusted in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

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3. Financial risk management (continued)

(3) Fair value estimation (continued)

The table below presents the Group's financial instruments that are measured at fair value at 31 December 2021 and 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2021				
Equity investments designated at fair value through other comprehensive income	36,245	13,340	31,460	81,045
Financial assets at fair value through profit or loss	349	3,700	696,255	700,304
Bills receivable held both to collect cash flows and to sell	-	8,513,229	-	8,513,229
	36,594	8,530,269	727,715	9,294,578
At 31 December 2020				
Equity investments designated at fair value through other comprehensive income	38,684	14,235	34,434	87,353
Financial assets at fair value through profit or loss	141	3,700	650,050	653,891
Bills receivable held both to collect cash flows and to sell	-	7,617,162	-	7,617,162
	38,825	7,635,097	684,484	8,358,406

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.



3. Financial risk management (continued)

(3) Fair value estimation (continued)

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, these instruments are included in Level 2.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swap that is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contract that is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to the present value.
- Other techniques, such as a discounted cash flow analysis, used to determine fair value for the remaining financial instruments.

During the year, there were no transfers of financial assets between Level 1 and Level 2.

(iii) Financial instruments in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The investments in Level 3 included unlisted equity investments and asset-backed securities.

As at 31 December 2021, the Group recognised unlisted equity investments of RMB716,315,000 in level 3 as these investments and instruments are not traded in an active market, and the majority of their fair values have been determined using applicable valuation techniques including comparable transactions approach and other option pricing approach. These valuation approaches require significant judgment, assumptions and inputs, including risk-free rates, expected volatility, relevant underlying financial projections, and market information of recent transactions (such as recent fund-raising transactions undertaken by the investees) and other exposure.



3. Financial risk management (continued)

(3) Fair value estimation (continued)

(iii) Financial instruments in Level 3 (continued)

As at 31 December 2021, the Group invested in asset-backed securities which were issued by special purpose trusts. The Group entered into securitisation transactions in the normal course of business by transferring trade receivables to special purpose trusts which in turn issued asset-backed securities to investors. The Group acquired some subordinated tranches of securities and accordingly parts of the risks and rewards of the transferred credit assets.

As at 31 December 2021, the Group continued to involve in the asset-back securities transactions to some extent. The Group continued to recognise the relevant assets amounting to RMB11,400,000. The associated liabilities amounted to RMB11,400,000 which represented the maximum cash flows exposure due to the subordinated tranches of securities held by the Group, and its secondary earnings appropriation.

The recurring fair value measurement for the Group's financial assets at fair value through profit or loss was performed using significant unobservable inputs (Level 3) as at 31 December 2021. Set out below is a summary of the valuation techniques used and the key inputs to the valuation:

	Valuation technique	Significant unobservable input	Sensitivity of fair value to the input
Unlisted equity investments, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Asset-backed securities, at fair value	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in increase/decrease in fair value by 0.6%
Investments in funds, at fair value	Valuation multiples	Average P/B multiple of peers	5% increase/decrease would result in increase/decrease in fair value by 5%
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum	5% increase/decrease would result in increase/decrease in fair value by 0.9%

3. Financial risk management (continued)

(4) Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts and fair values of the Group's financial instruments measured at amortised cost, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Borrowings from banks and other financial institutions	1,723,560	1,234,361	1,718,230	1,240,106
Bonds	6,695,120	7,684,365	6,695,120	7,684,365

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2021 were assessed to be insignificant.

4. Critical accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, 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.

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 described below.

(1) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where the actual useful lives are less than the previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expense in the future years.



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4. Critical accounting estimates and judgements (continued)

Estimation uncertainty (continued)

(2) Useful lives of sales network, trademarks, patent rights and software

The Group determines the estimated useful lives and consequently the related amortisation charges for its sales network, trademarks, patent rights and software. These estimates are based on the historical experience of the actual useful lives of sales network, trademarks, patent rights and software of similar nature and functions and considering the current market environment in the PRC and estimations of future changes. Management will increase the amortisation charges where useful lives are less than previously estimated lives, it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in useful lives and therefore amortisation expenses in future years.

(3) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continuous use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rates assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of profit or loss.

(4) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns.

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. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

4. Critical accounting estimates and judgements (continued)

Estimation uncertainty (continued)

(4) Provision for expected credit losses on trade receivables and contract assets (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 customer's actual default in the future.

(5) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each financial year end.

(6) Income taxes and deferred income tax

The Group is subject to income taxes in Mainland China and Hong Kong. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the year in which such estimates are changed.

(7) Post-employment benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Discount rate is one of the assumptions used in determining the net cost (income) for pensions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of PRC government bonds that are denominated in RMB (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are partially based on current market conditions.



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4. Critical accounting estimates and judgements (continued)

Estimation uncertainty (continued)

(8) Impairment of goodwill and trademarks with an indefinite useful life

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the assets' recoverable amount, which is the higher of its value in use and fair value less costs of disposal. Estimating the value in use or fair value less cost of disposal 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. These calculations require the use of estimates (Note 19).

(9) Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in Note 3 (3) to the financial statements. 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 2 and Level 3. The fair value of the unlisted equity investments at 31 December 2021 was RMB733,355,055 (2020: RMB652,019,000). Further details are included in Note 22 and Note 23 to the financial statements.

(10) 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).

5. Segment information

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

- (i) Pharmaceutical distribution – distribution of pharmaceutical products to hospitals, other distributors, retail pharmacy stores and clinics;
- (ii) Medical devices – distribution of medical devices, and installation and maintenance services;



5. Segment information (continued)

- (iii) Retail pharmacy – operation of chain pharmacy stores;
- (iv) Other business – distribution of laboratory supplies, manufacture and distribution of chemical reagents, production and sale of pharmaceutical products.

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

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

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

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

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

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

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5. Segment information (continued)

Segment revenue and results

(i) For the years ended 31 December 2021 and 2020

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

5. Segment information (continued)

Segment revenue and results (continued)

(i) For the years ended 31 December 2021 and 2020 (continued)

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

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5. Segment information (continued)

Segment assets and liabilities

(ii) As at 31 December 2021 and 2020

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

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

5. Segment information (continued)**Information about major customers**

No revenue from a singular customer in the reporting period amounted to over 10% of the total revenue of the Group.

6. Revenue

An analysis of revenue is as follows:

	2021 RMB'000	2020 RMB'000
<i>Revenue from contracts with customers</i>		
Sales of goods	518,392,214	454,252,490
Consulting income	980,020	809,352
Logistics service income	914,603	578,028
Franchise fee and other service fee	181,507	129,933
Import agency income	64,307	71,789
Others	254,024	314,179
<i>Revenue from other sources</i>		
Operating lease income (Note 16)	264,560	258,840
	521,051,235	456,414,611

Revenue from contracts with customers**Disaggregated revenue information**

For the year ended 31 December 2021

Segments	Pharmaceutical distribution RMB'000	Medical devices RMB'000	Retail pharmacy RMB'000	Others RMB'000	Total RMB'000
Types of goods or services					
Sale of goods	375,801,206	107,011,096	27,664,536	7,915,376	518,392,214
Services and others	1,298,943	401,231	645,156	49,131	2,394,461
Total revenue from contracts with customers	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675
Geographical markets					
China	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675
Timing of revenue recognition					
Recognised at a point in time	377,100,149	107,412,327	28,309,692	7,964,507	520,786,675

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6. Revenue (continued)

Revenue from contracts with customers (continued)

Disaggregated revenue information (continued)

For the year ended 31 December 2020

Segments	Pharmaceutical distribution RMB'000	Medical devices RMB'000	Retail pharmacy RMB'000	Others RMB'000	Total RMB'000
Type of goods or services					
Sale of goods	337,497,819	87,690,600	23,009,583	6,054,488	454,252,490
Services and others	1,113,367	287,860	473,692	28,362	1,903,281
Total revenue from contracts with customers	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771
Geographical markets					
China	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771
Timing of revenue recognition					
Recognised at a point in time	338,611,186	87,978,460	23,483,275	6,082,850	456,155,771

Revenue included in the contract liability at the beginning of the reporting period will be recognised from performance obligations satisfied in previous periods. Revenue from delivering products and services of RMB7,323,794,000.00 (2020: RMB4,537,222,000) was recognised in the current year.

Performance obligations

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

Sale of goods

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

Services and others

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

7. Other income

	2021 RMB'000	2020 RMB'000
Government grants	589,193	652,002

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

8. Impairment losses on financial and contract assets

	2021 RMB'000	2020 RMB'000
Impairment of financial and contract assets, net:		
Trade and bills receivables (Note 29)	428,185	660,705
Contract assets (Note 30)	17,587	9,132
Other receivables (Note 31)	101,617	72,650
Other non-current assets (Note 27)	38,722	7,517
Finance lease receivable	12,367	220
	598,478	750,224

9. Other gains, net/Other expenses

	2021 RMB'000	2020 RMB'000
Write-back of certain liabilities	88,713	68,744
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiaries (Note 43)	1,479	113,576
Gain on disposal of an investment in an associate	1,639	17,771
Gain on disposal of investment properties, property, plant and equipment and intangible assets	1,709	24,238
Gain on disposal of non-current assets held for sale	37,534	–
Gain on disposal of right-of-use assets	25,144	15,146
Foreign exchange gain/(loss), net	(10,506)	11,809
Donation	(45,552)	(96,091)
Interest income from asset-backed securities	–	2,826
Dividend income from:		
Equity investments at fair value through other comprehensive income	947	1,001
Equity investments at fair value through profit or loss	31,038	31,411
Fair value gains/(loss) on financial assets at fair value through profit or loss	35,521	(63,903)
Provision for impairment of property, plant and equipment	(2,633)	(123)
Provision for impairment of investments in associates	(3,018)	–
Others, net	56,405	12,475
	218,420	138,880
Provision for impairment of intangible assets (Note 19)	(606,862)	(264,977)
Reversal/(provision) for impairment of prepayment	12,629	(76,230)
	(594,233)	(341,207)



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10. Expenses by nature

	2021 RMB'000	2020 RMB'000
Raw materials and trading merchandise consumed	475,026,060	415,415,993
Changes in inventories of finished goods and work in progress	45,394	(139,377)
Employee benefit expenses (Note 11)	13,445,639	11,375,429
Impairment of inventories, net (Note 28)	30,434	68,656
Lease payments not included in the measurement of lease liabilities (Note 16(c))	651,763	619,973
Depreciation of property, plant and equipment (Note 18)	1,618,498	1,469,196
Depreciation of investment properties (Note 17)	51,112	47,914
Depreciation of right-of-use assets (Note 16(a))	1,870,775	1,689,970
Amortisation of intangible assets (Note 19)	381,673	390,034
Auditor's remuneration		
— statutory audit services	54,948	48,690
— non-statutory audit services	2,956	3,560
— non-audit services	80	37
Advisory and consulting fees	400,957	379,486
Transportation expenses	2,023,979	1,408,258
Travel expenses	320,010	341,116
Market development and business promotion expenses	3,092,649	2,737,673
Utilities	249,804	215,202
Others	932,422	1,211,043
Total cost of sales, selling and distribution expenses, and administrative expenses	500,199,153	437,282,853

Notes:

- (i) The impairment of goodwill RMB396,060,000 (2020: RMB156,291,000) are included in "Other expenses" (Note 9) in the consolidated statement of profit or loss.
- (ii) The Impairment losses on financial and contract assets refer to Note 8.

11. Employee benefit expenses

	2021 RMB'000	2020 RMB'000
Salaries, wages, allowances and bonuses (i)	10,631,027	9,527,887
Contributions to pension plans (ii)	1,091,520	431,048
Post-employment benefits (Note 37)	7,295	1,629
Housing benefits (iii)	469,257	409,674
Share incentive expenses	-	(18,569)
Other benefits (iv)	1,246,540	1,023,760
	13,445,639	11,375,429

Notes:

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

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

Contributions totalling RMB10,127,000 (31 December 2020: RMB13,104,000) were payable to the fund pension plan of China National Pharmaceutical Group at the year ended 31 December 2021.

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

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

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11. Employee benefit expenses (continued)

Notes: (continued)

- (iv) Other benefits mainly represent expenses incurred for medical insurance, employee welfare, employee education and training, and for union activities.
- (v) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2020: three) directors whose emoluments are reflected in the analysis shown in Note 49. The emoluments payable to the remaining three (2020: two) individuals during the year are as follows:

	2021	2020
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	3,907	2,775
Bonuses	6,514	5,011
Contributions to pension schemes	519	293
	10,940	8,079

	2021	2020
	Number of Individuals	Number of Individuals
Emolument bands		
RMB2,903,000 – RMB3,317,000 (HK3,500,001 – HK4,000,000)	1	–
RMB3,317,000 – RMB3,732,000 (HK4,000,001 – HK4,500,000)	–	1
RMB3,732,000 – RMB4,147,000 (HK4,500,001 – HK5,000,000)	2	1

As the Company failed to meet the unlocking conditions of the share incentive scheme, the lapsed Restricted Shares of the above highest paid individuals amounted to RMB601,000 in 2020.

- (vi) For the years ended 31 December 2020 and 2021, no director, supervisor or highest paid individuals above received emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office. No director or supervisor waived or had agreed to waive any emoluments.

12. Finance income and costs

	2021 RMB'000	2020 RMB'000
Interest expense:		
– Interest-bearing bank and other borrowings	2,874,743	2,608,142
– Discount of bills receivable	690,232	614,428
– Net interest on net defined benefit liability (Note 37)	11,739	11,832
– Lease liabilities (Note 16(b))	195,670	193,707
Gross interest expense	3,772,384	3,428,109
Bank charges	204,596	195,791
Less: Capitalised interest expense (Note 18)	(15,549)	(3,353)
Finance costs	3,961,431	3,620,547
Finance income:		
– Interest income on deposits in banks and other financial institutions	(473,850)	(584,832)
– Interest income on long-term deposits	(84,712)	(88,700)
	(558,562)	(673,532)
Net finance costs	3,402,869	2,947,015

13. Taxation

	2021 RMB'000	2020 RMB'000
Current income tax	4,237,217	3,715,646
Deferred income tax (Note 26)	(298,828)	(214,841)
	3,938,389	3,500,805

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13. Taxation (continued)

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

	2021 RMB'000	2020 RMB'000
Profit before tax	17,003,162	15,598,096
Less: Share of profits and losses of associates and joint ventures	(1,069,868)	(987,463)
	15,933,294	14,610,633
Tax calculated at the applicable tax rate	3,983,324	3,652,658
Impact of lower tax rates enacted by local authority	(305,511)	(278,984)
Expenses not deductible for tax purposes	251,868	152,262
Income not subject to tax	(13,586)	(8,718)
Tax losses not recognised	56,207	29,094
Tax losses utilised from previous periods	(6,207)	(8,795)
Impact of change in the applicable income tax rate on deferred tax	(3,130)	(594)
Adjustments in respect of current tax of previous periods	(24,576)	(36,118)
Income tax expense	3,938,389	3,500,805

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

Two of the Group's subsidiaries were subject to Hong Kong profits tax at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong during the year, except for one subsidiary of the Group which was a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2020/2021. The first HKD2,000,000 (2020: HKD2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

13. Taxation (continued)

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

	2021			2020		
	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000	Before tax RMB'000	Tax (charge)/ credit RMB'000	After tax RMB'000
Equity investments at fair value through other comprehensive income	(4,994)	1,248	(3,746)	20,443	(5,111)	15,332
Remeasurement of post-employment benefit obligations	(11,784)	2,841	(8,943)	(26,210)	6,167	(20,043)
	(16,778)	4,089	(12,689)	(5,767)	1,056	(4,711)

14. Earnings per share

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

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

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

15. Dividends

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

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

	2021 RMB'000	2020 RMB'000
Proposed final – RMB0.75 (2020: RMB0.69) per ordinary share	2,340,492	2,153,253

16. Leases

The Group as a lessee

The Group has lease contracts for various items of land, buildings, plant and machinery and furniture, fittings and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 20 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 8 and 45 years, while plant and machinery generally have lease terms between 5 and 15 years. Leases of furniture, fittings and equipment generally have lease terms between 3 and 15 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. 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:

	Land use right RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Total RMB'000
At 1 January 2021, net of accumulated depreciation and impairment	1,829,926	4,853,753	141,711	2,701	6,828,091
Acquisition of subsidiaries (Note 45)	9,059	61,247	–	–	70,306
Additions	22,840	2,285,583	63,957	–	2,372,380
Disposals	–	(393,338)	(23,254)	–	(416,592)
Depreciation (Note 10)	(51,579)	(1,772,494)	(44,771)	(1,931)	(1,870,775)
At 31 December 2021, net of accumulated depreciation and impairment	1,810,246	5,034,751	137,643	770	6,983,410
At 31 December 2021: Cost	2,314,596	8,231,517	231,392	3,206	10,780,711
Accumulated amortisation and impairment	(504,350)	(3,196,766)	(93,749)	(2,436)	(3,797,301)
Net carrying amount	1,810,246	5,034,751	137,643	770	6,983,410

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16. Leases (continued)

The Group as a lessee (continued)

(a) Right-of-use assets (continued)

	Land use right RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Total RMB'000
At 1 January 2020, net of accumulated depreciation and impairment	1,791,070	4,328,723	227,953	2,411	6,350,157
Acquisition of subsidiaries (Note 45)	24,853	464,389	–	–	489,242
Additions	41,871	2,150,308	31,599	655	2,224,433
Transfers	21,359	–	–	–	21,359
Disposals	–	(507,496)	(59,634)	–	(567,130)
Depreciation (Note 10)	(49,227)	(1,582,171)	(58,207)	(365)	(1,689,970)
At 31 December 2020, net of accumulated depreciation and impairment	1,829,926	4,853,753	141,711	2,701	6,828,091
At 31 December 2020: Cost	2,282,055	7,209,426	239,010	3,206	9,733,697
Accumulated amortisation and impairment	(452,129)	(2,355,673)	(97,299)	(505)	(2,905,606)
Net carrying amount	1,829,926	4,853,753	141,711	2,701	6,828,091

All land in Mainland China is state-owned and no individual land ownership rights exist. The Group acquires the right to use certain land and the considerations paid for such right are recorded as right-of-use assets, which are amortised over the lease terms of 20 to 50 years using the straight-line method.

As at 31 December 2021, the right-of-use assets with a net carrying amount of approximately RMB7,295,000 (2020: RMB5,683,000) were pledged as collateral for the Group's bank borrowings (Note 33).

16. 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	4,649,150	4,289,689
New leases	2,272,130	2,071,549
Additions as a result of acquisition of a subsidiary (Note 45)	47,684	418,865
Accretion of interest recognised during the year	195,670	193,707
Payments	(1,952,855)	(1,789,053)
Covid-19-related rent concessions from lessor	(4,132)	(15,524)
Disposals	(409,731)	(520,083)
Carrying amount at 31 December	4,797,916	4,649,150
Analysed into:		
Current portion	1,548,046	1,406,139
Non-current portion	3,249,870	3,243,011

The maturity analysis of lease liabilities is disclosed in Note 3 (1)(iv) to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain buildings during the year.

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16. Leases (continued)

The Group as a lessee (continued)

(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	195,670	193,707
Depreciation charge of right-of-use assets	1,870,775	1,689,970
Expense relating to short-term leases	643,183	609,913
Expense relating to leases of low-value assets with remaining lease terms ended on or before 31 December 2020	7,444	8,963
Variable lease payments not included in the measurement of lease liabilities	1,136	1,097
Gain on disposal of items of right-of-use assets	25,144	15,146
Total amount recognised in profit or loss	2,743,352	2,518,796

(d) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in Note 41(d) and Note 42(b), respectively, to the financial statements.

The Group as a lessor

The Group leases its investment properties (Note 17) consisting of commercial properties in Mainland China 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 RMB264,560,000 (2020: RMB258,840,000), details of which are included in note 6 to the financial statements.

At 31 December 2021 and 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants falling due are as follows:

	2021 RMB'000	2020 RMB'000
Within one year	259,532	186,498
After one year but within five years	202,569	168,470
After five years	26,381	33,294
Total	488,482	388,262

17. Investment properties

	2021 RMB'000	2020 RMB'000
Cost	1,142,727	1,149,971
Accumulated depreciation and impairment	(554,361)	(515,921)
Net carrying amount	588,366	634,050
Opening carrying amount	634,050	699,431
Transfer from property, plant and equipment (Note 18)	23,574	538
Transfer to property, plant and equipment (Note 18)	(17,011)	(10,813)
Disposal	(1,135)	(7,192)
Depreciation	(51,112)	(47,914)
Closing carrying amount	588,366	634,050

Investment properties are located in Mainland China on land with the land use periods of 25 to 50 years (2020: 25 to 50 years).

As at 31 December 2021, investment properties with a carrying amount of approximately RMB16,255 (2020: RMB20,000) were pledged as collateral of the Group's bank borrowings (Note 33).

As at 31 December 2021, the fair value of the investment properties was estimated to be approximately RMB3,608,550,000 (2020: 3,489,315,000). The valuation was determined using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square metre.

Rental income from investment properties has been included in the consolidated statement of profit or loss as follows:

	2021 RMB'000	2020 RMB'000
Revenue (Note 6)	264,560	258,840

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18. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2021						
Cost	11,346,463	4,428,332	2,279,703	896,973	519,847	19,471,318
Accumulated depreciation and impairment	(3,017,520)	(2,404,884)	(1,450,560)	(530,599)	-	(7,403,563)
Net carrying amount	8,328,943	2,023,448	829,143	366,374	519,847	12,067,755
At 1 January 2021, net of accumulated depreciation and impairment	8,328,943	2,023,448	829,143	366,374	519,847	12,067,755
Acquisition of subsidiaries (Note 45)	21,825	4,027	3,455	1,341	2,514	33,162
Additions	494,491	457,157	365,960	120,834	700,584	2,139,026
Transfers	300,105	112,140	34,194	-	(446,439)	-
Transfer from investment properties (Note 17)	17,011	-	-	-	-	17,011
Transfers to right-of-use assets (Note 16)	-	-	-	-	-	-
Transfer to investment properties (Note 17)	(23,574)	-	-	-	-	(23,574)
Transfer to intangible assets (Note 19)	-	-	-	-	(55,904)	(55,904)
Transfer to Non-current assets held for sale	-	-	-	-	-	-
Disposals	(44,438)	(47,221)	(27,044)	(11,253)	(2,069)	(132,025)
Depreciation	(682,482)	(533,146)	(310,538)	(92,332)	-	(1,618,498)
Impairment	-	(2,565)	-	(46)	-	(2,611)
At 31 December 2021, net of accumulated depreciation and impairment	8,411,881	2,013,840	895,170	384,918	718,533	12,424,342
At 31 December 2021						
Cost	12,127,395	4,879,634	2,576,158	955,973	718,533	21,257,693
Accumulated depreciation and impairment	(3,715,514)	(2,865,794)	(1,680,988)	(571,055)	-	(8,833,351)
Net carrying amount	8,411,881	2,013,840	895,170	384,918	718,533	12,424,342

18. Property, plant and equipment (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Furniture fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2020						
Cost	8,797,570	3,998,915	1,959,677	849,720	2,312,030	17,917,912
Accumulated depreciation and impairment	(2,461,797)	(1,997,077)	(1,248,222)	(496,106)	(1,831)	(6,205,033)
Net carrying amount	6,335,773	2,001,838	711,455	353,614	2,310,199	11,712,879
At 1 January 2020, net of accumulated depreciation and impairment	6,335,773	2,001,838	711,455	353,614	2,310,199	11,712,879
Acquisition of subsidiaries (Note 45)	133,126	2,221	38,958	4,141	–	178,446
Additions	465,185	509,961	366,819	108,413	534,402	1,984,780
Transfers	2,097,671	95,885	28,393	527	(2,222,476)	–
Transfer from investment properties (Note 17)	10,813	–	–	–	–	10,813
Transfers to right-of-use assets (Note 16)	–	–	–	–	(21,359)	(21,359)
Transfer to investment properties (Note 17)	(538)	–	–	–	–	(538)
Transfer to intangible assets (Note 19)	–	–	–	–	(48,305)	(48,305)
Transfer to Non-current assets held for sale	(19,345)	–	–	–	–	(19,345)
Disposals	(106,552)	(73,274)	(36,142)	(11,715)	(32,614)	(260,297)
Depreciation	(587,190)	(513,181)	(280,219)	(88,606)	–	(1,469,196)
Impairment	–	(2)	(121)	–	–	(123)
At 31 December 2020, net of accumulated depreciation and impairment	8,328,943	2,023,448	829,143	366,374	519,847	12,067,755
At 31 December 2020						
Cost	11,346,463	4,428,332	2,279,703	896,973	519,847	19,471,318
Accumulated depreciation and impairment	(3,017,520)	(2,404,884)	(1,450,560)	(530,599)	–	(7,403,563)
Net carrying amount	8,328,943	2,023,448	829,143	366,374	519,847	12,067,755

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18. Property, plant and equipment (continued)

Details of the borrowing costs capitalised into cost of property, plant and equipment are as follows:

	2021	2020
	RMB'000	RMB'000
Borrowing costs capitalised	15,549	3,353
Weighted average rate of borrowing costs	3.34%	3.93%

Depreciation expense was charged to the consolidated statement of profit or loss as follows:

	2021	2020
	RMB'000	RMB'000
Cost of sales	304,804	246,255
Selling and distribution expenses	481,176	460,832
Administrative expenses	832,518	762,109
	1,618,498	1,469,196

As at 31 December 2021, property, plant and equipment with a net carrying amount of approximately RMB17,008,000 (2020: RMB35,294,000) were pledged as collateral for the Group's bank borrowings (Note 33).

19. Intangible assets

	Goodwill	Sales network	Trademarks and patent rights	Exclusive distribution rights	Software	Product development costs	Favourable leasing rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021, net of accumulated amortisation and impairment	7,287,394	2,583,048	282,929	34,184	370,879	81,261	89,607	10,729,302
Additions	-	94	172	-	131,328	26,281	-	157,875
Acquisition of subsidiaries (Note 45)	307,675	96,960	40,440	-	232	-	-	445,307
Transfers	-	-	19,509	-	6,347	(25,856)	-	-
Transfers from property, plant and equipment	-	-	-	-	55,904	-	-	55,904
Disposals	-	-	-	-	(3,048)	(5,078)	-	(8,126)
Amortisation (Note 10)	-	(210,237)	(19,610)	(5,367)	(139,373)	-	(7,086)	(381,673)
Impairment (Note 9)	(396,060)	(167,584)	(43,000)	-	(218)	-	-	(606,862)
At 31 December 2021, net of accumulated amortisation and impairment	7,199,009	2,302,281	280,440	28,817	422,051	76,608	82,521	10,391,727
At 31 December 2021:								
Cost	8,014,452	4,305,990	468,930	52,573	1,123,526	76,608	127,485	14,169,564
Accumulated amortisation and impairment	(815,443)	(2,003,709)	(188,490)	(23,756)	(701,475)	-	(44,964)	(3,777,837)
Net carrying amount	7,199,009	2,302,281	280,440	28,817	422,051	76,608	82,521	10,391,727

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19. Intangible assets (continued)

	Goodwill	Sales network	Trademarks and patent rights	Exclusive distribution rights	Software	Product development costs	Favourable leasing rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020, net of accumulated amortisation and impairment	5,664,072	2,694,737	101,172	30,101	335,730	66,345	96,693	8,988,850
Additions	-	11,819	7,469	6,643	105,973	30,536	-	162,440
Acquisition of subsidiaries (Note 45)	1,779,613	215,519	187,782	9,450	488	-	-	2,192,852
Transfers	-	-	-	-	15,620	(15,620)	-	-
Transfers from property, plant and equipment	-	-	-	-	48,305	-	-	48,305
Disposals	-	-	(31)	-	(8,103)	-	-	(8,134)
Amortisation (Note 10)	-	(230,350)	(13,463)	(12,010)	(127,125)	-	(7,086)	(390,034)
Impairment	(156,291)	(108,677)	-	-	(9)	-	-	(264,977)
At 31 December 2020, net of accumulated amortisation and impairment	7,287,394	2,583,048	282,929	34,184	370,879	81,261	89,607	10,729,302
At 31 December 2020:								
Cost	7,706,777	4,208,937	408,809	52,573	931,896	81,261	127,486	13,517,739
Accumulated amortisation and impairment	(419,383)	(1,625,889)	(125,880)	(18,389)	(561,017)	-	(37,879)	(2,788,437)
Net carrying amount	7,287,394	2,583,048	282,929	34,184	370,879	81,261	89,607	10,729,302

Amortisation expenses charged to the consolidated statement of profit or loss are as follows:

	2021 RMB'000	2020 RMB'000
Selling and distribution expenses	192,661	213,120
Administrative expenses	189,012	176,914
	381,673	390,034

19. Intangible assets (continued)

Impairment tests for goodwill:

Goodwill is allocated to the Group's cash-generating units ("CGUs"), identified by the operating segment, as follows:

2021	Opening RMB'000	Additions RMB'000 (Note 45)	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	3,966,804	74,417	(270,990)	-	3,770,231
Medical devices	1,189,246	42,298	(125,070)	-	1,106,474
Retail pharmacy	2,086,056	190,960	-	-	2,277,016
Other businesses	45,288	-	-	-	45,288
	7,287,394	307,675	(396,060)	-	7,199,009
2020	Opening RMB'000	Additions RMB'000 (Note 45)	Impairment RMB'000	Disposal of subsidiaries RMB'000	Closing RMB'000
Pharmaceutical distribution	3,554,331	540,048	(127,575)	-	3,966,804
Medical devices	1,198,289	19,673	(28,716)	-	1,189,246
Retail pharmacy	866,164	1,219,892	-	-	2,086,056
Other businesses	45,288	-	-	-	45,288
	5,664,072	1,779,613	(156,291)	-	7,287,394

The recoverable amount of a CGU is determined based on the higher of value-in-use and fair value less costs of disposal. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rates for the businesses in which the CGUs operate.

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19. Intangible assets (continued)

The key assumptions, long-term growth rates and discount rates used for fair value less cost of disposal or value-in-use calculations of top 5 significant CGUs in 2021 are as follows:

Segment	CGU1	CGU2	CGU3	CGU4	CGU5
	Retail pharmacy	Pharmaceutical distribution			
Net goodwill (RMB'000)	1,182,444	1,081,882	358,149	191,420	184,055
Revenue growth rates in the budget period	1.99%-3.52%	4.14%-4.44%	9.88%-14.03%	6.82%-6.83%	10%
Gross margin	30.44%-30.58%	6.73%-6.9%	12.73%-14.70%	7.00%-10.00%	4.73%-4.74%
Growth rates to extrapolate cash flows beyond the budget period	3.00%	3.00%	3.00%	3.00%	3.00%
Discount rate	16.39%	16.30%	15.95%	20.00%	16.50%

Management determined the budgeted gross margin and growth rates based on past performance of the CGUs and expectations for market development. The discount rates used are before tax after reflecting specific risks of the relevant businesses.

During the reporting period, after comparing the carrying values of the CGUs containing the goodwill with those recoverable amounts, the Group provided goodwill impairment amounting to RMB396,060,000 and intangible asset impairment amounting to RMB210,802,000 related to six CGUs (four CGU in pharmaceutical distribution segment and two CGU in medical devices segment), which were recognised in the consolidated statement of profit or loss as other expenses. The recoverable amounts of aforementioned CGUs are determined based on fair value less cost and value in use calculation using cash flow projections based on financial budget covering a five-year period, respectively. The discount rate used for cash flow projections of CGUs is 15.48% to 20.00%, where the inflation rate after the projection period is 3%. The fair value of the CGU is within Level 3 of the fair value hierarchy.

20. Subsidiaries

The principal subsidiaries of the Company are set out in Note 47.

Material non-controlling interests

The total non-controlling interests as at 31 December 2021 amounted to RMB37,767,920,000 (31 December 2020: RMB33,588,476,000), of which RMB6,932,420,000 (31 December 2020: RMB6,474,280,000) was attributed to China National Medicines Corporation Ltd. ("National Medicines"), RMB9,655,292,000 (31 December 2020: RMB9,069,198,000) was attributed to China National Accord Medicines Co., Ltd. ("Sinopharm Accord") and RMB8,007,231,000 (31 December 2020: RMB6,662,041,000) was attributed to China National Scientific Instruments and Materials Co., Ltd ("Scientific Instruments"). The non-controlling interest in respect of each of the other subsidiaries is not material.

20. Subsidiaries (continued)**Summarised financial information of subsidiaries with material non-controlling interests**

Set out below is the summarised financial information of the aforementioned subsidiaries that have non-controlling interests that are material to the Group.

Summarised financial information

	National Medicines		Sinopharm Accord		Scientific Instruments	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Current						
Assets	24,456,822	22,109,586	31,848,416	29,264,381	42,117,488	38,058,399
Liabilities	(12,628,485)	(11,237,145)	(22,379,018)	(20,257,521)	(33,391,005)	(31,197,585)
Total current net assets	11,828,337	10,872,441	9,469,398	9,006,860	8,726,483	6,860,814
Non-current						
Assets	3,018,196	2,795,347	10,935,267	10,330,152	5,766,092	5,422,460
Liabilities	(491,066)	(573,764)	(2,382,452)	(2,448,385)	(1,882,662)	(1,510,265)
Total non-current net assets	2,527,130	2,221,583	8,552,815	7,881,767	3,883,430	3,912,195
Net assets	14,355,467	13,094,024	18,022,213	16,888,627	12,609,913	10,773,009

Summarised statement of profit or loss

	National Medicines		Sinopharm Accord		Scientific Instruments	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue	46,468,603	40,378,608	68,357,810	59,649,455	72,489,977	62,389,685
Profit before income tax	2,444,806	1,917,346	1,974,853	2,157,236	2,660,367	2,683,255
Income tax expense	(516,303)	(408,095)	(447,211)	(435,940)	(672,974)	(637,853)
Post-tax profit	1,928,503	1,509,251	1,527,642	1,721,296	1,987,393	2,045,402
Other comprehensive loss	(2,776)	5,232	(27,709)	(12,394)	(4,249)	(13,627)
Total comprehensive income	1,925,727	1,514,483	1,499,933	1,708,902	1,983,144	2,031,775
Total comprehensive income allocated to non-controlling interests	967,463	752,685	760,043	927,169	1,315,469	1,257,898
Dividends paid to non-controlling interests	420,634	378,737	216,419	178,212	258,801	285,854

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20. Subsidiaries (continued)

Summarised financial information of subsidiaries with material non-controlling interests (continued)

Summarised cash flows

	National Medicines		Sinopharm Accord		Scientific Instruments	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Cash flows from operating activities						
Cash generated from operations	2,490,149	1,752,514	2,157,128	1,933,881	3,234,484	2,721,494
Income tax paid	(532,698)	(450,843)	(501,947)	(431,134)	(724,008)	(597,277)
Net cash from operating activities	1,957,451	1,301,671	1,655,181	1,502,747	2,510,476	2,124,217
Net cash from/(used in) investing activities	(122,991)	(97,971)	(455,532)	(2,783,229)	(245,719)	(259,111)
Net cash used in financing activities	(745,962)	(689,107)	(1,871,641)	(1,740,423)	(2,870,429)	866,021
Net increase/(decrease) in cash and cash equivalents	1,088,498	514,593	(671,992)	(3,020,905)	(605,672)	2,731,127
Cash and cash equivalents at beginning of year	6,141,419	5,626,845	5,405,113	8,426,071	7,844,090	5,126,798
Effect of foreign exchange rate changes, net	-	(19)	391	(53)	(7,615)	(13,835)
Cash and cash equivalents at end of year	7,229,917	6,141,419	4,733,512	5,405,113	7,230,803	7,844,090

The information above is before inter-company eliminations.

21. Investments in associates

	2021 RMB'000	2020 RMB'000
At 1 January	7,735,431	7,018,107
Other additions	9,300	140,450
Reclassification from cessation of control upon investments in subsidiaries	–	(22,638)
Reclassification from investments in subsidiaries upon cessation of control (Note 43)	–	39,370
Share of results	1,069,173	985,562
Unrealised (gain)/loss on transactions with associates	904	(9,696)
Share of other comprehensive loss	(2,061)	(1,967)
Share of changes in equity other than comprehensive income and distributions received from associates	18,996	58,478
Dividends declared by associates attributable to the Group	(430,307)	(310,022)
Disposal of investments in associates	(10,741)	(162,213)
Impairment	(3,018)	–
At 31 December	8,387,677	7,735,431

The Group's receivable and payable balances with the associates are disclosed in Notes 46 to the financial statements.

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of equity interest attributable to the Group		Principal activity
			2021(i)	2020(i)	
Shanghai Modern Pharmaceutical Co., Ltd. (上海现代製藥股份有限公司)	Ordinary shares of RMB1 each	PRC/Mainland China	18.14%	18.14%	Pharmaceutical manufacturing

- (i) The Group's investment in this associate is accounted for under the equity method of accounting because the Group has significant influence over the associate by way of representation on the board of directors and participation in the policy-making process, despite the fact that the percentage of the Group's equity interest in it was lower than 20% for the year ended 31 December 2021 and the year ended 31 December 2020.

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21. Investments in associates (continued)

The company and China National Accord Medicines Co., Ltd. hold 1.86% and 16.28% shares of Shanghai Modern Pharmaceutical Co., Ltd. respectively.

The following table illustrates the summarised financial information of Shanghai Modern Pharmaceutical Co., Ltd. extracted from its financial statements, reconciled to the carrying amount in the consolidated financial statements:

	2021 RMB'000	2020 RMB'000
Current assets	10,886,446	10,162,475
Non-current assets	8,183,515	8,087,980
Current liabilities	(6,842,571)	(6,194,362)
Non-current liabilities	(1,857,532)	(2,236,727)
Non-controlling interests	(1,777,095)	(1,688,157)
Net assets	8,592,763	8,131,209
Proportion of the Group's ownership	18.14%	18.14%
Carrying amount of the investment	1,558,727	1,475,001
Revenue	13,944,948	12,556,282
Profit for the year	821,146	900,047
Other comprehensive income	253	33
Dividend declared	18,621	18,621
Fair value of the Group's investment	1,931,898	1,770,863

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021 RMB'000	2020 RMB'000
Share of the associates' profit for the year	966,156	867,922
Share of the associates' other comprehensive income	(2,093)	(1,973)
Share of the associates' total comprehensive income	964,063	865,949
Aggregate carrying amount of the Group's investments in the associates	6,828,950	6,260,430

22. Equity investments designated at fair value through other comprehensive income

	2021 RMB'000	2020 RMB'000
Listed equity investment, at fair value		
Jiangsu Lianhuan Pharmaceutical Group Co., Ltd.	36,245	38,684
Unlisted equity investments, at fair value		
Shanghai Fuxin Chuanghong Fund Investment Co., Ltd.	24,820	26,155
Shanghai Guoda Shuguang Pharmacy Co., Ltd.	8,319	8,242
Shanghai Guoren Pharmacy Co., Ltd.	4,721	5,493
Suzhou Liuliu Vision Technology Co., Ltd.	4,755	4,755
Horgos Boyun Limin E-commerce Co., Ltd.	561	1,522
Zhejiang Wahaha Industrial Co., Ltd.	300	500
Sinopharm (Shanghai) E-commerce Co., Ltd.	471	471
Beijing Guokong Cloud Pharmacy Co., Ltd.	140	421
Hunan Zhongbai Pharmaceutical Investment Co., Ltd.	270	417
Shenzhen Zhonglian Guangshen Pharmaceutical Group Co., Ltd.	293	293
Jinzhou Guoyaotang Pharmacy Co., Ltd.	-	250
Wuhan Gaoke Medical Device Enterprise Incubation Co., Ltd.	150	150
	44,800	48,669
	81,045	87,353

- (i) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.
- (ii) During the year ended 31 December 2021, the Group received dividends in an aggregate amount of RMB947,000 (2020: RMB1,001,000).

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23. Financial assets at fair value through profit or loss

	2021 RMB'000	2020 RMB'000
Listed equity investments, at fair value	349	141
Unlisted equity investments, at fair value	466,640	492,401
Asset-backed securities, at fair value (Note 3(iii))	11,400	50,400
Investments in funds, at fair value	221,915	110,949
	700,304	653,891
Less: Current portion	(11,749)	(39,141)
	688,555	614,750

24. Finance lease receivables

	2021 RMB'000	2020 RMB'000
Finance lease receivables	27,063	36,008
Less: Unearned finance income	(745)	(1,154)
	26,318	34,854
Less: Provision for impairment	(12,587)	(220)
Less: Current portion	(1,915)	(1,130)
	11,816	33,504

25. Financial instruments by category

At 31 December 2021

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit and loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Debt investments at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets included in other non-current assets	2,324,227	-	-	-	2,324,227
Equity investments designated at fair value through other comprehensive income	-	-	81,045	-	81,045
Financial assets at fair value through profit and loss (Note 23)	-	700,304	-	-	700,304
Finance lease receivables (Note 24)	13,731	-	-	-	13,731
Trade and bills receivables (Note 29)	162,876,374	-	-	8,513,229	171,389,603
Contract assets (Note 30)	1,184,017	-	-	-	1,184,017
Financial assets included in prepayments, other receivables and other assets	5,505,905	-	-	-	5,505,905
Pledged deposits and cash (Note 32)	9,694,529	-	-	-	9,694,529
Cash and cash equivalents (Note 32)	43,529,428	-	-	-	43,529,428
	225,128,211	700,304	81,045	8,513,229	234,422,789
					Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings (Note 33)					63,570,330
Trade and bills payables (Note 34)					128,431,227
Dividends payable (Note 15)					246,214
Lease liabilities (Note 16(b))					4,797,916
Financial liabilities included in accruals and other payables					246,214
Financial liabilities included in other non-current liabilities (Note 38)					174,150
					197,466,051

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25. Financial instruments by category (continued)

At 31 December 2020

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit and loss RMB'000	Equity investments at fair value through other comprehensive income RMB'000	Debt investments at fair value through other comprehensive income RMB'000	Total RMB'000
Financial assets included in other non-current assets	2,738,948	-	-	-	2,738,948
Equity investments designated at fair value through other comprehensive income	-	-	87,353	-	87,353
Financial assets at fair value through profit and loss (Note 23)	-	653,891	-	-	653,891
Finance lease receivables (Note 24)	34,634	-	-	-	34,634
Trade and bills receivables (Note 29)	137,719,801	-	-	7,617,162	145,336,963
Financial assets included in prepayments, other receivables and other assets	5,103,807	-	-	-	5,103,807
Pledged deposits and cash (Note 32)	10,029,693	-	-	-	10,029,693
Cash and cash equivalents (Note 32)	50,178,265	-	-	-	50,178,265
	205,805,148	653,891	87,353	7,617,162	214,163,554
				Financial liabilities at amortised cost RMB'000	
Interest-bearing bank and other borrowings (Note 33)				63,877,680	
Trade and bills payables (Note 34)				112,632,393	
Dividends payable (Note 15)				216,891	
Lease liabilities (Note 16(b))				4,649,150	
Financial liabilities included in accruals and other payables				22,197,397	
Financial liabilities included in other non-current liabilities (Note 38)				11,400	
				203,584,911	

26. Deferred income tax

	2021 RMB'000	2020 RMB'000
Deferred tax assets	1,787,093	1,601,660
Deferred tax liabilities	(1,022,792)	(1,111,742)
	764,301	489,918

The movements in deferred tax assets and liabilities are as follows:

Deferred tax assets

	Employee benefit obligations RMB'000	Impairment provision for assets RMB'000	Unrealised profits RMB'000	Tax losses RMB'000	Share based payments RMB'000	Lease liabilities RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	183,716	498,101	27,461	106,753	3,452	27,526	601,844	1,448,853
Acquisition of subsidiaries (Note 45)	14,958	7,702	-	2,451	-	-	8,629	33,740
Credited to the consolidated statement of profit or loss	(5,710)	193,257	(2,337)	(62,234)	(2,606)	20,613	(27,237)	113,746
Credited to other comprehensive income	6,167	-	-	-	-	-	-	6,167
Charged to capital surplus	-	-	-	-	(846)	-	-	(846)
At 31 December 2020	199,131	699,060	25,124	46,970	-	48,139	583,236	1,601,660
Acquisition of subsidiaries (Note 45)	-	1,089	-	-	-	178	-	1,267
Credited to the consolidated statement of profit or loss	(4,577)	109,839	5,212	26,597	-	15,531	30,441	183,043
Credited to other comprehensive income	2,841	-	-	-	-	-	-	2,841
Disposal of subsidiaries and disposals in connection with asset restructuring	-	(8)	-	-	-	-	(1,710)	(1,718)
At 31 December 2021	197,395	809,980	30,336	73,567	-	63,848	611,967	1,787,093

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26. Deferred income tax (continued)

Deferred tax liabilities

	Fair value adjustments on assets relating to business combinations RMB'000	Fair value gains on equity investments at fair value through profit and loss RMB'000	Fair value gains on equity investments at fair value through other comprehensive income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	979,742	21,580	7,072	90,714	1,099,108
Acquisition of subsidiaries (Note 45)	108,618	-	-	-	108,618
Credited/(charged) to the consolidated statement of profit or loss	(102,581)	(15,057)	-	16,543	(101,095)
Charged to other comprehensive income	-	-	5,111	-	5,111
At 31 December 2020	985,779	6,523	12,183	107,257	1,111,742
Acquisition of subsidiaries (Note 45)	28,083	-	-	-	28,083
Credited/(charged) to the consolidated statement of profit or loss	(115,518)	(6,084)	-	5,816	(115,785)
Charged to other comprehensive income	-	-	(1,248)	-	(1,248)
At 31 December 2021	898,344	439	10,935	113,074	1,022,792

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefits through future taxable profits is probable. Based on the above principle, the Group did not recognise deferred tax assets of approximately RMB92,146,000 (2020: RMB138,368,000) in respect of tax losses amounting to approximately RMB368,584,000 (2020: RMB553,473,000). As at 31 December 2021, these unrecognised tax losses amounting to RMB16,883,000, RMB31,096,000, RMB64,790,000, RMB44,294,000 and RMB211,521,000 will expire in 2022, 2023, 2024, 2025 and 2026 respectively.

27. Other non-current assets

	2021 RMB'000	2020 RMB'000
Long-term deposits	1,942,122	2,070,221
Contract assets	387,725	279,001
Continuing involvement assets (Note 3 (3)(iii))	–	11,400
Instalment sales	475,039	557,492
Others	360,991	349,390
	3,165,877	3,267,504
Impairment	(46,730)	(8,008)
	3,119,147	3,259,496

The movements in the loss allowance for impairment of non-current assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	8,008	491
Provision for impairment, net (Note 8)	38,722	7,517
At end of year	46,730	8,008

28. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials	185,502	200,228
Work in progress	29,913	41,822
Finished goods and trading merchandise	51,518,785	47,079,741
	51,734,200	47,321,791
Less: Provision for impairment	(234,575)	(236,341)
	51,499,625	47,085,450

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28. Inventories (continued)

The cost of inventories included in cost of sales amounted to RMB475,071,454,000 (2020: RMB415,276,616,000) (Note 10).

Movements in provision for impairment of inventories are as follows:

	2021 RMB'000	2020 RMB'000
At 1 January	236,341	189,639
Acquisition of subsidiaries	298	474
Provision for the year (Note 10)	30,434	68,656
Write-off for the year	(32,498)	(22,428)
At 31 December	234,575	236,341

29. Trade and bills receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	161,397,269	136,340,084
Bills receivable	12,688,236	11,267,761
	174,085,505	147,607,845
Less: Provision for impairment	(2,695,902)	(2,270,882)
	171,389,603	145,336,963

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

Retail sales of pharmacy stores are generally made in cash or by debit or credit cards. For all other businesses, like pharmaceutical distribution, medical devices distribution and production and sales of pharmaceutical manufacturing businesses etc., sales are made on credit terms ranging from 30 to 210 days. The ageing analysis of trade receivables, based on the invoice date and net of provisions, as at the end of the reporting period, is as follows:

29. Trade and bills receivables (continued)

	2021 RMB'000	2020 RMB'000
Within 1 year	155,827,980	130,854,340
1 to 2 years	2,296,149	2,952,952
Over 2 years	618,576	312,690
	158,742,705	134,119,982

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade and bills receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See Note 3 (1)(iii) and Note 4 (4) for further information about expected credit loss provision.

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

	2021 RMB'000	2020 RMB'000
At beginning of year	2,270,882	1,582,512
Acquisition of subsidiaries	4,802	27,937
Provision for impairment, net (Note 8)	428,185	660,705
Amount written off as uncollectible	(7,967)	(272)
At end of year	2,695,902	2,270,882

The maximum exposure to credit risk as at 31 December 2021 was the carrying value of each category of receivables mentioned above and in Note 31.

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

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

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29. Trade and bills receivables (continued)

As at 31 December 2021, outstanding trade receivables of RMB32,501,098,000 (2020: RMB31,948,573,000) were derecognised under the trade receivables factoring programs without recourse. The ageing of these derecognised trade receivables was basically within one year. As at 31 December 2021, the collection of such trade receivables on behalf of banks amounting to RMB3,298,853,000 (2020: RMB2,876,436,000) and the collection of such trade receivables on behalf of related parties amounting to RMB1,136,794,000 (2020: RMB1,222,736,000) was recorded in other payables (Note 36).

30. Contract assets

	2021 RMB'000	2020 RMB'000
Contract asset arising from:		
Sale of goods	1,234,634	744,144
Less: Provision for impairment	(50,617)	(33,030)
	1,184,017	711,114

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

The movements in the loss allowance for impairment of contract assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	33,030	24,051
Provision for impairment (Note 8)	17,587	9,132
Amount written off as uncollectible	-	(153)
At end of year	50,617	33,030

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for contract assets. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the ageing from billing. See Note 3 (1)(iii) and Note 4 (4) for further information about expected credit loss provision.

The expected timing of recovery or settlement for contract assets as at 31 December 2021 was mainly within one year.

31. Prepayments, other receivables and other assets

	2021 RMB'000	2020 RMB'000
Prepayments	6,844,520	7,990,891
Value-added tax recoverable	819,269	779,816
Deposits	2,811,531	2,632,804
Staff advances	47,243	58,830
Amounts due from related parties (Note 46)		
– other receivables	90,037	86,750
– prepayments	210,121	127,208
Purchase rebate	643,339	613,827
Other receivables	2,621,462	2,294,668
	14,087,522	14,584,794
Less: Provision for impairment	(476,247)	(375,922)
	13,611,275	14,208,872

The movements in the loss allowance for impairment of prepayments, other receivables and other assets are as follows:

	2021 RMB'000	2020 RMB'000
At beginning of year	375,922	303,977
Acquisition from business combination	–	25
Impairment losses (Note 8)	101,617	72,650
Amount written off as uncollectible	(1,292)	(730)
At end of year	476,247	375,922

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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32. Pledged deposits and restricted cash, and cash and cash equivalents

	2021 RMB'000	2020 RMB'000
Pledged deposits and restricted cash		
Pledged bank deposits	9,681,085	9,844,661
Bank deposits with an initial term of over three months	13,444	185,032
	9,694,529	10,029,693
Cash and cash equivalents		
– Cash on hand	8,793	13,745
– Cash in banks	41,174,868	47,745,585
– Cash in other financial institutions (Note 46)	2,345,767	2,418,935
	43,529,428	50,178,265
Pledged deposits and restricted cash, and cash and cash equivalents		
Denominated in		
– RMB	52,906,325	59,924,823
– USD	182,220	178,450
– EUR	49,680	26,353
– HKD	57,612	59,813
– Others	28,120	18,519
	53,223,957	60,207,958

Bank deposits are pledged as collateral for the following:

	2021 RMB'000	2020 RMB'000
Bank acceptance notes	8,887,763	8,845,480
Borrowings	–	300
Letters of credit	301,895	580,390
Letters of guarantee	192,093	198,358
Others	299,334	220,133
	9,681,085	9,844,661

32. Pledged deposits and restricted cash, and cash and cash equivalents

(continued)

The maximum exposure to credit risk as at 31 December 2021 and 2020 approximated to the carrying values of pledged deposits and restricted cash, and cash and cash equivalents.

RMB is not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the PRC are subject to the rules and regulations of foreign exchange controls promulgated by the PRC authorities.

The effective interest rate of bank deposits in banks and other financial institutions is as follows:

	2021	2020
Weighted average effective interest rate (per annum)	0.93%	1.23%

33. Interest-bearing bank and other borrowings

	2021 RMB'000	2020 RMB'000
Non-current		
Unsecured bank borrowings	1,690,766	1,187,383
Unsecured borrowings from other financial institutions and related parties	32,794	46,978
Bonds (Notes)	6,695,120	7,684,365
	8,418,680	8,918,726
Current		
Secured bank borrowings	1,808,890	2,532,122
Unsecured bank borrowings	35,525,429	40,150,772
Unsecured borrowings from other financial institutions and related parties	10,327,559	3,241,377
Secured borrowings from other financial institutions and related parties	357,616	61,842
Bonds (Notes)	7,132,156	8,972,841
	55,151,650	54,958,954
Total borrowings	63,570,330	63,877,680
The carrying amounts of the Group's borrowings are denominated in the following currencies:		
– RMB	63,549,121	63,753,535
– USD	21,209	124,145
	63,570,330	63,877,680



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33. Interest-bearing bank and other borrowings (continued)

Notes:

On 9 March 2016, the Company issued 40,000,000 units of bonds at a total par value of RMB4,000,000,000. After deduction of the expenses of approximately RMB12,852,000 in relation to the issuance, the total net proceeds were approximately RMB3,987,148,000. The bonds will mature 5 years from the issue date (i.e., 9 March 2021), and the annual interest rate is 2.92%. The Company had the right for early redemption at the end of the third year, i.e., 9 March 2019. Interest is paid on an annual basis. The Company exercised its early redemption right and repurchased bonds of RMB3,459,990,000 in 2019. As at 31 December 2021, the remaining corporate bonds matured and were repaid in 2021.

On 26 October 2017, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB1,000,000,000. The corporate bonds will expire on 26 October 2022, for a period of five years commencing from the issue date of 26 October 2017. The Company has the right for early redemption at the end of the third year, i.e., 26 October 2020. The annual interest rate of the corporate bonds for the first three years is fixed at 4.80%. Interest is paid on an annual basis. The Company exercised its early redemption right and repurchased bonds of RMB10,000,000 in 2020. As at 31 December 2021, the remaining corporate bonds of RMB990,000,000 were classified as current liabilities.

On 26 November 2018, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB3,300,000,000. The corporate bonds expired on 26 November 2021, for a period of three years commencing from the issue date of 26 November 2018. The annual interest rate of the corporate bonds is fixed at 3.99%. Interest is paid on an annual basis. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 5 September 2019, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB4,000,000,000. The corporate bonds will expire on 5 September 2022, for a period of three years commencing from the issue date of 5 September 2019. The annual interest rate of the corporate bonds is fixed at 3.53%. Interest is paid on an annual basis. As at 31 December 2021, the corporate bonds were classified as current liabilities.

On 29 July 2020, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB2,700,000,000. The corporate bonds will expire on 28 July 2023, for a period of three years commencing from the issue date of 29 July 2020. The annual interest rate of the corporate bonds is fixed at 3.27%. Interest is paid on an annual basis. As at 31 December 2021, the corporate bonds were classified as non-current liabilities.

On 30 October 2020, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,325,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,675,000. The bonds will mature 180 days from the issue date (i.e., 28 April 2021), and the annual interest rate was 2.70%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 13 November 2020, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB710,000 in relation to the issuance, the total net proceeds were approximately RMB2,999,290,000. The bonds will mature 60 days from the issue date (i.e., 12 January 2021), and the annual interest rate was 2.70%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

33. Interest-bearing bank and other borrowings (continued)

Notes: (continued)

On 11 January 2021, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB700,000 in relation to the issuance, the total net proceeds were approximately RMB2,999,300,000. The bonds will mature 60 days from the issue date (i.e., 12 March 2021), and the annual interest rate was 2.45%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 4 February 2021, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB1,000,000,000. The corporate bonds will expire on 4 February 2024, for a period of three years commencing from the issue date of 4 February 2021. The annual interest rate of the corporate bonds is fixed at 3.65%. Interest is paid on an annual basis. As at 31 December 2021, the corporate bonds were classified as non-current liabilities.

On 10 March 2021, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB730,000 in relation to the issuance, the total net proceeds were approximately RMB2,999,270,000. The bonds will mature 60 days from the issue date (i.e., 12 May 2021), and the annual interest rate was 2.70%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 12 March 2021, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB1,900,000 in relation to the issuance, the total net proceeds were approximately RMB2,998,100,000. The bonds will mature 180 days from the issue date (i.e., 8 September 2021), and the annual interest rate was 2.90%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 28 April 2021, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,300,000 in relation to the issuance, the total net proceeds were approximately RMB1,998,700,000. The bonds will mature 180 days from the issue date (i.e., 25 October 2021), and the annual interest rate was 2.80%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 20 May 2021, the Company issued 10,000,000 units of bonds at a total par value of RMB1,000,000,000. After deduction of the expenses of approximately RMB703,000 in relation to the issuance, the total net proceeds were approximately RMB999,297,000. The bonds will mature 180 days from the issue date (i.e., 16 November 2021), and the annual interest rate was 2.60%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

On 20 October 2021, the Company issued 30,000,000 units of bonds at a total par value of RMB3,000,000,000. After deduction of the expenses of approximately RMB813,400 in relation to the issuance, the total net proceeds were approximately RMB2,999,186,600. The bonds will mature 60 days from the issue date (i.e., 30 December 2021), and the annual interest rate was 2.51%. As at 31 December 2021, the corporate bonds matured and were repaid in 2021.

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33. Interest-bearing bank and other borrowings (continued)

Notes: (continued)

On 3 November 2021, the Company completed the issuance of the first tranche of the corporate bonds with an aggregate nominal value of RMB3,000,000,000. The corporate bonds will expire on 3 November 2024, for a period of three years commencing from the issue date of 3 November 2021. The annual interest rate of the corporate bonds is fixed at 3.20%. Interest is paid on an annual basis. As at 31 December 2021, the corporate bonds were classified as non-current liabilities.

On 22 November 2021, the Company issued 20,000,000 units of bonds at a total par value of RMB2,000,000,000. After deduction of the expenses of approximately RMB1,283,600 in relation to the issuance, the total net proceeds were approximately RMB1,998,716,400. The bonds will mature 180 days from the issue date (i.e., 21 May 2022), and the annual interest rate was 2.73%. As at 31 December 2021, the corporate bonds were classified as current liabilities.

All proceeds from the issuance of the above bonds are used to supplement the Group's working capital and repaying bank borrowings and debentures.

At the end of respective reporting periods, borrowings were repayable as follows:

	Borrowings from banks or other financial institutions		Bonds	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Within 1 year	48,019,494	45,986,113	7,132,156	8,972,841
Between 1 and 2 years	1,668,740	215,606	2,698,526	4,986,599
Between 2 and 5 years	54,820	1,018,755	3,996,594	2,697,766
	49,743,054	47,220,474	13,827,276	16,657,206

All of the Group's borrowings from banks or other financial institutions are at floating rates as follows:

	2021	2020
Weighted average effective interest rate (per annum)	3.39%	3.43%

33. Interest-bearing bank and other borrowings (continued)

As at 31 December 2021, secured bank borrowings amounting to RMB68,887,000 were guaranteed by third parties (31 December 2020: RMB135,518,000). The collateral for the rest of the Group's secured bank borrowings is as follows:

	2021 RMB'000	2020 RMB'000
Cash and cash equivalents (Note 32)	–	300
Property, plant and equipment (Note 18)	17,008	35,294
Investment properties (Note 17)	16	20
Right-of-use assets (Note 16)	7,295	5,683
Bills receivable (Note 29)	684,104	305,282
Trade receivables (Note 29)	1,426,548	2,118,934
	2,134,971	2,465,513

At the end of respective reporting periods, the fair value of the current borrowings approximates to their carrying amount. The carrying amounts and fair values of the non-current borrowings refer to Note 3 (4).

The fair values of the current borrowings equal to their carrying amounts, as the impact of discounting is not significant. The fair values are based on discounted cash flows using a rate based on the borrowing rate of 3.34% (2020: 3.90%) and are within Level 2 of the fair value hierarchy.

34. Trade and bills payables

	2021 RMB'000	2020 RMB'000
Trade payables	91,836,652	78,687,419
Bills payable	36,594,575	33,944,974
	128,431,227	112,632,393

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

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34. Trade and bills payables (continued)

An ageing analysis of the trade and bills 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	96,353,160	84,477,049
Between 3 and 6 months	20,324,578	18,497,256
Between 6 months and 1 year	8,121,952	5,902,758
Between 1 and 2 years	2,199,483	2,343,031
Over 2 years	1,432,054	1,412,299
	128,431,227	112,632,393

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

	2021 RMB'000	2020 RMB'000
RMB	128,347,607	111,721,945
USD	79,941	897,938
EUR	2,067	12,510
JPY	1,612	–
	128,431,227	112,632,393

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

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

35. Contract Liabilities

	2021 RMB'000	2020 RMB'000
Non-current		
– Amounts received in advance of delivery of products and services	24,271	21,643
– Loyalty program	32,479	29,816
Current		
– Amounts received in advance of delivery of products and services	6,085,953	7,323,794
	6,142,703	7,375,253

36. Accruals and other payables

	2021 RMB'000	2020 RMB'000
Accrual of operating expenses	3,523,701	3,546,935
Collection of trade receivables on behalf of banks under factoring programs (Note 29)	3,298,853	2,876,436
Collection of trade receivables on behalf of related parties under factoring programs (Note 29, Note 46)	1,136,794	1,222,736
Salary and welfare payable	2,781,122	2,591,206
Other deposits	8,119,576	8,012,457
Taxes payable other than income tax	1,394,404	1,104,452
Interest payable due to third parties	599,041	459,949
Interest payable due to related parties (Note 46)	56,018	57,465
Other payables due to related parties (Note 46)	105,226	180,460
Payables arising from acquisition of subsidiaries and contingent consideration	612,321	525,791
Payables arising from acquisition of non-controlling interests	34,323	117,625
Collection on behalf of asset-backed securities	29,764	733,257
Others	4,538,612	4,540,318
	26,229,755	25,969,087

The fair value of financial liabilities included in accruals and other payables approximates to their carrying amount.

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37. Post-employment benefit obligations

The table below shows the Group's post-employment amounts and activities included in the financial statements:

	2021	2020
	RMB'000	RMB'000
Obligations for post-employment benefits in the consolidated statement of financial position	387,697	396,417
	2021	2020
	RMB'000	RMB'000
Charge for post-employment benefits in the consolidated statement of profit or loss	19,034	13,461
Remeasurement gains recognised in other comprehensive income (Note 13)	11,784	26,210
Cumulative remeasurement losses recognised in other comprehensive income	153,651	141,867

The amounts recognised in the consolidated statement of financial position are analysed as follows:

	2021	2020
	RMB'000	RMB'000
Present value of funded obligations	35,570	33,939
Fair value of plan assets	(118,974)	(110,389)
Surplus of funded plans	(83,404)	(76,450)
Present value of unfunded post-employment benefit obligations	471,101	472,867
Liability in the consolidated statement of financial position	387,697	396,417

37. Post-employment benefit obligations (continued)

The movements in the defined benefit liability during the period were as follows:

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2020	499,108	(100,105)	399,003
Current service cost	4,842	–	4,842
Past service cost	(3,213)	–	(3,213)
Interest expense (Note 12)	15,104	(3,272)	11,832
	16,733	(3,272)	13,461
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(5,894)	(5,894)
– Gains from change in financial assumptions	32,104	–	32,104
	32,104	(5,894)	26,210
Contributions:			
– Employers	–	(2,831)	(2,831)
Payments:			
– Benefit payments	(41,139)	1,713	(39,426)
At 31 December 2020	506,806	(110,389)	396,417

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37. Post-employment benefit obligations (continued)

	Present value of obligation RMB'000	Fair value of plan assets RMB'000	Total RMB'000
At 1 January 2021	506,806	(110,389)	396,417
Current service cost	4,636	–	4,636
Past service cost	2,659	–	2,659
Interest expense (Note 12)	15,331	(3,592)	11,739
	22,626	(3,592)	19,034
Remeasurements:			
– Return on plan assets, excluding amounts included in interest income	–	(4,665)	(4,665)
– Gains from change in financial assumptions	16,449	–	16,449
	16,449	(4,665)	11,784
Contributions:			
– Employers	–	(2,129)	(2,129)
Payments:			
– Benefit payments	(39,210)	1,801	(37,409)
At 31 December 2021	506,671	(118,974)	387,697

The significant actuarial assumptions are as follows:

	2021	2020
Discount rate	3.00%	3.25%
Pension growth rate	5.00%	6.00%

Mortality: Average life expectancy of residents in Mainland China

37. Post-employment benefit obligations (continued)

The sensitivity of the defined benefit obligations to changes in the weighted principal assumptions is:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 2.64%	Increase by 2.78%
Pension growth rate	0.50%	Increase by 0.90%	Decrease by 0.81%

The Group engaged an independent actuary, Towers Watson (Shenzhen) Consulting Co., Ltd., to estimate the present value of its above retirement benefit plan (the plan is funded by the group) obligations using the actuarial method based on the expected cumulative welfare unit method. Towers Watson (Shenzhen) Consulting Co., Ltd. is an actuarial institution with professional certification qualifications and a member of the American Academy of Actuaries. The undersigned actuary, Haichuan Wu, is member of the Society of Actuaries and China Association of Actuaries.

As at 31 December 2021, fair value of the plan asset was RMB118,974,000 (31 December 2020: RMB110,389,000). As at 31 December 2021, obligations under these defined benefit plans are 24.34% (31 December 2020: 22.47%) covered by the plan assets. No material surplus or deficiency was noted for the above mentioned plan assets.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, such change is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been used for calculating the defined benefit obligations recognised in the consolidated statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Expected maturity analysis of undiscounted post-employment benefits:

	Less than 1 year RMB'000	Between 1 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2021				
Post-employment benefits	40,574	132,855	608,947	782,376

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38. Other non-current liabilities

	2021 RMB'000	2020 RMB'000
Medical reserve funds		
– general (i)	2,568,075	2,731,055
– for H1N1 vaccines	66,407	64,907
Government grants for construction of logistics centres (ii)	86,500	89,152
Other government grants	319,490	313,256
Continuing involvement liabilities (Note 3 (3)(iii))	–	11,400
Payables for acquisition of subsidiaries	174,150	266,194
Others	101,426	114,967
	3,316,048	3,590,931

- (i) Certain medical reserve funds were mainly received by CNPGC from the PRC government for the State reserve requirements of medical products (including medicines) for serious disasters, epidemics and other emergencies. In accordance with a responsibility letter dated 4 January 2006 signed between CNPGC and the Company, CNPGC has re-allocated the funds in relation to medicines to the Group. The Group received general medical reserve funds of RMB867,295,000 during the year ended 31 December 2021 from CNPGC.

The Group will have to sell pharmaceutical products to specific customers at cost when there are serious disasters, epidemic or other emergencies, and the relevant trade receivables from certain of these customers will be offset with the balance of the fund upon approval from CNPGC and the relevant PRC government authorities. RMB775,442,000 was written off with the government's approval due to the expiry of relevant medicines during the year ended 31 December 2021 (2020: RMB723,150,000). The Group is required to maintain certain inventories at a level of not less than 70% of the general reserve funds. The medical reserve funds are required to be utilised only for the uses as mentioned above.

- (ii) Certain of the Group's subsidiaries received funds from local governments as subsidies for construction of logistics centres. As at 31 December 2021, the directors expected that the construction will not be completed within one year and therefore, the balance was recorded as other non-current liability.

39. Share capital

	Number of shares '000	Domestic shares with par value of RMB1 per share RMB'000	H shares with par value of RMB1 per share RMB'000	Total RMB'000
As at 1 January 2021 and As 31 December 2021	3,120,656	1,778,845	1,341,811	3,120,656

40. Reserves

	Notes	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of equity investments designated at fair value through other comprehensive income RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2020		21,223,102	1,275,388	15,649	(4,316,092)	26,312,655	44,510,702
Profit for the year		-	-	-	-	7,187,278	7,187,278
Issue of ordinary shares		3,418,383	-	-	-	-	3,418,383
Changes in fair value of equity investments at fair value through other comprehensive income							
- gross		-	-	9,341	-	-	9,341
- tax		-	-	(2,335)	-	-	(2,335)
Remeasurement on post-employment benefit obligations							
- gross		-	-	-	(18,175)	-	(18,175)
- tax		-	-	-	3,503	-	3,503
Exchange differences on translation of foreign operations		-	-	-	10,414	-	10,414
Share of other comprehensive income of associates		-	-	-	(1,967)	-	(1,967)
Appropriation to statutory reserves	(a)	-	236,152	-	-	(236,152)	-
Dividend on shares released from the share incentive scheme		-	-	-	-	74	74
Dividend declared		-	-	-	-	(1,865,123)	(1,865,123)
Effects of transactions with non-controlling interests	44	-	-	-	(30,381)	-	(30,381)
Equity-settled share incentive scheme		-	-	-	(36,406)	-	(36,406)
Share of changes in equity other than comprehensive income and distributions received from associates		-	-	-	58,651	-	58,651
Others		-	-	-	205	(2,137)	(1,932)
At 31 December 2020		24,641,485	1,511,540	22,655	(4,330,248)	31,396,595	53,242,027

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40. Reserves (continued)

	Notes	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of equity investments designated at fair value through other comprehensive income RMB'000	Other reserves Note (c) RMB'000	Retained earnings Note (b) RMB'000	Total RMB'000
At 1 January 2021		24,641,485	1,511,540	22,655	(4,330,248)	31,396,595	53,242,027
Profit for the year						7,758,646	7,758,646
Changes in fair value of equity investments at fair value through other comprehensive income							
– gross		-	-	(2,894)	-	-	(2,894)
– tax		-	-	724	-	-	724
Remeasurement on post-employment benefit obligations							
– gross		-	-	-	(10,208)	-	(10,208)
– tax		-	-	-	2,455	-	2,455
Exchange differences on translation of foreign operations		-	-	-	3,722	-	3,722
Share of other comprehensive income of associates		-	-	-	(2,079)	-	(2,079)
Appropriation to statutory reserves	(a)	-	275,615	-	-	(275,615)	-
Dividend declared		-	-	-	-	(2,153,253)	(2,153,253)
Effects of transactions with non-controlling interests	44	-	-	-	(96,048)	-	(96,048)
Share of changes in equity other than comprehensive income and distributions received from associates		-	-	-	19,304	-	19,304
Share of changes in equity other than comprehensive income and distributions received from joint ventures		-	-	-	862	-	862
Others		-	-	-	3,688	2,251	5,939
At 31 December 2021		24,641,485	1,787,155	20,485	(4,408,552)	36,728,624	58,769,197

40. Reserves (continued)

- (a) PRC laws and regulations require companies registered in the PRC to maintain certain statutory reserves, which are to be appropriated from the retained earnings (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before distributing retained earnings to their shareholders. Statutory reserves are created for specific purposes. In accordance with the Company Law, PRC companies are required to appropriate 10% of the net profits to statutory surplus reserves. A company may discontinue the appropriation when the balance of its statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies or to increase capital of the companies. In addition, a company may make further contribution to a discretionary surplus reserve based on a resolution of the board of directors.
- (b) Retained earnings as at 31 December 2021 included the proposed final dividend of RMB2,340,492,000 (2020: RMB2,153,253,000).
- (c) Other reserves mainly represent reserves for transactions with non-controlling interests, remeasurement on post-employment benefit obligations and equity-settled share incentive scheme.

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41. Notes to the consolidated statement of cash flows

(a) Cash generated from operations

	2021 RMB'000	2020 RMB'000
Profit before income tax	17,003,162	15,598,096
Adjustments for:		
– Share of profits and losses of associates (Note 21)	(1,069,173)	(985,562)
– Share of profits and losses of joint ventures	(695)	(1,901)
– Asset impairment	1,228,796	1,160,210
– Depreciation of property, plant and equipment and investment properties	1,669,610	1,517,110
– Amortisation of intangible assets (Note 10)	381,673	390,034
– Depreciation of right-of-use assets (Note 10)	1,870,775	1,689,970
– Gain on disposal of investment properties, property, plant and equipment and intangible assets (Note 9)	(1,709)	(24,238)
– Gain on disposal of non-current assets held for sale	(37,534)	–
– Gain on disposal of right-of-use assets (Note 9)	(25,144)	(15,146)
– Write-back of certain liabilities (Note 9)	(88,713)	(68,744)
– Loss on disposal of financial assets measured at amortised cost	964,273	1,074,898
– Negative goodwill (Note 45)	(4,142)	–
– Finance costs	3,662,984	3,316,574
– Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiary (Notes 9&43)	(1,479)	(113,576)
– Loss on disposal of an investment accounted for the equity method (Note 9)	(1,639)	(17,771)
– Fair value gains/(loss) on financial assets at fair value through profit or loss (Note 9)	(35,521)	63,903
– Dividend from financial assets at fair value through profit or loss (Note 9)	(31,038)	(31,411)
– Dividend from financial assets at fair value through other comprehensive income (Note 9)	(947)	(1,001)
– Interest income from asset-backed securities (Note 9)	–	(2,826)
– Equity-settled share incentive scheme expense (Note 49)	–	(18,569)
	25,483,539	23,530,050
– Inventories	(4,345,332)	(3,675,404)
– Trade and bills receivables	(26,226,711)	(22,264,826)
– Contract assets	(490,490)	(366,558)
– Prepayments, other receivables and other assets	125,898	(702,903)
– Trade and bills payables	19,804,678	11,664,082
– Contract liabilities	(1,264,739)	2,152,475
– Accruals, other payables and other liabilities	295,363	4,473,171
Cash generated from operations	13,382,206	14,810,087

41. Notes to the consolidated statement of cash flows (continued)**(b) Major non-cash transactions**

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB2,372,380,000 and RMB2,272,130,000, respectively, in respect of lease arrangements for plant and equipment (2020: RMB2,224,433,000 and RMB2,071,549,000).

(c) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Finance lease payables/ lease liabilities RMB'000	Other liabilities RMB'000	Non-controlling interests RMB'000
At 1 January 2021	63,877,680	4,649,150	517,414	33,588,476
Total comprehensive income attribute to non-controlling interests	-	-	-	5,302,705
Interest expense	-	195,670	3,576,714	-
Losses on derecognition of financial assets measured at amortised cost	-	-	964,273	-
Capitalised interest expense	-	-	(15,549)	-
Interest paid classified as operating cash flows	-	-	-	-
Covid-19-related rent concessions from lessors	-	(4,132)	-	-
Effects of transactions with non-controlling interests	-	-	-	(47,778)
Disposal of subsidiaries	-	-	-	(5,098)
Business combination not under common control	-	47,684	-	156,221
Trade payable financing program	4,100,246	-	-	-
New leases	-	2,272,130	-	-
Lease termination	-	(409,731)	-	-
Changes from financing cash flows	(4,785,374)	(1,952,855)	(4,379,453)	(1,194,797)
Changes from operating, investing and non-cash activities	377,778	-	(8,340)	(31,809)
At 31 December 2021	63,570,330	4,797,916	655,059	37,767,920

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41. Notes to the consolidated statement of cash flows (continued)

(c) Changes in liabilities arising from financing activities (continued)

	Interest-bearing bank and other borrowings RMB'000	Finance lease payables/lease liabilities RMB'000	Other liabilities RMB'000	Non-controlling interests RMB'000
At 1 January 2020	50,849,565	4,289,689	558,727	29,517,221
Total comprehensive income attribute to non-controlling interests	–	–	–	4,911,149
Interest expense	–	193,707	3,428,108	–
Capitalised interest expense	–	–	(3,353)	–
Interest paid classified as operating cash flows	–	–	(11,832)	–
Covid-19-related rent concessions from lessors	–	(15,524)	–	–
Effects of transactions with non- controlling interests	–	–	–	(18,958)
Disposal of subsidiaries	(23,777)	(47,195)	–	(42,288)
Business combination not under common control	262,600	418,865	–	151,049
Trade payable financing program	941,857	–	–	–
New leases	–	2,071,549	–	–
Lease termination	–	(472,888)	–	–
Changes from financing cash flows	8,031,899	(1,789,053)	(4,449,918)	(1,075,504)
Changes from operating, investing and non-cash activities	3,815,536	–	995,682	145,807
At 31 December 2020	63,877,680	4,649,150	517,414	33,588,476

(d) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000
Within operating activities	651,763
Within investing activities	22,840
Within financing activities	1,952,855
	2,627,458

42. Commitments

(a) Capital commitments

Capital expenditures at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	156,313	124,663
Fund investment: (i)	175,000	–

(i) On May 20, 2021, the board of directors of the Group passed a resolution to invest Gongqingcheng Qixin Equity Investment Partnership (Limited Partnership), which is of fund business. According to the resolution, the Group should invest RMB250 million. As of December 31, 2021, the Group had totally invested RMB75 million and has a total investment commitment of RMB175 million.

(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 RMB67,806,000 (2020: RMB35,880,000) due within one year, RMB68,115,000 (2020: RMB45,299,000) due in the second to third years, inclusive and RMB123,162,000 (2020: RMB11,356,000) due after three years.

43. Disposal of subsidiaries

During the year, the Group disposed of the entities below.

Sinopharm Holding Wuhai Drugstore Co., Ltd.

Sinopharm Holding Luan Mechanical Co.,Ltd



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43. Disposal of subsidiaries (continued)

Details of the net assets disposed of are as follows:

	At date of disposal
	RMB'000
Net assets disposed of:	
Cash and cash equivalents	630
Trade and bills receivables	42,654
Prepayments, other receivables and other assets	15,633
Inventories	16,114
Property, plant and equipment	75
Deferred tax assets	1,719
Trade and bills payables	(27,728)
Contract liabilities	(116)
Accruals and other payables	(38,610)
Net assets	10,371
Non-controlling interests	(5,098)
Net assets attributable to the Company	5,273
Gain on disposal of subsidiaries and fair value remeasurement of existing equity in the subsidiary (Note 9)	1,479
Investments in associates (Note 21)	–
Satisfied by:	
Cash	6,752

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	At date of disposal
	RMB'000
Cash consideration	6,752
Cash and cash equivalents in the subsidiaries deemed disposed of	(630)
Net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries	6,122

44. Transactions with non-controlling interests

(a) Acquisition of additional interests in subsidiaries

During the period, the Group acquired the following additional equity interests in the subsidiaries from the non-controlling interests:

Subsidiaries	Equity interests acquired %	Cash consideration RMB'000
Sinopharm Holding Chengdu Pharmaceutical Co., Ltd.	10.00%	12,100
Beijing Tianxinpuxin Bio-Medicine Co., Ltd.	5.00%	135,430
Xinjiang Haoyouduo Pharmaceuticals Chain Co.,Ltd Kekedala City 66 Group Store	35.00%	53
Xinjiang Haoyouduo Pharmaceuticals Chain Co.,Ltd Huocheng County Chaoyang South Road Store	40.00%	60
		147,643
		147,643

The effect of changes in the equity interests of these subsidiaries on the total equity attributable to owners of the parent during the period is summarised as follows:

	Effect on the total equity RMB'000
Carrying amount of non-controlling interests acquired	51,595
Consideration payable to non-controlling interests	147,643
Excess of consideration paid over the carrying amount acquired	96,048



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44. Transactions with non-controlling interests (continued)

(b) Disposal of interests in subsidiaries without loss of control

During the reporting period, the group disposed of 37% of the equity interest of Sinopharm holding Ye Xian Co., Ltd. ("Sinopharm Ye Xian"), its wholly owned subsidiary, to an independent third party at a consideration of RMB3,816,100. After the disposal, the group's equity interest decreased to 63% and the non-controlling interests in Sinopharm Ye Xian increased to RMB3,816,100 accordingly. Management is of the opinion that the transaction consideration is at fair market price and the transaction has no impact on the equity attributable to owners of the parent.

(c) Effects of transactions with non-controlling interests on the equity attributable to owners of the parent for the twelve months ended 31 December 2021

	Effect on the total equity
	RMB'000
Changes in equity attributable to owners of the parent arising from:	
– Acquisition of additional interests in subsidiaries	96,048
– Disposal of interests in subsidiaries without loss of control	–
Net effect for transactions with non-controlling interests on equity attributable to owners of the parent	96,048

45. Business combinations

(a) Business combinations not under common control

Acquisitions during the year are as follows:

The Group acquired equity interests from third parties in certain subsidiaries which are mainly engaged in the distribution of medicines and pharmaceutical products and operations of pharmaceutical chain stores in order to expand the market share of the Group. The subsidiaries acquired by the Group during the year are as follows:

45. Business combinations (continued)**(a) Business combinations not under common control** (continued)

Subsidiaries acquired from third parties	Month of acquisition	Acquired interests
Yunnan Guoda Disheng Pharmacy Chain Co.,LTD	February, 2021	70.00%
Yunnan Guoda Disheng Medicines Co., Ltd.	February, 2021	70.00%
Linfen Guokang Taihang Yaozhuang Co., Ltd	June,2021	80.00%
Sinopharm Holding Dazhou Co.,LTD	January,2021	60.00%
Sinopharm Holding New&Special Medicines Beitun Co., Ltd	January,2021	100.00%
Sinopharm Houde Shijiazhuang Hospital Co., Ltd	January,2021	51.00%
Sinopharm Instrument Anhui Province Medical Technology Co., Ltd	January,2021	60.00%
Sinopharm Instrument Cangzhou Co., Ltd.	January,2021	60.00%
Heilongjiang Xin Yuanrun Pharmaceutical Co.LTD	July,2021	70.00%
Sinopharm Instrument Hubei Province Medical Inspection Co., Ltd.	Jan,2021	60.00%

Businesses acquired from the following companies	Month of acquisition
Sinopharm Holding Nantong Puji Pharmacy Chain Co.,LTD	March, 2021
Shanxi Huimin Kangwei Pharmacy Chain Co.,LTD	February, 2021

The effect of the above acquisitions is summarised as follows:

	RMB'000
– Contingent consideration (i)	319,317
– Cash paid	261,078
Total purchase consideration	580,395

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45. Business combinations (continued)

(a) Business combinations not under common control (continued)

The details of the assets and liabilities acquired and cash flows relating to these acquisitions are summarised as follows:

	Fair value at acquisition date
	RMB'000
Cash and cash equivalents	171,275
Property, plant and equipment (Note 18)	33,162
Intangible assets (Note 19)	137,632
– Sales network	96,960
– Others	40,672
Right-of-use assets (Note 16)	70,306
Deferred tax assets (Note 26)	1,267
Inventories	116,294
Other non-current assets	2,140
Trade and other receivables	330,950
Trade and other payables	(349,176)
Lease liabilities (Note 16)	(47,684)
Deferred tax liabilities (Note 26)	(28,083)
Other non-current liabilities	(5,000)
Total Identifiable net assets at fair value	433,083
Non-controlling interests (ii)	(156,221)
Goodwill (Note 19)	307,675
Negative Goodwill (Note 41)	(4,142)
Total purchase consideration	580,395
Less: Contingent consideration (i)	(319,317)
Cash consideration paid during the year	261,078
Cash and cash equivalents in subsidiaries acquired	(171,275)
Cash outflow on acquisition	89,803

The goodwill is attributable to the acquired human resources, economies of scale and synergy expected from combining the operations of the Group and above subsidiaries acquired but not being under common control.



45. Business combinations (continued)

(a) Business combinations not under common control (continued)

(i) Contingent consideration

Based on certain conditions stipulated by the agreements on acquisition, the Group is required to pay contingent consideration based on the achievement of profit target of the acquirees. The maximum undiscounted contingent consideration payable is RMB319,317,000.

Based on the projected profit performance of the acquirees, the fair value of the contingent consideration arrangement was estimated to be RMB319,317,000. As at 31 December 2021, there was no adjustment to the contingent consideration arrangement.

(ii) Non-controlling interests

The Group has elected to recognise non-controlling interests measured at the non-controlling interests in the acquirees' net assets excluding goodwill.

(iii) The revenue and net profit attributable to owners of the parent of these newly acquired subsidiaries from the respective acquisition dates to 31 December 2021 are summarised as follows:

	From acquisition dates to 31 December 2021
	RMB'000
Revenue	1,214,999
Net profit	64,746

(iv) The revenue and net profit of these newly acquired subsidiaries from 1 January 2021 to 31 December 2021 are summarised as follows:

	From 1 January 2021 to 31 December 2021
	RMB'000
Revenue	1,337,581
Net profit	69,796



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46. Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The PRC government, indirectly, owns 100% of CNPGC which is the ultimate holding company of the Company. The Group's significant transactions with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its sales of goods, purchases of goods, borrowings, interest fees paid, bill receivable discount, key management compensation and guarantees provided to related parties. The Group's significant balances with the PRC government and other entities controlled, jointly controlled or significantly influenced by the PRC government are a large portion of its trade receivables, prepayments and other receivables, trade payables and other payables, borrowings, other non-current liabilities, and cash and cash equivalents.

Beside other PRC government-related entities, the Company's directors and the Group's management consider the following entities are principal related parties of the Group with which the Group had transactions during the year.

Name of related party	Nature of relationship
China National Pharmaceutical Group Co., Ltd.	The ultimate holding company of the Company
Beijing Sanoqiang Pharmaceutical Foreign Trade Co., Ltd	Controlled by CNPGC
Beijing Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Beijing Huasheng Medicinal Biotechnology development Co., Ltd	Controlled by CNPGC
Changhcun Keygen Biological Products Co., Ltd.	Controlled by CNPGC
Changchun Institute of Biological Products	Controlled by CNPGC
Chengdu Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Chengdu Institute of Biological Products	Controlled by CNPGC
Foshan Winteam Pharmaceutical Co., Ltd.	Controlled by CNPGC
Guangdong Yifang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm North (Inner Mongolia) Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Sinopharm Fortune Way Company	Controlled by CNPGC
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Sinopharm Gezhouba (Yichang) Hospital Management Co., Ltd.	Controlled by CNPGC
Sinopharm Group Finance Co., Ltd.	Controlled by CNPGC
Sinopharm Chuankang Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Pharmaceutical Industry Co., Ltd.	Controlled by CNPGC
Anhui Jingfang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Commercial Factoring Co. Ltd.	Controlled by CNPGC
Sinopharm Shanghai Blood Products Co., Ltd.	Controlled by CNPGC
Guizhou Tongjitang Pharmaceutical Co., Ltd.	Controlled by CNPGC

46. Significant related party transactions (continued)

Name of related party	Nature of relationship
Sinopharm Wuhan Blood Products Co., Ltd.	Controlled by CNPGC
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopharm Vanda Pharmaceutical Co., Ltd.	Controlled by CNPGC
Sinopac Puxin Commercial Factoring Co., Ltd.	Controlled by CNPGC
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	Controlled by CNPGC
Sinopharm Tongmei (Datong) Medical and Health Industry Co., Ltd.	Controlled by CNPGC
Sinopharm Datong Coal Mine Third Hospital	Controlled by CNPGC
Sinopharm Datong Coal Mine Cancer Hospital	Controlled by CNPGC
Sinopharm Datong Coal Mine General Hospital	Controlled by CNPGC
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	Controlled by CNPGC
China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co., Ltd.	Controlled by CNPGC
Huayi Pharmaceutical co.,LTD	Controlled by CNPGC
Lanzhou Biotechnology Development Co., Ltd.	Controlled by CNPGC
Lanzhou Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Bio-products Co., Ltd.	Controlled by CNPGC
Shanghai Biology Institute Asset Management Co., Ltd.	Controlled by CNPGC
Shanghai Modern Pharmaceutical Co., Ltd.	Controlled by CNPGC
Shydec Pharmaceutical Marketing Co., Ltd.	Controlled by CNPGC
Shanghai Institute of Pharmaceutical Industry	Controlled by CNPGC
Tai Chi Group Co., Ltd.	Controlled by CNPGC
Taiji Group Chongqing Fuling Pharmaceutical Factory Co., Ltd.	Controlled by CNPGC
Taiji Group Chongqing Tongjunge Pharmaceutical Co., Ltd.	Controlled by CNPGC
Wuhan Institute of Biological Products Co., Ltd.	Controlled by CNPGC
Wuhan Zhongsheng Yujin Biological Medicine Co., Ltd.	Controlled by CNPGC
Southwest Pharmaceutical Co., Ltd.	Controlled by CNPGC
Xinxiang City Second People's Hospital	Controlled by CNPGC
Xinxiang Central Hospital	Controlled by CNPGC
China National Pharmaceutical Foreign Trade Co., Ltd.	Controlled by CNPGC
China State Institute of Pharmaceutical Industry	Controlled by CNPGC
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	Controlled by CNPGC
China National Corp. of Traditional and Herbal Medicine	Controlled by CNPGC
Chongqing Southwest Pharmaceutical Sales Co., Ltd.	Controlled by CNPGC
Sinopharm Financial Leasing Co., Ltd.	Associate
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	Associate
Sinopharm Health Online Co., Ltd.	Associate



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46. Significant related party transactions (continued)

Name of related party	Nature of relationship
Sinopharm-Jinqi(Shanghai) Chemical Reagent Co., Ltd.	Associate
Sinopharm Holding (China) Finance Leasing Co., Ltd.	Associate
Sinopharm Holdings Chuangke Yuanzhe Medical Technology (Shanghai) Co., Ltd.	Associate
East Hubei Medical Care Group Co.LTD	Associate
Hutchison Whampoa Sinopharm Pharmaceuticals (Shanghai) Co., Ltd.	Associate
Sinopharm holdings yibin pharmaceutical co.,Ltd	Associate
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	Associate
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	Associate
Shenzhen Main Luck Pharmaceutical Co., Ltd.	Associate
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	Associate
Yichang Humanwell Pharmaceutical Co., Ltd.	Associate
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	Associate of CNPGC
China Otsuka Pharmaceutical Co., Ltd.	Associate of CNPGC
Foshan Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Fosun Diagnostic Technology (Changsha) Co., LTD	Subsidiary of Fosun Pharmaceutical
Hunan Dongting Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Glaxosmithkline Pharmaceuticals (Suzhou) Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Fosun Pharmaceutical Sales Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Jiangsu Wanbang Pharmaceutical Marketing Ltd	Subsidiary of Fosun Pharmaceutical
Jinzhou Aohong Pharmaceuticals Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shanghai Zhaohui Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Shanghai Henlius Biologics Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Sichuan Hexin Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Suzhou Erye Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Wenzhou Geriatric Hospital Co.,Ltd.	Subsidiary of Fosun Pharmaceutical
Tibet Yaopharma Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Chongqing Yaoyou Pharmaceutical Co., Ltd.	Subsidiary of Fosun Pharmaceutical
Beijing Jiarunkangda Medical Instrument Co., Ltd.	Subsidiary of Natong Group
Beijing Naton Medical Technology Co., Ltd.	Subsidiary of Natong Group
Beijing Navide Medical Instrument Co., Ltd.	Subsidiary of Natong Group
Beijing Weiliande Orthopedic Technology Co., Ltd.	Subsidiary of Natong Group
Zhejiang Naton Medical Instrument Co., Ltd.	Subsidiary of Natong Group

46. Significant related party transactions (continued)**(a) Significant transactions with related parties except for other PRC government-related entities**

	2021 RMB'000	2020 RMB'000
Sales of goods (i)		
Subsidiary of Natong Group	3,505	4,847
Ultimate holding company	57	13
Associates	734,880	685,194
Companies controlled by CNPGC	2,813,704	1,814,215
Associates of CNPGC	5,106	8,789
Subsidiary of Fosun Pharmaceutical	371,096	295,051
Purchases of goods (ii)		
Subsidiary of Natong Group	745,751	924,075
Associates	3,627,173	3,144,876
Companies controlled by CNPGC	6,283,350	4,095,955
Associates of CNPGC	1,736,486	1,457,639
Subsidiary of Fosun Pharmaceutical	3,944,459	2,914,662
Borrowings (iii)		
Ultimate holding company	4,000,000	–
Associates	342,127	–
Companies controlled by CNPGC	3,036,608	2,037,108
Interest fee paid for other financial services (iv)		
Ultimate holding company	1,233	1,038
Associates	364	3,860
Companies controlled by CNPGC	153,813	180,583
Bill receivable discount (v)		
Companies controlled by CNPGC	2,609,721	3,270,143
Trade receivable factoring (vi)		
Associates	2,678,400	3,156,283
Companies controlled by CNPGC	5,911,615	6,308,362

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46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(i) Significant sales of goods to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Sales of goods		
BEIJING INSTITUTE OF BIOLOGICAL PRODUCTS CO.,LTD.	570,522	74,243
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	320,825	305,350
Xinxiang Central Hospital	306,821	368,486
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	306,635	283,105
Wuhan Institute of Biological Products Co., Ltd.	273,983	77,811
Sinopharm Datong Coal Mine General Hospital	169,975	128,044
Foshan Pharmaceutical Co.,Ltd.	145,064	109,159
Sinopharm Gezhouba (Yichang) Hospital Management Co., Ltd.	124,538	97,327
Sinopharm holdings yibin pharmaceutical co.,Ltd	119,724	110,525
Sinopharm North (Inner Mongolia) Medical and Health Industry Co., Ltd.	108,718	25,929
Shanghai Beiyi Guoda pharmaceutical Co., Ltd.	106,906	124,915
Xinxiang City Second People's Hospital	83,849	83,349
East Hubei Medical Care Group Co.LTD	62,846	53,468
Wenzhou Geriatric Hospital Co.,Ltd.	51,337	48,005

46. Significant related party transactions (continued)**(a) Significant transactions with related parties except for other PRC government-related entities** (continued)**(ii) Significant purchases of goods from related parties were listed as follows:**

	2021 RMB'000	2020 RMB'000
Purchases of goods		
Yichang Humanwell Pharmaceutical Co., Ltd.	3,105,604	2,771,833
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	1,457,011	1,242,430
Lanzhou Biotechnology Development Co., Ltd.	1,157,902	839,792
Jiangsu Wanbang Pharmaceutical Marketing Ltd	916,113	1,065,264
Jiangsu Fosun Pharmaceutical Sales Co., Ltd.	730,208	329,608
Chengdu Rongsheng Pharmaceutical Co., Ltd.	598,729	594,748
Chongqing Yaoyou Pharmaceutical Co., Ltd.	598,374	425,151
Southwest Pharmaceutical Co., Ltd.	588,676	–
Shanghai Henlius Biologics Co., Ltd.	533,906	49,156
Shydec Pharmaceutical Marketing Co., Ltd.	467,603	80,522
Beijing Navide Medical Instrument Co., Ltd.	457,978	362,267
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	369,312	219,369
Shenzhen Main Luck Pharmaceutical Co., Ltd.	274,592	227,733
Chongqing Southwest Pharmaceutical Sales Co., Ltd.	254,535	–
Guizhou Tongjitang Pharmaceutical Co., Ltd.	241,320	198,037
China Otsuka Pharmaceutical Co., Ltd.	239,119	197,697
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	212,503	175,476
Foshan Winteam Pharmaceutical Co., Ltd.	210,231	135,717
Hunan Dongting Pharmaceutical Co., Ltd.	209,522	199,210
Jinzhou Aohong Pharmaceuticals Co., Ltd.	189,764	160,895
Taiji Group Chongqing Fuling Pharmaceutical Factory Co., Ltd.	171,847	–
Sichuan Hexin Pharmaceutical Co., Ltd.	169,851	144,141
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	164,885	162,023
China National Pharmaceutical Industry Co., Ltd.	138,433	153,911
Beijing Weiliande Orthopedic Technology Co., Ltd.	135,291	176,307
Sinopharm Wuhan Blood Products Co., Ltd.	130,329	137,213
Tibet Yaopharma Pharmaceutical Co., Ltd.	122,762	115,875
Shanghai Modern Hasen (Shangqiu) Pharmaceutical Co., Ltd.	120,799	111,343
Taiji Group Chongqing Tongjunge Pharmaceutical Co., Ltd.	120,267	–

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46. Significant related party transactions (continued)

(a) Significant transactions with related parties except for other PRC government-related entities (continued)

(ii) Significant purchases of goods from related parties were listed as follows: (continued)

	2021 RMB'000	2020 RMB'000
Shanghai Zhaohui Pharmaceutical Co., Ltd.	112,166	75,615
China National Pharmaceutical Foreign Trade Co., Ltd.	103,624	62,604
Sinopharm Shanghai Blood Products Co., Ltd.	97,440	96,327
Chengdu Institute of Biological Products	96,772	54,193
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	95,843	95,949
Suzhou Erye Pharmaceutical Co., Ltd.	88,606	112,073
Sinopharm Vanda Pharmaceutical Co., Ltd.	88,175	116,866
Beijing Navide Medical Instrument Co., Ltd.	79,814	51,855
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	77,714	109,977
Anhui Jingfang Pharmaceutical Co., Ltd.	72,490	69,547
Jiangxi Erye Pharmaceutical Marketing Co., Ltd	66,403	42,745

(iii) Borrowings from related parties were listed as follows:

Borrowings	2021 RMB'000	2020 RMB'000
China Pharmaceutical Group Co.,Ltd.	4,000,000	–
Sinopharm Group Finance Co., Ltd.	3,036,608	2,037,108
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	334,554	–
Sinopharm Holding (China) Finance Leasing Co., Ltd.	7,573	–
Sinopac Puxin Commercial Factoring Co., Ltd	–	45,135

(iv) Interest fees paid for other financial services to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Interest fees paid for other financial services		
Sinopharm Group Finance Co., Ltd.	153,662	155,785
China National Pharmaceutical Group Co., Ltd.	1,233	1,038
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	275	–
Sinopac Puxin Commercial Factoring Co., Ltd	151	2,698
Sinopharm Holding (China) Finance Leasing Co., Ltd.	89	2,904
Sinopharm Health Online Co., Ltd.	–	956

46. Significant related party transactions (continued)**(a) Significant transactions with related parties except for other PRC government-related entities** (continued)**(v) Bill receivable discount to a related party was listed as follows:**

	2021 RMB'000	2020 RMB'000
Bill receivable discount		
Sinopharm Group Finance Co., Ltd.	2,609,721	3,270,143

(vi) Trade receivable factoring to the related party was listed as follows:

	2021 RMB'000	2020 RMB'000
Trade receivable factoring		
Sinopac Puxin Commercial Factoring Co., Ltd.	3,497,791	2,973,061
Sinopharm Group Finance Co., Ltd.	2,413,824	3,335,301
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	2,363,865	3,101,506
Sinopharm Group Commercial Factoring Co. Ltd.	188,883	54,776
Sinopharm Holding (China) Finance Leasing Co., Ltd.	125,652	–

The above related party transaction was carried out on terms mutually agreed between the parties. In the opinion of the Company's directors and the Group's management, the transaction was conducted in the ordinary course of business of the Group.

The related party transactions included in items (i), (ii), (iv) and (vi) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Key management compensation

	2021 RMB'000	2020 RMB'000
Salaries and other short-term employee benefits	23,334	7,317

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46. Significant related party transactions (continued)

(c) Significant balances with related parties except for other PRC government-related entities

	2021 RMB'000	2020 RMB'000
Cash in other financial institution (i)		
Companies controlled by CNPGC	2,345,767	2,418,935
Trade and bills receivables due from (ii)		
Subsidiary of Natong Group	467	324
Associates	121,616	119,527
Companies controlled by CNPGC	1,415,493	966,615
Associates of CNPGC	129	195
Subsidiary of Fosun Pharmaceutical	145,107	111,883
Other receivables due from (iii)		
Subsidiary of Natong Group	180	238
Associates	54,276	54,099
Companies controlled by CNPGC	34,176	30,998
Associates of CNPGC	262	247
Subsidiary of Fosun Pharmaceutical	1,143	1,168
Prepayments to (iv)		
Subsidiary of Natong Group	207	2
Associates	3,338	2,495
Companies controlled by CNPGC	167,727	95,799
Associates of CNPGC	9,329	3,273
Subsidiary of Fosun Pharmaceutical	29,520	25,639
Trade and bills payables due to (v)		
Subsidiary of Natong Group	218,487	129,096
Associates	751,106	513,655
Companies controlled by CNPGC	1,722,366	1,185,083
Associates of CNPGC	172,411	176,647
Subsidiary of Fosun Pharmaceutical	843,125	724,781

46. Significant related party transactions (continued)**(c) Significant balances with related parties except for other PRC government-related entities**
(continued)

	2021 RMB'000	2020 RMB'000
Other payables due to (vi)		
Ultimate holding company	3,587	80,641
Subsidiary of Natong Group	29,569	–
Associates	655,139	851,986
Companies controlled by CNPGC	607,892	468,876
Associates of CNPGC	600	600
Subsidiary of Fosun Pharmaceutical	1,146	1,093
Contract liabilities (vii)		
Subsidiary of Natong Group	–	363
Associates	22,936	18,700
Companies controlled by CNPGC	327,583	114,663
Subsidiary of Fosun Pharmaceutical	3,076	13,488
Borrowing due to (viii)		
Ultimate holding company	4,034,937	31,637
Associates	359,264	16,707
Companies controlled by CNPGC	6,270,985	3,274,753
Other non-current liabilities (ix)		
Ultimate holding company	1,302,729	1,079,095
Associates	761	–
Companies controlled by CNPGC	2,446	2,446

(i) Significant balance of cash in other financial institution with related parties was listed as follows:

	2021 RMB'000	2020 RMB'000
Cash in other financial institution		
Sinopharm Group Finance Co., Ltd.	2,345,767	2,418,935

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46. Significant related party transactions (continued)

(c) Significant balances with related parties except for other PRC government-related entities

(continued)

(ii) Significant balances of trade and bills receivables due from related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Trade and bills receivables due from		
Sinopharm Dongfeng Medical and Health Industry Co., Ltd.	276,167	254,256
Xinxiang Central Hospital	174,203	209,870
Sinopharm Datong Coal Mine General Hospital	153,006	–
Sinopharm Gezhouba (Yichang) Hospital Management Co., Ltd.	124,315	115,725
Sinopac Puxin Commercial Factoring Co., Ltd	113,103	125
Sinopharm Group Finance Co., Ltd.	97,753	128
Wuhan Institute of Biological Products Co., Ltd.	77,563	13,660
Foshan Pharmaceutical Co., Ltd.	65,479	50,457
East Hubei Medical Care Group Co.LTD	55,613	23,057
Wenzhou Geriatric Hospital Co.,Ltd.	48,232	34,320
Sinopharm holdings yibin pharmaceutical co.,Ltd	24,462	26,230
Sinopharm Datong Coal Mine Cancer Hospital	21,829	–
Sinopharm Tongmei (Datong) Medical and Health Industry Co., Ltd.	20,317	–
China Pharmaceutical Zhongyuan (Henan) Medical Insurance Co., Ltd.	17,171	2,550
Sinopharm Datong Coal Mine Third Hospital	15,972	–
Wuxi Huihua Pharmaceutical Chain Store Co., Ltd.	14,424	30,040

46. Significant related party transactions (continued)**(c) Significant balances with related parties except for other PRC government-related entities**
(continued)**(iii) Significant balances of other receivables due from related parties were listed as follows:**

	2021 RMB'000	2020 RMB'000
Other receivables due from		
Sinopharm Group Zhijun (Suzhou) Pharmaceutical Co., Ltd.	46,334	46,334
Sinopharm Financial Leasing Co., Ltd.	4,500	4,500
Sinopharm Holding (China) Finance Leasing Co., Ltd.	2,705	2,790
Taiji Group Chongqing Peiling Pharmaceutical Co., Ltd	2,150	–
Tai Chi Group Co., Ltd.	1,300	–
China National Pharmaceutical Foreign Trade Co., Ltd.	1,269	1,269
Shanghai Modern Pharmaceutical Co., Ltd.	1,017	984
Sinopharm Group Finance Co., Ltd.	954	3
Shanghai Biology Institute Asset Management Co., Ltd	650	969
Shanghai Zhaohui Pharmaceutical Co., Ltd.	500	500
Lanzhou Institute of Bio-products Co., Ltd.	386	497
Sinopharm Holdings Chuangke Yuanzhe Medical Technology (Shanghai) Co., Ltd.	340	340
Beijing Sanoqiang Pharmaceutical Foreign Trade Co., Ltd	321	830
Guangdong Yifang Pharmaceutical Co., Ltd.	302	–
Yichang Humanwell Pharmaceutical Co., Ltd.	296	49
Shanghai Institute of Bio-products Co., Ltd.	288	–

(iv) Significant balances of prepayments to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Prepayments to		
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	40,647	6,523
Chongqing Southwest Pharmaceutical Sales Co., Ltd.	19,510	–
Southwest Pharmaceutical Co., Ltd.	16,731	–
Taiji Group Chongqing Tongjunge Pharmaceutical Co., Ltd.	12,808	–
Guizhou Tongjitang Pharmaceutical Co., Ltd.	12,795	14,628
Chongqing Yaoyou Pharmaceutical Co., Ltd.	11,115	9,109
Anhui Jingfang Pharmaceutical Co., Ltd.	10,932	3,536
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	8,178	2,337
Shydec Pharmaceutical Marketing Co., Ltd.	8,132	20,659
Chengdu Rongsheng Pharmaceuticals Co., Ltd.	7,051	7,402
Foshan Winteam Pharmaceutical Co., Ltd.	5,967	3,887
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	4,082	9,229

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46. Significant related party transactions (continued)

(c) Significant balances with related parties except for other PRC government-related entities

(continued)

(v) Significant balances of trade and bills payables due to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Trade and bills payables due to		
Yichang Humanwell Pharmaceutical Co., Ltd.	407,647	385,979
Sinopharm Group Finance Co., Ltd.	169,730	126,664
Jiangsu Wanbang Pharmaceutical Marketing Ltd.	128,435	311,516
Fresenius Kabi Huarui Pharmaceutical Co., Ltd.	124,142	143,958
Beijing Naton Medical Technology Co., Ltd.	121,054	77,775
Jiangsu Fosun Pharmaceutical Sales Co., Ltd.	116,737	142,857
Shanghai Henlius Biologics Co., Ltd.	88,737	28,182
Lanzhou Biotechnology Development Co., Ltd.	69,399	208,766
Chongqing Yaoyou Pharmaceutical Co., Ltd.	61,693	75,260
Shenzhen Main Luck Pharmaceutical Co., Ltd.	61,367	89,002
Southwest Pharmaceutical Co., Ltd.	59,802	-
Beijing Jiarunkangda Medical Instrument Co., Ltd.	49,662	15,530
Foshan Winteam Pharmaceutical Co., Ltd.	32,352	42,978
China Otsuka Pharmaceutical Co., Ltd.	31,008	29,520
Beijing Navide Medical Instrument Co., Ltd.	30,421	8,064
Guizhou Tongjitang Pharmaceutical Co., Ltd.	28,019	88,884
Jinzhou Aohong Pharmaceuticals Co., Ltd.	27,557	37,517
Sinopharm Group Zhijun (Shenzhen) Pharmaceutical Co., Ltd.	26,857	33,532
Taiji Group Chongqing Tongjunge Pharmaceutical Co., Ltd.	24,204	-
China National Pharmaceutical Industry Co., Ltd.	22,025	28,774
Sichuan Hexin Pharmaceutical Co., Ltd.	21,494	8,300
Tibet Yaopharma Pharmaceutical Co., Ltd.	21,108	24,440
Hunan Dongting Pharmaceutical Co., Ltd.	20,673	24,517
Sinopharm Vanda Pharmaceutical Co., Ltd.	18,617	17,983
Shenzhen Wan Wei Pharmaceutical Trade Co., Ltd.	18,095	30,785
Huayi Pharmaceutical co.,LTD	16,080	11,494
Guangdong Yifang Pharmaceutical Co., Ltd.	15,351	4,920
China National Pharmaceutical Foreign Trade Co., Ltd.	15,021	3,146
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	14,910	21,600

46. Significant related party transactions (continued)**(c) Significant balances with related parties except for other PRC government-related entities** (continued)**(v) Significant balances of trade and bills payables due to related parties were listed as follows:** (continued)

	2021 RMB'000	2020 RMB'000
Sinopharm Tongmei (Datong) Medical and Health Industry Co., Ltd.	14,464	–
Beijing Weiliande Orthopedic Technology Co., Ltd.	13,502	15,384
Glaxosmithkline Pharmaceuticals (Suzhou) Co., Ltd.	10,824	3,852
Shydec Pharmaceutical Marketing Co., Ltd.	10,279	16,158
Anhui Jingfang Pharmaceutical Co., Ltd.	9,640	30,002
Taiji Group Chongqing Fuling Pharmaceutical Factory Co., Ltd.	9,492	–
Sinopharm Holding A-Think Pharmaceutical Co., Ltd.	8,492	27,408
Sinopharm Group Xinjiang Pharmaceutical Co., Ltd.	8,473	6,742
Sinopharm Rongsheng Pharmaceutical Co., Ltd.	8,030	18,474
Shanghai Zhaohui Pharmaceutical Co., Ltd.	6,975	5,960
Sinopharm Chuankang Pharmaceutical Co., Ltd.	6,516	2,981
Wuhan Zhongsheng Yujin Biological Medicine Co., Ltd	5,934	2,488

(vi) Significant balances of other payables due to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Other payables due to		
Sinopharm Group Finance Co., Ltd.	712,609	727,045
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	189,615	395,014
Sinopac Puxin Commercial Factoring Co., Ltd	94,866	82,864
Sinopharm Health Online Co., Ltd.	45,048	34,832
Zhejiang Naton Medical Instrument Co., Ltd.	29,101	–
Sinopharm Group Zhijun (Shenzhen) Pingshan Pharmaceutical Co., Ltd.	18,878	3,406
China National Corp. of Traditional and Herbal Medicine	3,300	3,300
Shanghai Institute of Pharmaceutical Industry	1,858	–
China State Institute of Pharmaceutical Industry	1,000	1,000
Suzhou Erye Pharmaceutical Co., Ltd.	862	179

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46. Significant related party transactions (continued)

(c) Significant balances with related parties except for other PRC government-related entities

(continued)

(vii) Significant balance of contract liabilities with related parties was listed as follows:

	2021 RMB'000	2020 RMB'000
Contract liabilities		
Beijing Institute of Biological Products Co., Ltd.	170,839	106,375
Wuhan Institute of Biological Products Co., Ltd.	69,203	-
Shanghai Institute of Bio-products Co., Ltd.	24,539	-
Sinopharm Holding (China) Finance Leasing Co., Ltd.	18,723	18,696
China National Pharmaceutical Foreign Trade Co., Ltd.	18,269	-
Shanghai Institute of Pharmaceutical Industry	12,963	-
Sinopharm Shanghai Blood Products Co., Ltd.	8,125	-
Sinopharm Fortune Way Company	6,049	-
Changcun Keygen Biological Products Co., Ltd.	4,399	-
Changchun Institute of Biological Products	4,244	-
Chengdu Rongsheng Pharmaceutical Co., Ltd.	3,014	-
Sinopharm Nothern(Inner Mongolia)Healthcare Industry Co.,Ltd	-	6,995
Jiangsu Wanbang Pharmaceutical Technology Co.,Ltd	-	6,431
Shanghai Fosun Long March Medical Science Co.,Ltd	-	410
Chongqing Southwest Aluminum Hospital	-	264

(viii) Significant balances of borrowings due to related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Borrowings due to		
Sinopharm Group Finance Co., Ltd.	6,270,808	3,229,618
China National Pharmaceutical Group Co., Ltd.	4,034,937	31,637
Sinopac Ronghui (Shanghai) Commercial Factoring Co., Ltd.	351,691	-
Sinopharm Holding (China) Finance Leasing Co., Ltd	7,573	-
Sinopac Puxin Commercial Factoring Co., Ltd.	177	45,135

46. Significant related party transactions (continued)**(c) Significant balances with related parties except for other PRC government-related entities** (continued)**(viii) Significant balances of borrowings due to related parties were listed as follows:** (continued)

Borrowings from the above related parties bear interest at rates from 3.60% to 7.50% (2020: from 3.70% to 6.70%). The borrowings from China National Pharmaceutical Group Co., Ltd. have repayment terms over 1 year. The borrowings from the other two related parties have repayment terms within 1 year.

(ix) Significant balances of other non-current liabilities with related parties were listed as follows:

	2021 RMB'000	2020 RMB'000
Other non-current liabilities		
China National Pharmaceutical Group Co., Ltd.	1,302,729	1,079,095
China National Corp. of Traditional and Herbal Medicine	2,446	2,446
Sinopharm Datong Coal Mine Third Hospital	761	–

47. Principal subsidiaries

As at 31 December 2021, particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
China National Pharmaceutical Group Shanghai Co., Ltd.* (國藥集團上海有限公司)	PRC, 24 July 1988	40,237	100	–	Property management
China National Pharmaceutical Group Chemical Reagent Co., Ltd.* (國藥集團化學試劑有限公司)	PRC, 24 October 2003	450,000	90	10	Distribution of chemical reagents in the PRC
Beijing Sinopharm Tianyuan Real Estate & Property Management Co., Ltd.* (北京國藥天元物業管理有限公司)	PRC, 28 December 1981	36,130	100	–	Property rental in the PRC

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47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Holding Tianjin Co., Ltd.* (國藥控股天津有限公司)	PRC, 12 December 2003	1,300,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shenyang Co., Ltd.* (國藥控股瀋陽有限公司)	PRC, 27 November 2003	800,000	90	10	Distribution of pharmaceutical products, laboratory supplies and chemical reagents and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shaanxi Co., Ltd.* (國藥控股陝西有限公司)	PRC, 30 May 2001	250,000	60	–	Distribution of pharmaceutical and healthcare products and logistics services in the PRC
Sinopharm Pharmaceutical Logistics Co., Ltd.* (國藥集團醫藥物流有限公司)	PRC, 18 December 2002	300,000	100	–	Provision of pharmaceutical logistics services in the PRC
China National Medicines Corporation Ltd.* (國藥集團藥業股份有限公司)	PRC, 21 December 1999	754,503	55	–	Distribution of pharmaceutical products and laboratory supplies in the PRC
Shanghai Tongyu Information Technology Co., Ltd.* (上海統禦信息科技有限公司)	PRC, 27 December 2005	41,000	100	–	Information technology development and medicine consulting in the PRC
Sinopharm Holding Distribution Center Co., Ltd.* (國藥控股分銷中心有限公司)	PRC, 30 January 2002	2,000,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Holding Henan Co., Ltd.* (國藥控股河南股份有限公司)	PRC, 11 December 2006	680,310	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Fujian Co., Ltd.* (國藥控股福建有限公司)	PRC, 20 January 2010	851,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Holding Hong Kong Co., Ltd.* (國藥控股股份香港有限公司)	PRC, 14 August 2009	303,317,200	100	–	Investment; distribution of pharmaceutical and healthcare products; medicine chain stores; and provision of pharmaceutical logistics services in the PRC
Sinopharm Holding Shandong Co., Ltd.* (國藥控股山東有限公司)	PRC, 12 April 2006	70,000	67	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
Sinopharm Group Xinjiang Province New & Special National Pharmaceutical Co., Ltd.* (國藥集團新疆新特藥業有限公司)	PRC, 30 June 2003	780,637	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hubei Co., Ltd.* (國藥控股湖北有限公司)	PRC, 19 March 2001	844,444	82	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
China National Pharmaceutical Group Shanghai Likang Medicine Co., Ltd.* (國藥集團上海立康醫藥有限公司)	PRC, 27 July 1994	70,000	100	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. (國藥控股醫療器械有限公司)	PRC, 27 July 2006	320,000	100	–	Distribution of medical instruments in the PRC
Sinopharm Holding Anhui Co., Ltd.* (國藥控股安徽有限公司)	PRC, 29 December 2008	798,863	87	–	Distribution of pharmaceutical products and chemical reagents in the PRC

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47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Holding Zhejiang Co., Ltd.* (國藥控股浙江有限公司)	PRC, 9 October 1995	200,000	88	–	Distribution of pharmaceutical products
Sinopharm Holding Hunan Co., Ltd.* (國藥控股湖南有限公司)	PRC, 21 June 2001	520,000	97	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Co., Ltd.* (國藥控股重慶有限公司)	PRC, 8 May 2010	30,000	67	–	Distribution of pharmaceutical products and chemical reagents
Sinopharm Holding Jiangsu Co., Ltd.* (國藥控股江蘇有限公司)	PRC, 12 October 2001	1,865,342	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Yunnan Co., Ltd.* (國藥控股雲南有限公司)	PRC, 20 November 2000	163,948	90	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC
China National Accord Medicines Co., Ltd.* (國藥集團一致藥業股份有限公司)	PRC, 2 August 1986	428,130	56	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Shanxi Co., Ltd.* (國藥控股山西有限公司)	PRC, 17 January 2004	500,000	90	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Inner Mongolia Co., Ltd.* (國藥控股內蒙古有限公司)	PRC, 14 May 2010	300,000	100	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Group Southwest Medicine Co., Ltd.* (國藥集團西南醫藥有限公司)	PRC, 19 November 1997	63,390	82	3	Distribution of pharmaceutical and healthcare products in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Lingyun Biopharmaceutical (Shanghai) Co., Ltd.* (國藥控股凌雲生物醫藥(上海)有限公司)	PRC, 3 February 1992	50,000	55	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Jiangxi Co., Ltd.* (國藥控股江西有限公司)	PRC, 13 October 2009	100,000	67	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Gansu Co., Ltd.* (國藥控股甘肅有限公司)	PRC, 14 January 2010	60,000	70	–	Distribution of pharmaceutical products and chemical reagents in the PRC
Sinopharm Holding Jilin Co., Ltd.* (國藥控股吉林有限公司)	PRC, 9 July 1999	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Holding Ningxia Co., Ltd.* (國藥控股寧夏有限公司)	PRC, 21 November 2008	97,620	73	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Guizhou Co., Ltd.* (國藥控股貴州有限公司)	PRC, 1 April 2010	50,000	70	–	Distribution of pharmaceutical products, healthcare products and chemical reagents in the PRC
Sinopharm Lerentang Pharmaceutical Co., Ltd.* (國藥樂仁堂醫藥有限公司)	PRC, 29 September 2009	175,000	60	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Hainan Co., Ltd.* (國藥控股海南有限公司)	PRC, 10 July 2000	50,000	68	–	Distribution of pharmaceutical, healthcare products and chemical reagents in the PRC

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47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Holding Huzhou Co., Ltd.* (國藥控股湖州有限公司)	PRC, 14 August 1978	30,000	69	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Qinghai Co., Ltd.* (國藥控股青海有限公司)	PRC, 24 January 2003	20,000	85	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Xingsha Pharmaceutical (Xiamen) Co., Ltd.* (國藥控股星鯊製藥(廈門)有限公司)	PRC, 30 December 1998	360,000	60	–	Medicine manufacture, distribution of chemical, reagents, import and export of goods and technology, business consulting
Sinopharm Holding Donghong Medical (Shanghai) Co., Ltd.* (國藥控股東虹醫藥(上海)有限公司)	PRC, 15 August 1992	12,000	85	–	Distribution of pharmaceutical products, healthcare products, laboratory supplies and chemical reagents in the PRC
Sinopharm Health Solutions (Shanghai) Co., Ltd.* (國藥控股健康發展(上海)有限公司)	PRC, 19 January 2004	31,500	100	–	Health consultation, medical consulting, market information consulting and investigation and convention and exhibition services
Shanghai Meiluo Medical Co., Ltd.* (上海美羅醫藥有限公司)	PRC, 27 May 2002	60,000	100	–	Distribution of pharmaceutical products, medical equipment and chemical reagents, import and export of goods and technology in the PRC
Sinopharm Holding Wenzhou Co., Ltd.* (國藥控股溫州有限公司)	PRC, 31 March 1995	50,000	58	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC

47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
China National Pharmaceutical Group Shanxi Co., Ltd.* (國藥集團山西有限公司)	PRC, 14 April 2011	1,000,000	80	–	Distribution of pharmaceutical products, laboratory supplies and healthcare products in the PRC
Sinopharm Holding Lingshang Hospital Management Service Co., Ltd.* (國藥控股菱商醫院管理服務(上海)有限公司)	PRC, 5 July 2013	300,370	60	–	Medical equipment and distribution of goods, information technology services in the PRC
Sinopharm Holding Heilongjiang Co., Ltd.* (國藥控股黑龍江有限公司)	PRC, 11 October 2010	99,000	65	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Chongqing Taimin Pharmaceutical Co., Ltd.* (國藥控股重慶泰民醫藥有限公司)	PRC, 17 August 2012	50,000	60	–	Distribution of pharmaceutical products, medical instruments and chemical reagents in the PRC
Sinopharm Bio-pharmaceutical Co., Ltd.* (國藥控股上海生物醫藥有限公司)	PRC, 3 December 2009	20,000	70	–	Distribution of pharmaceutical products, healthcare products, medical instruments and chemical reagents in the PRC
Sichuan Pharmaceutical Group Co., Ltd. of CNPGC* (國藥四川醫藥集團有限公司)	PRC, 2 September 2001	371,743	66	–	Management of medical project investment, consulting and technology training in PRC
Sinopharm Holding Dalian Hecheng Co., Ltd.* (國藥控股大連和成有限公司)	PRC, 17 January 1994	50,000	80	–	Distribution of pharmaceutical products, Chinese herbal medicine, antibiotics, biological products, chemical reagents and medical device

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47. Principal subsidiaries (continued)

Company name	Place and date of registration	Issued and paid-up capital/ registered capital RMB'000	Effective interests held by the Group		Principal activities and place of operations
			Direct %	Indirect %	
Sinopharm Holding Hongrun Medical Business Service (Shanghai)Co., Ltd.* (國藥控股虹潤醫藥商務服務(上海)有限公司)	PRC, 22 August 2016	60,000	60	–	Health consultation, medical consulting, distribution of medical equipment, import and export services in the PRC
Sinopharm pharmacy (shanghai) Co., Ltd* (國藥控股藥房(上海)有限公司)	PRC, 28 December 2017	1,000	100	–	Distribution of pharmaceutical and healthcare products in the PRC
China National Scientific Instruments and Materials Co., Ltd* (中國科學器材有限公司)	PRC, 2 March 1982	4,000,000	60	–	Distribution of medical instruments in the PRC
Sinopharm Holding Changsha Co., Ltd.* (國藥控股長沙有限公司)	PRC, 27 April 2015	100,000	80	–	Distribution of pharmaceutical products, laboratory supplies and chemical reagents in the PRC
Sinopharm Holding Medical Instruments Co., Ltd. * (國藥控股潤達醫療器械發展(上海)有限公司)	PRC, 17 August 2015	85,000	51	–	Distribution of medical instruments in the PRC
Sinopharm Holding GuoDa Drug Store Co., Ltd.* (國藥控股國大藥房有限公司)	PRC, 23 March 2004	1,683,333	–	60	Distribution of pharmaceutical and healthcare products in the PRC
Sinopharm Intelligent Technology (Shanghai) Co., Ltd. * (國藥智能科技(上海)有限公司)	PRC, 6 July 2020	100,000	60	–	Provision of pharmaceutical information technology services in the PRC

* English translations of names for identification purposes only

47. Principal subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Except for two of the subsidiaries (Sinopharm Holding HongKong Co.,Ltd and Sinopharm International Trade (Hong Kong) Co.,Ltd) which were registered in Hong Kong, China, the subsidiaries of the Group all run their business in Mainland China.

China National Accord Medicines Co., Ltd., China National Medicines Corporation Ltd. and Sinopharm Holding Henan Co., Ltd. are joint stock limited companies. Except for the above-mentioned companies, the principal subsidiaries of the Company are limited liability companies.

48. Statement of financial position and movements in reserves of the Company**Statement of financial position of the Company**

	2021 RMB'000	2020 RMB'000
ASSETS		
Non-current assets		
Investment properties	1,040,173	826,008
Property, plant and equipment	940,345	1,197,369
Intangible assets	33,462	48,751
Investments in subsidiaries	29,837,239	29,500,483
Investment in a joint venture	25,906	34,607
Investments in associates	2,786,771	2,599,069
Financial assets at fair value through profit or loss	508,970	505,976
Deferred tax assets	50,155	44,738
Total non-current assets	35,223,021	34,757,001
Current assets		
Inventories	664,267	748,486
Trade and bills receivables	3,206,158	2,580,781
Prepayments, other receivables and other assets	27,397,467	23,129,991
Cash and cash equivalents	20,457,717	20,582,760
Contract assets	98	–
Total current assets	51,725,707	47,042,018
Total assets	86,948,728	81,799,019

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48. Statement of financial position and movements in reserves of the Company (continued)

Statement of financial position of the Company (continued)

	2021 RMB'000	2020 RMB'000
EQUITY		
Share capital	3,120,656	3,120,656
Treasury shares held for share incentive scheme	(3,838)	(3,838)
Reserves	28,848,239	28,233,216
Total equity	31,965,057	31,350,034
Liabilities		
Non-current liabilities		
Interest-bearing bank and other borrowings	6,695,120	7,684,365
Deferred tax liabilities	–	6,337
Post-employment benefit obligations	601	3,051
Other non-current liabilities	1,302,837	1,079,210
Total non-current liabilities	7,998,558	8,772,963
Current liabilities		
Interest-bearing bank and other borrowings	11,135,456	10,873,872
Trade and bills payables	2,519,168	2,613,592
Contract liabilities	7,706	12,444
Tax payable	19,167	–
Accruals and other payables	33,303,616	28,176,114
Dividend payable	–	–
Total current liabilities	46,985,113	41,676,022
Total liabilities	54,983,671	50,448,985
Total equity and liabilities	86,948,728	81,799,019

The financial statements were approved by the Board of Directors on 18 March 2022 and were signed on its behalf by

Yu Qingming
Director

Wu Tak Lung
Director

48. Statement of financial position and movements in reserves of the Company (continued)

Movements in reserves of the Company

	Share premium RMB'000	Statutory reserves RMB'000	Revaluation of available- for-sale investments RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2020	21,211,927	1,276,055	7,404	(47,829)	1,827,758	24,275,315
Profit for the year	-	-	-	-	2,361,521	2,361,521
Issue of shares	3,418,383	-	-	-	-	3,418,383
Disposal of subsidiaries	-	(851)	-	-	(7,656)	(8,507)
Share of other comprehensive income of associates	-	-	-	(144)	-	(144)
Appropriation to statutory reserve	-	236,152	-	-	(236,152)	-
Equity settled share incentive scheme	-	-	-	(9,339)	-	(9,339)
Remeasurement on post-employment benefit obligations						
- gross	-	-	-	2,626	(258)	2,368
- tax	-	-	-	(656)	62	(594)
Dividend on shares released from the share incentive scheme	-	-	-	-	74	74
Dividends declared	-	-	-	-	(1,865,123)	(1,865,123)
Share of changes in equity other than comprehensive income and distributions received from associates	-	-	-	53,497	-	53,497
Other changes in an investment in an associate	-	-	-	5,765	-	5,765
As at 31 December 2020	24,630,310	1,511,356	7,404	3,920	2,080,226	28,233,216
Profit for the year	-	-	-	-	2,756,147	2,756,147
Share of other comprehensive income of associates	-	-	-	48	-	48
Appropriation to statutory reserve	-	275,615	-	-	(275,615)	-
Remeasurement on post-employment benefit obligations						
- gross	-	-	-	(2)	2,448	2,446
- tax	-	-	-	-	(612)	(612)
Dividends declared	-	-	-	-	(2,153,253)	(2,153,253)
Share of changes in equity other than comprehensive income and distributions received from associates	-	-	-	10,247	-	10,247
As at 31 December 2021	24,630,310	1,786,971	7,404	14,213	2,409,341	28,848,239

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49. Directors', supervisors' and chief executives' remuneration

Directors', supervisors' and chief executives' remuneration for the year, 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:

(a) Directors', supervisors' and chief executives' remuneration

2021	Salaries RMB'000	Discretionary bonuses RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme
				RMB'000
Executive directors				
Mr. Yu Qingming	2,106	4,582	-	186
Mr. Liu Yong	2,006	4,470	-	177
Independent non-executive directors				
Mr. Zhuo Fumin	350	-	-	-
Mr. Chen Fangruo	350	-	-	-
Mr. Li Peiyu	350	-	-	-
Mr. Wu Tak Lung	350	-	-	-
Mr. Yu Weifeng	350	-	-	-
Supervisors				
Mr. Liu Zhengdong (i)	350	-	-	-
Mr. Zhang Hong Yu	1,120	1,976	-	177
Ms. Lu Haiqing	496	385	-	168
	7,828	11,413	-	708

49. Directors', supervisors' and chief executives' remuneration (continued)**(a) Directors', supervisors' and chief executives' remuneration** (continued)

2020	Salaries RMB'000	Discretionary bonuses RMB'000	Estimated value of other benefits RMB'000	Employer's contribution to a retirement benefit scheme RMB'000
Executive directors				
Mr. Yu Qingming	2,100	4,560	–	125
Mr. Liu Yong	2,000	4,463	–	142
Mr. Li Zhiming (iii)	2,175	4,682	–	142
Independent non-executive directors				
Mr. Zhuo Fumin	314	–	–	–
Mr. Chen Fangruo	314	–	–	–
Mr. Li Peiyu	97	–	–	–
Mr. Wu Tak Lung	97	–	–	–
Mr. Yu Weifeng	97	–	–	–
Mr. Yu Tze Shan Hailson (ii)	217	–	–	–
Mr. Tan Wee Seng (ii)	217	–	–	–
Mr. Liu Zhengdong (ii)	200	–	–	–
Supervisors				
Mr. Liu Zhengdong (i)	114	–	–	–
Mr. Zhang Hong Yu	1,120	2,100	–	142
Ms. Lu Haiqing	146	–	12	42
Mr. Tao Wuping (ii)	217	–	–	–
Ms. Jin Yi (ii)	378	78	30	88
	9,803	15,883	42	681

(i) Appointed on 18 September 2020

(ii) Resigned on 18 September 2020

(iii) Resigned on 12 January 2021



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49. Directors', supervisors' and chief executives' remuneration (continued)

- (b) Except for the contribution to a retirement benefit scheme, no other retirement benefits were paid to any director during the year ended 31 December 2021.
- (c) No termination benefits were paid to any director during the year ended 31 December 2021.
- (d) No consideration paid to third parties for directors' services during the year ended 31 December 2021
- (e) No loans, quasi-loans or other dealings were entered into by the Company or subsidiary undertaking of the Company, where applicable, in favour of directors of the Company and of the holding company of the Company, or bodies corporate controlled by such directors or entities connected with such directors, including a shadow director of any director.
- (f) No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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