国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

2023
Annual Report

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. CHEN Yinglong *(Chairman)*

Non-executive Directors

Mr. CHENG Xueren
Mr. YANG Wenming
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. MENG Qingxin

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. NG Sau Mei

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

REMUNERATION AND EVALUATION COMMITTEE

Mr. QIN Ling *(Chairman)*
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LI Weidong

NOMINATION COMMITTEE

Mr. CHEN Yinglong *(Chairman)*
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

STRATEGIC COMMITTEE

Mr. CHEN Yinglong *(Chairman)*
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. YU Tze Shan Hailson
Mr. QIN Ling

REGISTERED OFFICE

Room 1601, Emperor Group Centre
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Wanchai
Hong Kong

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STOCK CODE

The shares of China Traditional Chinese Medicine Holdings Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F., One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
Ping An Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Bank of China (Hong Kong) Limited

WEBSITE

http://www.china-tcm.com.cn

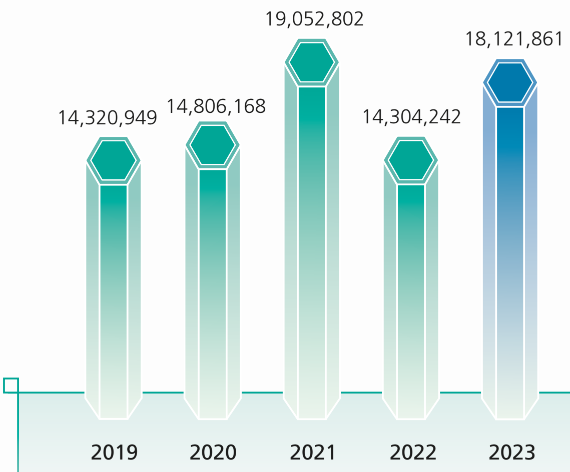
Five-Year Financial Summary

(Expressed in RMB)

	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023** **RMB'000**	2019-2023 Compound Annual Growth Rate
Results						
Revenue	14,320,949	14,806,168	19,052,802	14,304,242	**18,121,861**	6.06%
Gross profit	8,575,788	9,126,075	11,829,163	7,198,452	**9,274,492**	1.98%
Profit from operations	2,460,716	2,490,631	2,753,058	1,064,283	**1,427,277**	-12.73%
Profit before taxation	2,154,618	2,230,091	2,520,280	840,109	**1,224,533**	-13.17%
Profit attributable to the shareholders of the Company	1,588,114	1,663,255	1,932,858	764,266	**1,285,200**	-5.15%
Profitability						
Gross profit margin	59.88%	61.64%	62.09%	50.32%	**51.18%**	
Operating profit margin	17.18%	16.82%	14.45%	7.44%	**7.88%**	
Net profit margin	12.38%	12.57%	11.14%	5.04%	**7.70%**	
Earnings per share						
Basic & diluted	31.54 cents	33.03 cents	38.38 cents	15.18 cents	**25.52 cents**	-5.16%
Financial position						
Total assets	32,473,725	33,088,383	36,389,268	35,619,941	**37,068,348**	
Total equity attributable to equity shareholders of the Company	16,623,415	18,064,086	19,718,669	20,166,720	**21,160,135**	
Total liabilities	13,423,000	12,191,962	13,728,339	12,673,339	**13,131,730**	
Bank balances and cash	5,613,633	3,440,240	2,894,757	3,065,054	**3,017,318**	
Debt asset ratio	41.33%	36.85%	37.73%	35.58%	**35.43%**	

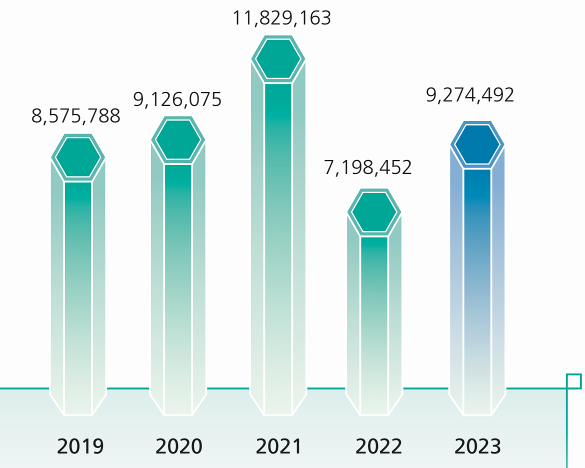
(Expressed in RMB)

REVENUE
RMB'000



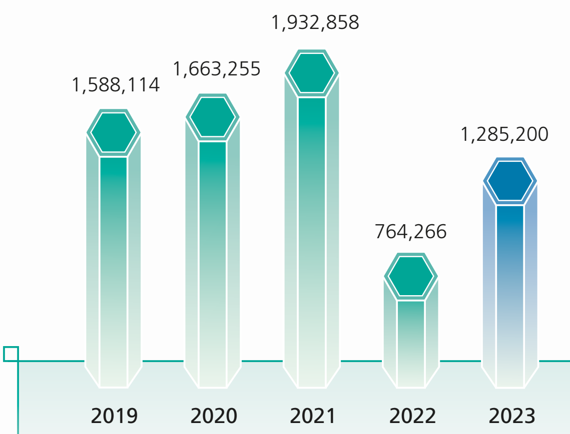
Annual Growth of 2022-2023 **26.7%**

GROSS PROFIT
RMB'000



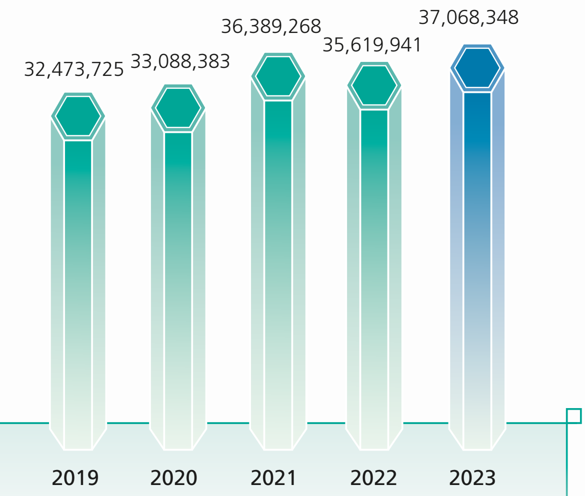
Annual Growth of 2022-2023 **28.8%**

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY
RMB'000



Annual Growth of 2022-2023 **68.2%**

TOTAL ASSETS
RMB'000



Annual Growth of 2022-2023 **4.1%**

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear shareholders,

In 2023, the prosperity of the TCM industry continued to rise. The improvement of public awareness of disease prevention and treatment, the expansion of medical institutions, the adjustment of medical insurance catalogues, as well as the improvement in ancillary facilities and service capabilities, brought about broad room for the inheritance, innovation and development of TCM. At the policy level, the TCM industry policies have gradually shifted from macro guidance to specific implementation, indicating a continually optimizing industry ecology. In February 2023, the General Office of the State Council issued the "Implementation Plan for Major Projects of the Revitalization and Development of Traditional Chinese Medicine" (《中醫藥振興發展重大工程實施方案》) to further support the development of TCM during the "14th Five-Year Plan" period and strive for the revitalization and development of TCM. In terms of market environment, the TCM industry is still going through the "pains" of reform and adjustment. In particular, as the prices of Chinese medicinal herbs continued to rise, profit margins of the middle and down stream of TCM industry chain sagged, imposing huge downward pressure.

Last year has witnessed challenges and opportunities. All Directors have fulfilled their due diligence and provided solid strategic guidance for the development of the Group with their profound industry experience and keen market insights. The management has been on the front line and worked side by side with the employees, facing the changes in the market together. All employees, led by the Board and management, showed a high degree of professionalism and dedication, providing a surge of power for the Group to maintain its fundamentals and overcome the industry trough.

With the unremitting efforts of the Board, management and all employees, and support of all shareholders, the Group actively responded to market changes to continue with the integrated development of the entire industry chain. It strengthened the national layout in the industry continuously and gradually improved corporate governance and control, so that its businesses advanced steadily, delivering a restorative growth of operating performance. The revenue for the year ended 31 December 2023 was RMB18.1 billion, representing an increase of 26.7% compared with the same period of 2022; net profit was RMB1.396 billion, representing an increase of 93.6% compared with the same period of 2022.

During the Reporting Period, for supporting the construction of "Healthy China", the Group anchored high-quality development goals, and implemented the "14th Five-Year Plan" strategic plan. With the strategic goals of "all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry group", the Group vigorously improved the hard power of enterprise reform, innovation and development, with substantial progress made. Its construction capacity and scale of Chinese medicinal herbs bases led the industry, TCM decoction pieces business grew significantly, and concentrated TCM granules business continued to lead the market through maintaining the existing market while exploring incremental market. The Group extended and upgraded its layout in the TCM finished drugs market, and established unique systems of TCM great health products and TCM medical institutions operation.

The Group proactively coped with changes and carried out innovation. Internally, we conducted vertical integration to deepen coordination of production, supply and marketing between segments, and facilitate resource sharing and complementarity, and improved the construction of a modern TCM industry system. Externally, we promoted multi-party cooperation of "industry – academy – research – medicine – use", and by fulfilling its mission as a "leader" in the industry, continued to launch research and transformation results of key technologies in various fields, empowering the inheritance and innovation development of TCM with modern technology.

During the Reporting Period, "China Traditional Chinese Medicine" and "Zhonglian" brands of the Group were recognized as "Chinese Time-honored Brands", and the "Sino-TCM" brand was recognized as "Beijing Time-honored Brand", demonstrating its ever increasing brand value and influence.

Meanwhile, the Group further advanced the construction and implementation of sustainable development. **Maintaining** corporate governance as the cornerstone, the Group created a clean and honest operating atmosphere and continued to strengthen quality management, and continuously enhanced the enterprise's comprehensive competitiveness. **Adhering** to innovation-driven development, the Group introduced new technologies, new products and new services, and increased product quality and service levels to meet the growing needs of customers and create greater value for society. **Insisting** on co-creation, sharing and common development with employees, the Group built a complete employee career growth system, and created a healthy and progressive workplace. **Sticking** to harmonious and healthy relationships with partners, suppliers and other stakeholders, the Group created a good industry development atmosphere in an orderly manner through exchanges, sharing, business cooperation, thus pushing forward overall development of the industry. **Persisting** in energy management, green production, green operations, etc., the Group minimized the impact of production and operation activities on the environment to protect the outstanding natural scenery together. **Actively** participating in rural revitalization and development, the Group participated in social charity and community construction and development, and resonated its corporate development with social progress. Details are provided in our "2023 Environmental, Social and Governance Report".

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their support, care and encouragement, and to all Directors, officers and employees for their diligence, dedication and efforts.

PROSPECTS

2024 is a critical year for achieving the goals and tasks set in the "14th Five-Year Plan". The Group will continue to follow China's key tasks for the reform and development of TCM, strive to meet the people's needs for TCM, focus on modern TCM and strategic emerging industries, and by unifying efforts, create growth pole of emerging industries of strategic importance. The Group will consolidate modern TCM medicine innovation, industry and supply chains, build itself into a world's leading high-tech TCM enterprise with top brands, and continue to play the role of technological innovation, industrial control, and safety support in promoting the high-quality development of TCM industry.

We look forward to creating more brilliances with all shareholders, investors, partners and all walks of life in the future, and witnessing our higher-quality development together!

ACKNOWLEDGEMENT

As having reached the retirement age, Mr. CHENG Xueren and Mr. YANG Wenming resigned as the president and vice president of the Company, respectively, and were re-designated as non-executive Directors. On behalf of the Board, I wish to express sincere appreciation to Mr. CHENG Xueren and Mr. YANG Wenming for their excellent contribution on forming a group corporate governance system which is scientific and efficient, promoting integration and development of the whole TCM healthcare industry chain, and building and consolidating the Group's industry-leading position, during their tenure as members of senior management of the Company. Mr. CHENG Xueren and Mr. YANG Wenming will, during their tenure as non-executive Directors, give full play to their professionalism and experience to give suggestion and guidance for the Company's decisions making and development. We also look forward to witnessing China TCM to achieve more stable and sustainable development under the new governance structure.

CHEN Yinglong
Chairman

Hong Kong, 21 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

OVERVIEW

In 2023, the TCM industry accelerated high-quality development driven by a frequent issuance of support policies in TCM industry, deepening of centralized rectification in the medical and pharmaceutical field, a faster and broader development in centralized procurement of TCM and the innovation and upgrade of industry development model. Facing risks and opportunities in TCM market, the Group, with "practicing national TCM development strategy, leading the high-quality development of TCM industrial group" as its mission, has focused on the six major business sectors of "Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health products, TCM medical institutions". Confronted with the changes in the market, the Group achieved outstanding results in promoting the integrated development of the whole industry chain, accumulating the momentum of scientific and technological innovation, and upgrading the corporate governance and control.

During the Reporting Period, the Group's revenue was approximately RMB18,121,861,000, representing an increase of 26.7% from approximately RMB14,304,242,000 for the same period last year. This was mainly attributed to the recovery of growth in revenue from the concentrated TCM granules businesses along with a simultaneous increase in the sales of other businesses. To analyze by revenue of each of the operating products, revenue from Chinese medicinal herbs integration business contributed approximately RMB1,855,534,000, representing 10.2% of the total revenue and with a year-on-year increase of 45.8%; revenue from TCM decoction pieces business contributed approximately RMB2,811,368,000, representing 15.5% of the total revenue and with a year-on-year increase of 45.4%; revenue from concentrated TCM granules business contributed approximately RMB9,108,382,000, representing 50.3% of the total revenue and with a year-on-year increase of 18.1%; revenue from TCM finished drugs business contributed approximately RMB3,994,333,000, representing 22.0% of the total revenue and with a year-on-year increase of 28.0%; revenue from TCM great health products business contributed approximately RMB212,832,000, representing 1.2% of the total revenue and with a year-on-year increase of 58.6%; revenue from TCM medical institutions business contributed approximately RMB139,412,000, representing 0.8% of the total revenue and with a year-on-year increase of 6.2%.

During the Reporting Period, the Group focused on industrial development and innovation, actively demonstrated the results of the high-quality development of the whole TCM healthcare industry chain, undertook the First Science and Innovation Conference of the TCM Industry, established the Professional Committee of Concentrated TCM granules under the China Association of Traditional Chinese Medicine, hosted the third World Chinese Medicine Forum, participated in national events such as the China Conference on the High-quality Development of Traditional Chinese Medicine, the China-Africa Forum on the Cooperation of Traditional Chinese Medicine, the First China International Supply Chain Expo, the Second National Great Craftsmen Innovation and Exchange Conference and National Great Craftsmen Forum (第二屆大國工匠創新交流大會暨大國工匠論壇), the 87th PHARMCHINA, the 2023 China Association for Quality Annual Conference and the Second Global Excellence Conference.

The Group is committed to creating sustainable development value for all stakeholders and establishing an ESG governance system that spans from the Company's management to all employees of its subsidiaries. The Group made full use of media platforms to promote ESG, released ESG-related news through the Company's public account and website, and participated in ESG exchange activities to learn from excellent examples. In 2023, we were successively selected as among China's ESG Pioneer 100 List of Listed Companies (中國ESG上市公司先鋒100榜單) and the ESG Pioneer 100 Index of Central State-owned Enterprises (央企ESG•先鋒100指數). Our case "Focusing on Talents to Strengthen Enterprises and Empowering Employee Development" was included in the ESG Blue Book of Listed Companies of Central State-owned Enterprises (2023) (《中央企業上市公司ESG藍皮書(2023)》) as an excellent ESG case, and won the "Benniu Award – ESG Governance Pioneer Award" (犇牛獎•ESG治理先鋒獎).

BUSINESS REVIEW

I. Anchor the strategic objectives of six major businesses and promote the development of the whole industry chain

(I) Chinese medicinal herbs integration business

In recent years, leveraging the advantages of authentic medicinal materials resources, the Group has explored and promoted the construction of quality standardization of seeds and seedlings of Chinese medicinal herbs, and established standardized and traceable planting bases for authentic medicinal herbs, positioning us at the forefront of industry in terms of our Chinese medicinal herbs planting technology and scale. During the Reporting Period, the Group commenced the construction of good agricultural practice for Chinese medicinal herbs ("Chinese medicinal herbs GAP") bases covering 50 varieties in response to the national policy based on the needs of its own industrial development, and became the first enterprise in China to pass the compliance inspection of new Chinese medicinal herbs GAP. The varieties that have passed the inspection include honeysuckle, lonicera japonica, gardenia, cinnamon, and cassia twig, ranking first in China in terms of the number of varieties.

During the Reporting Period, the Group formulated a catalogue of varieties of Chinese medicinal herbs production bases, with demand origins covering 26 provinces (regions and municipalities) across the country. The construction of business resources was coordinated, control on cost of production and operation of Chinese medicinal herbs was improved, and the synergy of the industry chain was deepened. As of 31 December 2023, the Group has jointly built a total of 172 production bases for Chinese medicinal herbs in 22 provinces (regions and municipalities) across the country, involving a total of 101 varieties of Chinese medical herbs and with a base area of over 460,000 mu, of which 82 varieties entered the traceability system of Chinese medical herbs.

(II) TCM decoction pieces

During the Reporting Period, the Group developed more than 1,800 medical terminal customers for the TCM decoction pieces business with remarkable results, which led to a rapid growth of sales and the performance of the segment ushered in a new historical height.

As the medical terminal market recovers, there has been a steady increase in sales volume among existing medical terminal clients, along with a progress in the development of new terminal clients. Leveraging its nationally deployed intelligent distribution centers, the sales scale of medical decoction pieces of the subsidiaries in various regions has rapidly expanded. As of 31 December 2023, the Group established 45 intelligent distribution centers across 13 provinces (regions and municipalities) in China. Shanghai Tongjitang Pharmaceutical Co., Ltd. launched its first automated formulation dispensing line, resulting in a year-over-year increase in decoction prescription orders of over 70%; Shandong Yifang Pharmaceutical Co., Ltd. recorded a significant growth in the sales of medical decoction pieces by reaching 47 medical institutions through the decoction project; Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. continued to develop decoction distribution and personalized dosage form services for major traditional Chinese medicine hospitals in Guangdong Province, with notable performance growth, especially the sales volume of herbal paste business stepping up to a new level.

Simultaneously, the Group leveraged the resource advantages of the authentic production areas for key varieties and capitalized on the strengths of its distinctive decoction pieces varieties. It actively expanded business varieties and steadily advanced market development, resulting in a significant year-over-year growth in the results of both the industrial decoction pieces and decoction pieces trade businesses.

(III) Concentrated TCM granules

On 6 September 2023, the Shandong Public Resources Trading Center released the Announcement of Centralized Procurement of Procurement Alliance of TCM Formula Granules, which covers 200 varieties of national drug standards (the "National Standards") for concentrated TCM granules. This marks the official start of volume-based centralized procurement for concentrated TCM granules. The centralized procurement brought down the prices of concentrated TCM granules, facilitating the adoption of National Standards varieties in hospitals, alleviating the pressure on medical insurance payments and reducing the financial burden on patients, and enhancing the enthusiasm for prescribing these medicines in clinical settings and improving the accessibility of drugs. Meanwhile, it reshaped the market structure of concentrated TCM granules nationwide and facilitated high-quality development of the industry. A total of 10 subsidiaries of the Group actively participated in this centralized procurement, all of which were successfully shortlisted. Among them, Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") was selected for all varieties, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") for 199 varieties, Shandong Yifang Pharmaceutical Co., Ltd. for 197 varieties, Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") for 192 varieties, and Yunan Tianjiang Yifang Pharmaceutical Co., Ltd. for 162 varieties.

The Group continued to consolidate its leading position in the concentrated TCM granules industry. In terms of quality control, it persistently improved the quality control system, traced quality control back to the source resources, and enhanced its quality service capability. In terms of cost control, the Group implemented lean management by optimizing inventory structure and production process and shortening the supply chain cycle, and enhanced production delivery capabilities and the efficiency of collaborative management. In terms of marketing management, it continued to advance the standard filing work, focused on boosting sales at key terminals, consolidated the existing market, activated new markets, and expanded the sales scale.

At the same time, the Group took the lead in the industry by organizing the publication of the Clinical Manual for Concentrated TCM Granules (《中藥配方顆粒臨證手冊》) and the Guidelines for the Clinical Use of Concentrated TCM Granules with National and Provincial Standards (《中藥配方顆粒國標省標產品臨床使用指引》), which strengthened its position in Chinese medicine services, empowered the clinical application and research of concentrated TCM granules, and led the development of national standards, thus promoting the return of national standards to clinical value.

(IV) TCM finished drugs

Possessing nationwide leading number of essential TCM finished drugs, product tiers and production capacities constitute the core competitive advantage of the Group's TCM finished drugs business. According to statistics based on the number of approval documents, the Group has over 800 TCM finished drugs approvals, 126 exclusive varieties, 178 essential drug varieties, 10 exclusive essential drugs, and 420 products included in the national medical insurance catalogue. By insisting on improvement of essential drug varieties, leveraging exclusive medical insurance products, concentrating on chain and terminal sales, and expanding new retail models, the Group demonstrated robust competitive strength in the TCM finished drugs subdivision.

A strong terminal coverage and channel management system represent another core advantage of the Group's TCM finished drugs. During the Reporting Period, in the prescription drug business, the Group persisted in operating the project of "One Person, One Hospital, One Benchmark", and newly developed more than 2,300 secondary and above medical institutions. In the OTC business, the Group established a tiered cooperation model of "10+200+N" (10 major chains + 200 regional leading chains + N other chains), establishing tiered cooperation with the highest-quality chain terminals nationwide which covered over 1,600 customers.

Benefiting from coordinated, effective production and sales management and marketing team management, the Group's sales fundamentals continued to improve leveraging its advantages of the self-operated + precise investment attraction model. During the Reporting Period, ten finished drug varieties, including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒) and Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊) achieved sales exceeding RMB100 million and realized double-digit growth. Sales of several varieties such as Huashi Baidu Granules (化濕敗毒顆粒), Biyankang Tablets (鼻炎康片), Cordyceps Qingfei Capsules (蟲草清肺胶囊) and Vitamin C Yinqiao Tablets (維C銀翹片) increased by more than 50% year-over-year.

In addition, the Group continued to solidify academic research work. During the Reporting Period, it advanced the inclusion of 80 guidelines, consensus statements and textbooks, and the access of more than 40 key indications for new admissions, enhancing the high-level evidence of products in their respective fields. These efforts promoted the construction of clinical value and academic value of the products, thereby enhancing product competitiveness.

(V) TCM great health products

In line with the new development trend of public health demand, the Group studied the new development trend of health industry, and continued to promote the rapid development of TCM healthcare products business.

During the Reporting Period, Guangdong Qifeng Health Industry Co., Ltd. explored and adjusted its business model for its own brand business by expanding online channel cooperation and accommodating customer-customized products, achieving breakthroughs in both results and reputation. The Group continuously tapped into the needs of major customers for OEM/ODM business, expanded the variety of product supplies, and saw a year-over-year sales growth of over 60%. Leveraging Guizhou's regional characteristics and advantageous Chinese medicine homologous food substances, Guizhou Tongjitang developed differentiated great health products, with sales of 10 products exceeding RMB1 million, and a year-over-year increase in sales of great health products of over 60%. Around the main theme of traditional Chinese medicine, Jiangyin Tianjiang strengthened product R&D and market promotion, enhanced the brand influence of "Yuejian Bencao" (閱鑒本草), and developed a series of great health products that meet market demands.

(VI) TCM medical institutions

The TCM medical institution is a window set up by the Group at the consumer terminal while building the whole TCM healthcare industry chain, for the purpose of providing high-quality TCM diagnosis and treatment and rehabilitation services to the public, and promoting a new industry format integrating "medicine, drug, nourishment and diet" into a cohesive health industry.

In terms of industrial layout, the Group promoted the network layout of TCM medical institutions in first-tier cities, established Jingcheng Xiao's Medical Institution (京城蕭氏醫館) and preliminarily completed the business introduction and system construction, striving to turn it into a model for the operation of TCM medical institutions. Cultivation of new development poles in key cities was accelerated, with TCM medical institutions layout projects in Shenzhen and Shanghai being initiated. Regarding business development, six TCM medical institutions provided nearly 450,000 diagnostic and treatment services during the Reporting Period. Among them, Guizhou Tongjitang Medical Institution served over 170,000 persons, and Foshan Feng Liao Xing TCM Medical Institution in Chancheng (佛山馮了性國醫館禪城館) served over 110,000 persons. By strengthening cooperation with specialties in regional public hospitals, the Group developed treatment programs with distinctive medical and disease features, optimized specialist settings based on the enrichment of doctor resources, and enhanced construction in rehabilitation, oncology, and other specialties. Through activities such as online TCM science popularization lectures, offline children's massage training classes, and providing free diagnosis service to surrounding community residents, the Group advocated the concept of TCM's health care and preservation (保健養生), embodying the "Healthy China Initiative."

II. Strengthen the driving force of science and technology and accumulate the potential energy of innovation and development

The Group continued to increase its investment in R&D resources for science and technology innovation, and continued to make efforts in the construction of high-level scientific research platforms. During the Reporting Period, the Group's investment in scientific research amounted to RMB686 million, representing an increase of 12.06% over the previous year, and accounting for 3.78% of the operating revenue. As of 31 December 2023, we possessed 2 national enterprise technology centers, 2 academician workstations, 4 Chinese medicine master studios, 3 post-doctoral workstations, 15 provincial technology centers, 7 provincial engineering technology research centers, 2 provincial engineering research centers, 2 provincial key laboratories, 6 CNAS laboratories and 1 provincial industrial design center. During the Reporting Period, Guangdong Yifang was successfully selected as the public service platform for experimental testing industry technology foundation, which is the only enterprise to be recognized as such service platform in the TCM manufacturing industry at present.

Good results have been achieved in Chinese medicinal herbs resources R&D. In terms of new variety breeding, the new varieties of epimedium, Guitong Jianye No. 1 (貴同箭葉1號) and Guitong Jianye No. 2 (貴同箭葉2號), have obtained the new plant variety right certificate; the new varieties of atractylodes lancea, "Huacang No.1" (華蒼1號) and "Huacang No.2" (華蒼2號), have obtained the new variety identification certificate of Hubei Province. In terms of production technology demonstration bases, a total of 12 technology demonstration bases were constructed during the Reporting Period, involving 13 varieties of Chinese medicinal herbs such as aconite, fritillaria thunbergii, epimedium and atractylodes chinensis, among which 9 technology demonstration bases were completed and all passed the on-site acceptance and evaluation. New varieties and technological achievements will be gradually introduced to the production bases located nationwide. In terms of fresh cutting of Chinese medicinal herbs in the place of origin, the research on the process of fresh cutting of Chinese medicinal herbs was organized to promote the completion of the qualification certification of fresh cutting of Chinese medicinal herbs in various industrial parks. As of 31 December 2023, 43 varieties of Chinese medicinal herbs, such as tree peony bark, codonopsis pilosula, astragalus membranaceus and licorice, had successfully obtained the qualification of fresh cutting.

The research on concentrated TCM granules has stayed ahead of the curve. During the Reporting Period, the National Medical Product Administration (the "NMPA") issued 65 national drug standards for concentrated TCM granules, among which 36 were completed by the Group, accounting for 55.38%. As of 31 December 2023, the NMPA has cumulatively issued 265 national drug standards for concentrated TCM granules, among which 138 were completed by the Group, accounting for 52.08%. The national standards for two animals (including ground beetle and vinegar turtle) formula granule drugs whose research was completed by the Group were approved for publication, achieving a zero breakthrough in the national standards for animal formula granule drugs. Provincial standards for shellfish formula granule drugs such as concha haliotidis, concha ostreae and endoconcha sepiae have been published in provinces including Jiangsu and Hebei.

New achievements have been made in the in-depth study of TCM decoction pieces. In the formulation of local standards, Huamiao Pharmaceutical participated in the amendments to the Beijing Standards for the Processing of TCM Decoction Pieces (2023 edition), covering 101 specifications, which accounted for 30% of the total specifications announced. In terms of the construction of the quality traceability system of TCM decoction pieces, Guangdong Yifang has developed a quality traceability system of TCM decoction pieces with perfect information display and matching the actual production management. As of 31 December 2023, the quality traceability information of 127 varieties of decoction pieces has been put online.

Breakthroughs were continuously made in R&D projects. During the Reporting Period, the Group enhanced efforts on patent application and monitoring, and improved influence and core competitiveness through strengthening IPR protection. During the Reporting Period, 248 patents were applied and 185 patents were authorized, including 100 invention patents and 82 utility model patents, which provided a strong guarantee for the high-quality development of the TCM industry chain. Guangdong Yifang was awarded the first prize of Science and Technology Award by the Guangdong Pharmaceutical Industry Association (廣東省醫藥行業協會) and the first prize of Science and Technology Award by the Guangdong High-tech Enterprise Association for "Research and Industrialization of TCM New Drug for Treating Novel Coronavirus Pneumonia – Huashi Baidu Granules".

In terms of international standards research, the release of ISO international standards for rhubarb medicinal herbs, formulated under the leadership of Guangdong Yifang, and coptis chinensis medicinal herbs, formulated with participation of Guangdong Yifang, established a method for evaluating the consistency of quality in TCM with multiple sources. This offers new perspectives for the quality control research of multi-source TCM. The release of the ISO international standard for ephedra medicinal herbs, formulated under the leadership of Shanghai Tongjitang, has filled the gap in the lack of quality and safety evaluation of ephedra medicinal herbs, pieces, and related products in the international trade, thereby promoting the internationalization of TCM.

III. Improve the level of comprehensive governance and control and consolidate the foundation for high-quality development of enterprise

(I) Arrange actions for deepening reforms and upgrading, and enhance excellent operation and management capabilities

Facing new situation and tasks, and standing at the new position in the new journey, the Group takes further actions for reform and upgrade. It established a special working panel to refine special work plans, and practiced the concept of "reform-driven development". By focusing on the whole TCM great health industry chain with sustainability, mutual coordination and common development, the Group deepened the reform in major areas and key links with greater determination, stronger efforts and more practical measures. During the Reporting Period, the Group accurately set reform goals and endeavored to implement various reform tasks, achieving remarkable results in reform and innovation so that all operating indicators continued to improve, and operating results recovered significantly. It gave full play to the scientific and technological innovation, industrial control and safety support of state-owned central enterprises, and delivered fruitful results in promoting the inheritance and innovative development of TCM as well as its service function. During the Reporting Period, the Group solidly pushed forward the actions for deepening reforms and upgrading of state-owned enterprises, and was selected for the second session of the practice results of deepening reform of state-owned enterprises jointly released by the China Management Science Society and the Entrepreneur magazine, winning the second prize.

(II) Propel the strategy of strengthening the enterprise with talents in depth and create a new situation in talent work

The Group continued to build a talent echelon, focusing on core talents and improved the talent development system. By improving the development and promotion mechanism, optimizing the talent incentive mechanism, building a communication matrix and consolidating the school-enterprise cooperation system, the Group aimed to create an employer brand system with TCM characteristics and promote new vitality of the employer brand of TCM company. During the Reporting Period, the Group's effort in building an employer brand was highly recognized by many professional authoritative organizations, and was awarded the "2023 Ram Charan Management Practice Award" (2023拉姆・查蘭管理實踐獎), the "2023 Best Human Resources Management Employer" (2023最佳人力資源管理僱主) by China Business Journal and Cree International, the "2023 China Talent Management Reform Pioneer Award" (2023年中國人才管理改革先鋒獎) by Beisen and the "China's Best Employer of the Year National TOP100 by Zhaopin Recruitment in 2023" (2023年智聯招聘中國年度最佳僱主全國TOP100), etc.

(III) Steadily promote digital construction and build a solid foundation for digital TCM

The Group deployed digital transformation as a top-level planning. It steadily pushed ahead with the "two wings" of digital reform in industry and control, and consolidated the capabilities of IT infrastructure base, thus laying a solid foundation for the construction of "digital TCM". During the Reporting Period, the self-developed digital TCM medical institutions were fully launched, achieving a breakthrough in the digital transformation from zero to one. The Chinese medicine quality traceability management platform, as an operating carrier, has achieved data visualization and product traceability, and obtained national software copyright certification. The Group promoted "Smart factory, digital workshop" to improve technical service capabilities. Currently, four subsidiaries have built an integrated production and intelligent manufacturing platform. Jiangyin Tianjiang was selected into the "Excellent Intelligent Manufacturing Scenario" of the MIIT in 2023, and Guangdong Yifang completed the acceptance of innovative applications of industrial Internet identification resolution in Guangdong Province.

(IV) Strengthen safety and environmental protection management and practice green and low-carbon development

The Group strictly follows the deployment of safety production, and carries out safety production management in a systematic way from various aspects such as responsibility assessment, system construction, risk control, hidden danger investigation, education and training, while taking steps including process control, energy conservation and emission reduction and awareness raising to build a green manufacturing system. During the Reporting Period, we established a shared database of standard operating procedures for high-risk positions, implemented actions to solidify safety management and investigate and rectify major accident hazards, and improved long-term working mechanisms, so that there was no major safety accident throughout the year. We organized safety production publicity and education and training activities, with over 30,000 participants. In arranging and deploying efforts on carbon peak and carbon neutrality, the Group continued to promote "pollution reduction and carbon reduction" and "new technology, new process, new materials and new equipment" technology application projects, actively explored new channels and methods for energy conservation and pollution prevention, thus gradually promoting the green and low-carbon transformation and development of enterprise. Tongjitang Pharmaceutical and Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. were awarded the title of "National Green Factory", the highest-level award among national green development projects, for their outstanding performance in optimizing energy structure and improving production efficiency.

(V) Adhere to the concept of compliance management and build a strong fence for risk prevention and control

During the Reporting Period, the Group effectively exerted its audit supervision effectiveness to deploy internal control self-evaluation and supervision and evaluation work, and carried out inspections and rectifications in core businesses, key links and important positions to achieve closed-loop audit management. The Group comprehensively promoted compliance governance and introduced compliance data support services for real-time monitoring of operational risks and public opinion risks to improve in rapid emergency response and handling capabilities. The Group emphasized the construction of legal integration, actively played the role of legal review and risk prevention and control, and expanded legal education and compliance publicity. It innovatively opened up the "With Law Colleague" column to enhance the legal literacy and compliance awareness of all employees more broadly and profoundly.

(VI) Further the quality and efficiency improvement work and enhance lean management and loss control

During the Reporting Period, the Group carried out quality and efficiency improvement and loss control work to increase the efficiency of corporate operation and management. The Group conducted a special survey on the standard manufacturing costs of core business segments, and built a standard manufacturing cost system for the three major business segments including concentrated TCM granules, TCM finished drugs and TCM decoction pieces. It optimized the scale of loan portfolio, and accelerated the capital circulation and turnover of the industrial chain to effectively reduce financing costs, and promote industry-finance collaboration. The Group coordinated and carried out special work to improve quality and efficiency by replicating outstanding projects. During the Period, nearly 300 projects were approved to improve quality and efficiency, with economic benefits exceeding RMB100 million. The Group fully facilitated the application of lean management tools, and organized special training and lean improvement competitions, in order to reinforce the exchange and learning of lean concepts and methods, and improve the level of lean management practice. The Group executed the governance strategy of "classified governance, one policy for one enterprise, and supervision by leadership", coordinated the formulation of annual work plans, signed target responsibility letters, and strengthened efforts on assessment, so as to achieve goals of loss control and rectification.

IV. Policy Update

During the Reporting Period, various national departments issued multiple policies related to the development of TCM. The industry policies related to the Group are as follows:

On 10 February 2023, the NMPA issued the "Special Provisions on the Administration of Registration of Traditional Chinese Medicines" (《中藥註冊管理專門規定》) (the "Special Provisions"), which came into force on 1 July 2023. The Special Provisions has 11 chapters and 82 articles, including general principles, registration classification and marketing approval of TCM, rational application of empirical evidence for human use, innovative TCM, new improved TCM, TCM compound preparations based on ancient classical formulae, medicines with the same name and prescription, post-marketing changes, TCM registration standards, drug names and instructions, etc. The Special Provisions has, organically connecting with the newly revised "Drug Administration Law" (《藥品管理法》) and "Measures for the Administration of Drug Registration" (《藥品註冊管理辦法》), further refined relevant requirements for the R&D of TCM, and strengthened the management of new drug R&D and registration of TCM, on the basis of general regulations on drug registration management.

On 28 February 2023, the General Office of the State Council issued the "Implementation Plan for Major Projects of the Revitalization and Development of Traditional Chinese Medicine" (《中醫藥振興發展重大工程實施方案》), which specified the goals, tasks, supporting measures and departmental division for eight major projects. It has set up goals that by 2025, the construction of a high-quality and efficient TCM service system will be accelerated, the level of TCM disease prevention and treatment will be significantly improved, the technological innovation capability of TCM will be significantly increased, the quality of TCM will be continuously improved, TCM culture will be vigorously promoted, the international influence of TCM will be further enhanced, a significant progress will be made in the revitalization and development of TCM, and TCM will become an important support to promote the construction of the healthy China in an all-round way, etc.

On 1 March 2023, the Office of the National Healthcare Security Administration ("NHSA") issued the "Notice on Carrying out Centralized Medicine Procurement and Price Administration in 2023" (《關於做好2023年醫藥集中採購和價格管理工作的通知》) (the "Notice"). The Notice further improved the medicine price formation mechanism, and promoted the coordinated development and governance of medical insurance, medical care and medicine from six aspects, including promoting the centralized bulk-buying of drug and medical consumables, increasing the level of refined management of centralized procurement, strengthening the comprehensive control of drug prices, and focusing on optimizing the price and administration of medical services, aggregating to sixteen items. The Notice pointed out that in terms of promoting the centralized bulk-buying of drugs and medical consumables, the first is to continue to expand the coverage of centralized procurement of drugs, and the second is to promote the centralized bulk-buying of medical consumables.

On 29 June 2023, the Center for Food and Drug Inspection of the NMPA issued the "Technical Guidelines for GAP Implementation of Chinese Medicinal Herbs" (《中藥材GAP實施技術指導原則》) (the "Technical Guidelines") and "Guide for GAP Inspection of Chinese Medicinal Herbs" (《中藥材GAP檢查指南》) (the "Inspection Guide"). The Technical Guidelines provided important guidance and assistance for relevant TCM companies to implement the new GAP for Chinese medicinal herbs. It required companies to formulate unified management measures and technical procedures for relevant aspects, and implement such unified measures and procedures to the production and construction of bases through training and other means. The Inspection Guide clarified the inspection standards and key points of the GAP review for Chinese medicinal herbs, and provided reference for the self-inspection of enterprises, experts or third-party inspections.

On 21 July 2023, the National Health Commission ("NHC") announced on its website that the NHC, jointly with the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration for Market Regulation, the NHSA, the National Administration of Traditional Chinese Medicine ("NATCM"), the NMPA and other departments, recently held a video meeting, deploying and launching a year-long centralized rectification of corruption in China's medical and pharmaceutical field. The meeting specifically emphasized that, focusing on key areas such as production, supply, sales, use and reimbursement in the medical and pharmaceutical field and "key minorities", corruption will be resolutely punished with a "zero tolerance" attitude. In-depth systematic governance of the whole pharmaceutical industry and the entire chain with a full coverage will be carried out to further create a high-pressure situation, and promote an integrated approach of "dare not corrupt, cannot corrupt, do not want to corrupt".

On 25 July 2023, the NATCM and the National Health Commission announced the "Standards for Enhancing the Service Capability Construction of TCM Medical Institutions in Community Health Service Centers and Township Health Centers" (《社區衛生服務中心鄉鎮衛生院中醫館服務能力提升建設標準》) and the "Standards for the Construction of TCM Medical Cabinets in Village Clinics of Community Health Service Stations" (《社區衛生服務站村衛生室中醫閣建設標準》). The two standards provide specific references for enhancing the service capabilities of TCM medical institutions and the construction of TCM medical cabinets, covering aspects such as the establishment of TCM medical institutions, the establishment of TCM pharmacies, the allocation and training of TCM personnel, and TCM medical and rehabilitation services. The aim is to standardize the service content construction of TCM medical institutions in community health service centers and township health centers, improve comprehensive service capabilities, and better meet the demands of urban and rural residents for TCM services.

On 28 July 2023, the Central Commission for Discipline Inspection (中央紀委) and the National Supervisory Commission (國家監委) convened a mobilization meeting to deploy disciplinary inspection and supervisory organs to assist in the centralized rectification of corruption issues in the national medical and pharmaceutical field. The meeting emphasized that the centralized rectification of corruption in the medical and pharmaceutical field is an essential requirement for advancing the implementation of the "Healthy China" strategy, purifying the medical and pharmaceutical industry's ecosystem, and protecting the vital interests of the public. It highlighted the need to stimulate the inherent motivation to fulfill principal responsibilities through external supervisory forces and to carry out comprehensive, full-chain, and all-encompassing systematic governance in the medical and pharmaceutical industry. The meeting called for intensified discipline enforcement efforts, close attention to leaders and key position personnel, adherence to investigating both bribe-taking and bribe-giving simultaneously, and concentrated efforts to handle a batch of corruption cases in the medical and pharmaceutical field, thereby creating a powerful deterrent effect.

On 28 July 2023, the NATCM and NMPA jointly issued the "Key Information Table of Ancient Classic Formulas (including "Zhuye Shigao Decoction" among 25 Formulas)" (《古代經典名方關鍵信息表（「竹葉石膏湯」等25首方劑）》). The published Key Information Table of Ancient Classic Formulas listed out basic information such as the source, prescription, preparation method, and usage of the formulas, along with modern correspondences such as the names of the herbs, their sources and parts used, processing specifications, converted dosages, the usage and dosage, functions and indications, as well as explanatory notes, so as to accelerate the launch of TCM compound preparations based on ancient classic formulas, thereby better leveraging the distinctive advantages of TCM.

On 25 August 2023, Li Qiang, Premier of the State Council, presided over an executive meeting of the State Council, where the "High-Quality Development Action Plan for the Pharmaceutical Industry (2023-2025)" (《醫藥工業高質量發展行動計劃(2023 – 2025年)》) was considered and approved. The meeting emphasized that we should focus on the characteristics of great difficulty, long cycle and high investment in pharmaceutical R&D and innovation, give full support to the whole chain, encourage and guide leading pharmaceutical enterprises to develop and grow, improve industrial concentration and market competitiveness; we should give full play to the unique advantages of TCM, strengthen protection and safeguard the development safety of TCM.

On 2 September 2023, the NATCM and NMPA jointly issued the "Catalogue of Ancient Classic Formulas (Second Batch)" (《古代經典名方目錄(第二批)》), which includes 217 formulas. This issue aims to implement the "Law of the People's Republic of China on Traditional Chinese Medicine" (《中華人民共和國中醫藥法》) and the "Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Inheritance, Innovation, and Development of Traditional Chinese Medicine" (《中共中央國務院關於促進中醫藥傳承創新發展的意見》). It seeks to promote the research and development and simplify the registration and approval processes for TCM compound preparations derived from ancient classic formulas. This will help promote the inheritance and innovative development of TCM, advancing its modernization and internationalization.

On 10 September 2023, the China TCM Evidence-based Research Center issued a special evaluation report on the evidence and achievement transformation platform for comprehensive evaluation of TCM with the title of " Treatment of dominant diseases with TCM, TCM techniques and TCM varieties with unique therapeutic effects". As early as 20 October 2019, the "Opinions of the CPC Central Committee and the State Council on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine" (《中共中央國務院關於促進中醫藥傳承創新發展的意見》) clearly stated that the construction of the TCM evidence-based research center should be accelerated. In about 3 years, 50 dominant diseases treated by TCM, 100 suitable technologies and 100 TCM varieties with unique therapeutic effects will be screened and promptly released to the public in a timely manner. After four years of evaluation of TCM varieties, a catalogue of 100 TCM varieties based on evaluation evidence has been officially released. The Group's products including Yu Ping Feng Granules (玉屏風顆粒), Xianling Gubao Capsules (仙靈骨葆膠囊), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) and Angong Niuhuang Wan (安宮牛黃丸) were selected.

On 23 October 2023, the National Medical Products Administration issued the "Guidelines for Entrusted Production Site Inspection by Drug Marketing Authorisation Holders" (《藥品上市許可持有人委託生產現場檢查指南》), which was implemented from the date of publication. The document requires all provincial drug regulatory authorities to strengthen supervision and inspection on the entire drug production process and life cycle quality management of drug marketing authorisation holders, especially in the case of entrusted drug production. If it is found during the inspection that drug marketing authorisation holders and drug manufacturers violated the "Law on the Administration of Pharmaceuticals" (《藥品管理法》), "Measures for Production Supervision and Management of Drugs" (《藥品生產監督管理辦法》), the "Rules of Good Manufacturing Practice for Drugs" (《藥品生產質量管理規範》), the "Regulations on the Supervision and Administration of the Implementation of the Main Responsibility for Drug Quality and Safety by the Drug Marketing Authorisation Holder" (《藥品上市許可持有人落實藥品質量安全主體責任監督管理規定》), the "Announcement of the National Medical Products Administration on Strengthening the Supervision and Administration of Production Entrusted by the Drug Marketing Authorisation Holder" (《國家藥監局關於加強藥品上市許可持有人委託生產監督管理工作的公告》) and other relevant regulations. They shall be investigated and handled in accordance with laws and regulations.

On 13 December 2023, the National Healthcare Security Administration and the Ministry of Human Resources and Social Security jointly issued the "National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2023)" (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2023年)》). In this adjustment of the national reimbursement drug catalogue, a total of 126 drugs were added to the national reimbursement drug catalogue, and 1 drug was removed from the catalogue. After the adjustment, the total number of drugs in the national reimbursement drug catalogue reached 3,088, including 1,698 western drugs and 1,390 Chinese patent medicines. There are still 892 TCM decoction pieces. The drug catalogue was officially implemented from 1 January 2024.

On 15 December 2023, the National Development and Reform Commission and the Ministry of Commerce jointly issued the "Opinions on Supporting the Relaxation of Special Measures on Market Access in the Hengqin Guangdong-Macao Deep Cooperation Zone" (《關於支持橫琴粵澳深度合作區放寬市場准入特別措施的意見》), which points out the relaxation of market access for TCM, encourages Macao medical institutions to develop and produce TCM preparations in Guangdong and Macao medical institutions' TCM preparation centers, allows Guangdong and Macao medical institutions' TCM preparation centers to undertake the entrusted preparation of TCM preparations from medical institutions outside Guangdong Province, and supports the transformation of Chinese herb preparations developed by the TCM preparation centers of medical institutions in Guangdong and Macao into innovative TCM, and if complies with relevant regulations, Phase I and II clinical trials may not be conducted.

On 22 December 2023, the National Health Commission issued the "Guidelines for Service Capacity Evaluation of Township Health Centers (2023 version)" (《鄉鎮衛生院服務能力評價指南(2023版)》) and the "Guidelines for Service Capacity Evaluation of Community Health Service Centers (2023 version)" (《社區衛生服務中心服務能力評價指南(2023版)》). On the basis of dividing service capabilities into two levels: "basic standards" and "recommended standards", in order to further strengthen classification guidance, these documents add a new "qualified standard" level for township health centers and community health service centers with less than 10 medical staffs and serving less than 10,000 populations. They further refine the content and connotation of the indicators and clauses in aspects such as the allocation of medical staffs in primary medical and health institutions, the establishment of TCM medical institutions and emergency departments, etc., primary epidemic prevention and control capabilities, TCM medical service capabilities, primary medical insurance management and safe production, clarify the evaluation methods, and update and supplement references, etc., to improve the guidance and operability and make them more in line with the actual situation at the grassroots level.

On 12 January 2024, the National Healthcare Security Administration issued the "Notice on Strengthening the Supply Guarantee of Selected Products in Centralized Pharmaceutical Procurement" (《關於加強醫藥集中帶量採購中選產品供應保障工作的通知》), which requires the medical insurance bureaus of all provinces, autonomous regions and municipalities directly under the central government to attach great importance to the supply guarantee of selected products in centralized procurement, effectively assume the responsibilities of supply monitoring, supervision and rectification and handling breach of contract, and refine and improve specific policies and measures to ensure that the public continues to enjoy the results of the centralized procurement reform from six aspects: timely organization and signing of purchase agreements, smooth channels for feedback from medical institutions, active coordination and response to short-term surges in demand, monitoring the supply of selected products, exploring the establishment of a supply evaluation mechanism and strengthening the application of supply evaluation results.

V. Work Arrangement for the Next Step

Looking forward to 2024, opportunities outweigh the challenges. The Group will implement the plans for deepening reforms and upgrading, seize development opportunities, and unswervingly follow the development path of the whole TCM healthcare industry chain. It will build core competitiveness in collaboration, innovation, talent, brand, marketing and other aspects, and promote the construction of excellent operation system, comprehensively improve the efficiency of operation and management, and strive to write a new chapter of high-quality development of TCM with practical results. Specific measures include:

Firstly, coordinate and promote the high-quality development of the whole TCM healthcare industry chain. Strengthen and optimize the production and operation of Chinese medicinal herbs, shift from pursuing business scale to focusing on business quality, shift from standardized planting to GAP planting, shift from cooperative planting to self-operation and parallel cooperation, strengthen the transformation and application of the results of standardized technology demonstration bases; strengthen the internal coordination mechanism of TCM decoction pieces production, improve business management efficiency, promote centralized procurement experience, continue to expand the decoction distribution center business, improve the supply guarantee capacity of TCM decoction varieties, implement local policies based on local conditions to create local industry advantages; continue to carry out research on national and provincial standards for TCM formula granules, expand the coverage of national and provincial standard filings, optimize production capacity layout, reduce production and supply costs, comprehensively promote the transformation and upgrading of the marketing system, reasonably match sale expenses, and establish a set of measures to increase the use of concentrated TCM granules under new situations such as standard switching and centralized procurement; break through the market share of key major varieties and exclusive varieties of TCM finished drugs, strengthen evidence-based medical research on products, deepen end customer development work, expand and improve the OTC business, accelerate the implementation of media advertising projects, spread brand image; accelerate the construction of an integrated TCM healthcare product industry system, benchmark advanced enterprises, optimize and upgrade of product lines, create the healthcare product brand matrix; accelerate the layout of TCM medical institutions in key regions, promote the implementation of benchmark projects, continuously cultivate existing TCM medical institutions, implement standardized and intensive management, use "digital TCM medical institutions" as support to promote the in-depth integration of third-line and three-dimensional businesses and enhance customer service capabilities.

Secondly, resolutely promote the action for deepening reforms and upgrading, comprehensively deepen reforms in key areas and key links, coordinate and strengthen collaborative strategies from a holistic perspective, improve the operational excellence of group enterprises, promote the improvement of internal operation and management levels on a point-to-area basis and build the core competitiveness of enterprises.

Thirdly, strictly control the legal compliance review, focus on cultivating compliance culture and early warning of compliance risks, improve the long-term mechanism for style construction, deepen and improve the institutionalization and systematization of compliance management, and form a compliance-centered corporate culture.

Fourthly, continue to carry out research and development work on resources of Chinese medicinal herbs, processing of TCM decoction pieces, standards of concentrated TCM granules, evidence-based medicine research on TCM finished drugs, innovative TCM, etc., strengthen the "bottleneck" key core technology research, consolidate and enhance the power of the scientific and technological engine; fully utilize the human resource digital platform, continue to build and upgrade the talent system with TCM characteristics, strengthen the construction and operation of the employer brand system, and enhance the influence of the employer brand.

Fifthly, continue to improve the dual dimensional assessment mechanism of "process + result", strengthen supervision and inspection and hidden danger investigation and management, consolidate the main responsibility of enterprises for safe production; adhere to the concept of green development, promote the green transformation of industrial technology of enterprises, accelerate digital transformation process of enterprises, implement the overall goal of "digital TCM", and achieve the coordinated development of green and digital enterprises.

Sixthly, formulate and improve the "Sino-TCM" brand communication strategy, strengthen the synergy between brand communication and business promotion, establish strong brand recognition of "Sino-TCM" that stands for "high-quality Chinese medicinal herbs from main origins" and "national brand", promote the internationalization research of TCM standards, strengthen international registration and overseas certification, focus on expanding international operations and cooperation, and promote the international development of TCM products.

BUSINESS ANALYSIS

During the Reporting Period, the Group's revenue was approximately RMB18,121,861,000, representing an increase of 26.7% from approximately RMB14,304,242,000 for the same period last year. Revenue and cost of sales of each business segment are as follows:

	Twelve months ended 31 December					
Business segments	**2023 Revenue RMB'000**	2022 Revenue RMB'000	Change	**2023 Cost of sales RMB'000**	2022 Cost of sales RMB'000	Change
Chinese medicinal herbs integration business	**1,855,534**	1,272,761	45.8%	**1,663,227**	1,200,719	38.5%
TCM decoction pieces	**2,811,368**	1,933,386	45.4%	**2,216,989**	1,533,053	44.6%
Concentrated TCM granules	**9,108,382**	7,710,933	18.1%	**3,143,807**	2,869,964	9.5%
TCM finished drugs	**3,994,333**	3,121,636	28.0%	**1,566,796**	1,313,843	19.3%
TCM great health products	**212,832**	134,202	58.6%	**174,326**	107,315	62.4%
TCM medical institutions	**139,412**	131,324	6.2%	**82,224**	80,896	1.6%
Total	**18,121,861**	14,304,242	26.7%	**8,847,369**	7,105,790	24.5%

1. Chinese medicinal herbs integration business

	Twelve months ended 31 December		
	2023 RMB'000	2022 RMB'000	Change
Revenue	**1,855,534**	1,272,761	45.8%
Cost of sales	**1,663,227**	1,200,719	38.5%
Gross profit	**192,307**	72,042	166.9%
Gross profit margin	**10.4%**	5.7%	4.7pp

During the Reporting Period, the revenue of the Chinese medicinal herbs integration business segment was approximately RMB1,855,534,000, representing an increase of 45.8% compared with the revenue of approximately RMB1,272,761,000 for the same period last year and accounting for 10.2% of the total revenue. The rapid growth trend of the Chinese medicinal herbs integration business segment was mainly because: (1) various industrial parks further enhanced the supply capacity of authentic Chinese medicinal herbs by leveraging on the localised resources strength and focusing on core varieties in industrial parks; and (2) the Chinese medicinal herbs operation business continued to soar due to the significant progress made in the acquisition of new customers during the Period.

The gross profit margin during the Period was 10.4%, representing an increase of 4.7 percentage points compared with 5.7% for the same period last year, which was mainly attributed to the fact that: (1) the value creation of upstream resources came along with the improvement in the construction scale and quality of Chinese medicinal herbs bases; and (2) the higher market price of Chinese medicinal herbs had a positive impact on the growth of gross profit.

2. TCM decoction pieces

	Twelve months ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change
Revenue	**2,811,368**	1,933,386	45.4%
Cost of sales	**2,216,989**	1,533,053	44.6%
Gross profit	**594,379**	400,333	48.5%
Gross profit margin	**21.1%**	20.7%	0.4pp

During the Reporting Period, the revenue of the TCM decoction pieces business segment was approximately RMB2,811,368,000, representing an increase of 45.4% compared with the revenue of approximately RMB1,933,386,000 for the same period last year and accounting for 15.5% of the total revenue. TCM decoction pieces business segment showed a robust development momentum, which was mainly because: (1) the Company deployed the decoction piece industry in multiple parts of the country, and the business scale of TCM decoction pieces continued to expand; (2) the Company deeply penetrated its marketing force into the field of medical terminal, and enhanced driven force of the business model of sharing of TCM · intelligent distribution centers to boost the expansion of the medical terminal market; and (3) product competitiveness and brand influence were improved by continuously taking advantage of the specialty decoction pieces varieties.

The gross profit margin for the Period was 21.1%, representing an increase of 0.4 percentage point compared with 20.7% for the same period last year. The increase in gross profit margin was mainly because: (1) the fresh-cutting business of Chinese medicinal herbs showed initial results, benefits of production synergy of TCM decoction pieces appropriately alleviated the upward pressure on the cost and price of Chinese medicinal herbs; and (2) the profitability of traceable decoction pieces was enhanced and the product structure was optimized.

3. Concentrated TCM granules

	Twelve months ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change
Revenue	**9,108,382**	7,710,933	18.1%
Cost of sales	**3,143,807**	2,869,964	9.5%
Gross profit	**5,964,575**	4,840,969	23.2%
Gross profit margin	**65.5%**	62.8%	2.7pp

During the Reporting Period, the revenue of the concentrated TCM granules business segment was approximately RMB9,108,382,000, representing an increase of 18.1% compared with the revenue of approximately RMB7,710,933,000 for the same period last year and accounting for 50.3% of the total revenue. The significant recovery of revenue from the concentrated TCM granules business segment was mainly attributed to the fact that: (1) the Company made continuous and enhanced efforts on tackling technical problems of the national and provincial standards for key difficult varieties during the Period, which resulted in a continuous increase in the number of standard varieties, while promoting the filing of varieties and replacement of end customer products; (2) the Company continued to explore and optimize processes of national and provincial standard products, so that product supply became more stable; and (3) the Company accelerated market penetration, and sales volume increased steadily during the Period.

The gross profit margin during the Period was 65.5%, representing an increase of 2.7 percentage points compared with 62.8% for the same period last year, which was mainly driven by the scale effect, plus an improvement in gross profit level due to strengthened lean management during the Period.

4. TCM finished drugs

	Twelve months ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change
Revenue	**3,994,333**	3,121,636	28.0%
Cost of sales	**1,566,796**	1,313,843	19.3%
Gross profit	**2,427,537**	1,807,793	34.3%
Gross profit margin	**60.8%**	57.9%	2.9pp

During the Reporting Period, the revenue of the TCM finished drugs business segment was approximately RMB3,994,333,000, representing an increase of 28.0% compared with the revenue of approximately RMB3,121,636,000 for the same period last year and accounting for 22.0% of the total revenue. The sound development of the TCM finished drugs business segment was mainly attributed to the strengthened development and promotion efforts and remarkable development at the medical ends during the Period, which led to the significant increase in the sales of core varieties. Among them, the sales of our key products such as Huashi Baidu Granules (化濕敗毒顆粒), Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊/片) and Yu Ping Feng Granules (玉屏風顆粒) increased by over 50%.

The gross profit margin during the Period was 60.8%, representing an increase of 2.9 percentage points compared with 57.9% for the same period last year, which was mainly attributed to the increase in selling prices of some varieties and the further optimization of product structure during the Period.

5. TCM great health products

	Twelve months ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change
Revenue	**212,832**	134,202	58.6%
Cost of sales	**174,326**	107,315	62.4%
Gross profit	**38,506**	26,887	43.2%
Gross profit margin	**18.1%**	20.0%	-1.9pp

During the Reporting Period, the revenue of TCM great health products business segment was approximately RMB212,832,000, representing an increase of 58.6% compared with the revenue of approximately RMB134,202,000 for the same period last year and accounting for 1.2% of the total revenue. TCM great health products business segment showed a rapid growth momentum, which was mainly because: (1) the Company focused on its self-owned brand products business, and actively expanded sales channels, which led to a significant increase in the sales of a series of characteristic products such as roxburgh rose; and (2) the Company strengthened product innovation, and achieved initial results in business exploration of functional products, Chinese medicine homologous food products, food for special dietary uses and other products.

The gross profit margin during the Period was 18.1%, representing a decrease of 1.9 percentage points compared with 20.0% for the same period last year, which was mainly due to the promotion campaign for some products during the Period, resulting in a decrease in gross profit.

6. TCM medical institutions

	Twelve months ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change
Revenue	**139,412**	131,324	6.2%
Cost of sales	**82,224**	80,896	1.6%
Gross profit	**57,188**	50,428	13.4%
Gross profit margin	**41.0%**	38.4%	2.6pp

During the Reporting Period, the revenue of TCM medical institutions business segment was approximately RMB139,412,000, representing an increase of 6.2% compared with the revenue of approximately RMB131,324, 000 for the same period last year and accounting for 0.8% of the total revenue. The steady and yet improving momentum of TCM medical institutions business segment was mainly attributed to: (1) the continuous improvement in capability to provide specialty services of TCM, which led to an increase in patient flow; and (2) a new impetus injected by TCM medical institutions in Beijing into the incremental development of the business segment driven by the advancement of strategic layout.

The gross profit margin during the Period was 41.0%, representing an increase of 2.6 percentage points compared with 38.4% for the same period last year, which was mainly due to the growth of high-margin physiotherapy business and the optimization of sales structure.

FINANCIAL REVIEW

Other income

For the twelve months ended 31 December 2023, the Group's other income was approximately RMB290,015,000, representing an increase of 26.1% from approximately RMB230,010,000 for the same period last year. Such increase was mainly because the Group received government grants of approximately RMB216,911,000 during the Reporting Period, representing an increase of 42.5% from approximately RMB152,251,000 for the same period last year.

Other gains and losses

For the twelve months ended 31 December 2023, the Group's other gains were approximately RMB4,287,000 (twelve months ended 31 December 2022: other losses of approximately RMB193,773,000). During the Reporting Period, the changes in other gains and losses were mainly due to the fact that: impairment provided for property, plant and equipment was approximately RMB20,773,000 in total, representing a significant decrease from the impairment of approximately RMB135,075,000 provided for the same period last year.

Impairment losses under expected credit loss model, net of reversal

As at 31 December 2023, the balance of trade receivables of the Group had increased by 20.2% as compared to the beginning of the year, which was mainly driven by the growth in revenue during the Period. The overall risk of credit impairment was roughly equal to that as at the end of last year. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss approximately was RMB9,366,000 during the Period, compared to approximately RMB10,073,000 for the same period last year.

Selling and distribution costs

For the twelve months ended 31 December 2023, the Group's selling and distribution costs were approximately RMB6,403,201,000 (twelve months ended 31 December 2022: approximately RMB4,604,098,000), representing an increase of 39.1% compared with the same period last year, which was mainly because: (1) during the previous period, being at the early stage of transition from the original standards to the new ones of concentrated TCM granules products, the investment in sales resources of the Company was reduced in stages subject to market conditions, whereas during the Period, in order to accelerate the promotion of concentrated TCM granules with national and provincial standards, promotional activities have been launched to explore market, resulting in a year-on-year increase in the expenses related to marketing and services; and (2) brand building work was carried out systematically, and the expenses related to brand promotion increased during the Period.

Administrative expenses

For the twelve months ended 31 December 2023, the Group's administrative expenses were approximately RMB1,043,318,000 (twelve months ended 31 December 2022: approximately RMB944,404,000), representing an increase of 10.5% compared with the same period last year, which was mainly attributed to that: (1) the number of management members grew and so as their remuneration as a result of the expansion of operation scale of our subsidiaries, in particular the industrial parks; and (2) depreciation expenses increased during the Period.

Research and development expenses

For the twelve months ended 31 December 2023, the Group's research and development ("R&D") expenses amounted to approximately RMB685,632,000, representing an increase of 12.1% over approximately RMB611,831,000 for the same period last year. During the Reporting Period, research and development expenses were mainly used for: (1) research to improve quality standards, focusing on standards research for concentrated TCM granules; (2) research to improve future efficiency, focusing on R&D of innovative drugs as well as classical formulae; and (3) research to improve future efficiency, focusing on equipment development and improvement.

Finance costs

For the twelve months ended 31 December 2023, the Group's finance costs were approximately RMB199,045,000 (twelve months ended 31 December 2022: RMB220,695,000), representing a year-on-year decrease, which was mainly due to the adjustments to the Group's financing products structure during the Period, resulting in a decrease in the effective loan interest rate year-on-year. During the Reporting Period, the Group's effective loan interest rate was 2.78% (twelve months ended 31 December 2022: 3.08%). The Group will continue to closely monitor the changes in market interest rate, adjust its borrowing and fundraising mechanism as appropriate, and refinance or enter into new agreements for existing bank loans, when favourable opportunities for bargaining arise.

Loss from investment in associates

For the twelve months ended 31 December 2023, the Group recorded shared loss attributable to associates of approximately RMB3,699,000, and approximately RMB3,479,000 for last year, which was mainly recorded from three associates, namely Guangdong Haisikanger Rehabilitation Medical Co., Ltd., Huizhou Gehong TCM Clinics Co., Ltd., and Liaoxingtang (Foshan Nanhai) TCM Clinic Co., Ltd.

Profit for the year

For the twelve months ended 31 December 2023, the Group's profit for the Period was approximately RMB1,396,070,000, representing an increase of 93.6% as compared with approximately RMB720,965,000 for the same period last year, with a significant year-on-year increase in revenue and an increase in profit for the Period. The net profit margin (defined as profit divided by revenue for the Period) was 7.7%, representing an increase of 2.7 percentage points from 5.0% for the same period last year, which was mainly attributed to: (1) the Company continued to improve quality and efficiency, innovated management methods, and the proportion of administrative expenses to revenue decreased; and (2) the change in non-recurring profit and loss during the Period changed from other loss to other income, mainly due to the decrease in asset impairment losses compared with last year and the increase in income from asset disposal.

Earnings per share

For the twelve months ended 31 December 2023, basic earnings per share were RMB25.52 cents, representing an increase of 68.1% over RMB15.18 cents for the same period last year. The increase in basic earnings per share was because profit attributable to equity holders of the Company during the Reporting Period increased by 68.1% to approximately RMB1,285,200,000 (twelve months ended 31 December 2022: RMB764,486,000).

Liquidity and financial resources

As at 31 December 2023, the Group's current assets amounted to approximately RMB19,799,846,000 (31 December 2022: RMB17,966,676,000), which included cash, cash equivalents and bank deposits of approximately RMB3,267,276,000 (31 December 2022: RMB3,179,783,000), of which the pledged bank deposits amounted to approximately RMB249,958,000, mainly for bills payable security (31 December 2022: RMB114,729,000). Trade and other receivables amounted to approximately RMB9,686,644,000 (31 December 2022: RMB8,141,891,000). Current liabilities amounted to approximately RMB9,332,600,000 (31 December 2022: RMB10,102,784,000). Net current assets aggregated to approximately RMB10,467,246,000 (31 December 2022: RMB7,863,892,000). The Group's current ratio was 2.1 (31 December 2022: 1.8). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity holders of the Company) decreased from 24.6% as at 31 December 2022 to 23.9%. The slight decrease in gearing ratio was mainly due to that the increase of profit for the year brought about an increase of 4.9% to the equity attributable to equity holders of the Company compared with last year while the liability scale remained basically the same as last year.

Bank and other loans and pledge of assets

As at 31 December 2023, the Group's bank and other loans balance was approximately RMB3,034,020,000 (31 December 2022: RMB1,721,328,000), of which approximately RMB535,783,000 was secured borrowings (31 December 2022: RMB459,127,000). Out of the bank and other loans balance, approximately RMB2,120,207,000 and RMB913,813,000 were repayable within one year and over one year respectively (31 December 2022: approximately RMB1,255,268,000 and RMB466,060,000, respectively).

As at 31 December 2023, the Group's bank deposits of RMB249,958,000, land use rights with carrying values of RMB91,902,000, investment property and property, plant and equipment with carrying values of RMB672,502,000 and bills receivable with carrying values of RMB213,481,000 were pledged to secure certain borrowings and the issuance of bills payables of the Group. (31 December 2022: bank deposits of RMB114,729,000, land use rights of RMB140,835,000, investment property and property, plant and equipment of RMB635,284,000 and bills receivable of RMB211,748,000 were pledged).

Capital sources

The Group meets its working capital needs mainly through funds derived from its operating and external financing activities. During the Reporting Period, the Group issued new 200-day Super & Short-term Commercial Paper of RMB1 billion and three-year medium-term notes of RMB1.2 billion in the second quarter of 2023 to succeed the three-year medium-term notes of RMB2.2 billion due in the second quarter of 2023. The Group issued 270-day Super & Short-term Commercial Paper of RMB800 million in the third quarter of 2023, together with its self-owned funds, to succeed the Super & Short-term Commercial Paper of RMB1 billion due in the third quarter of 2023. The Group raised RMB1 billion through short-term bank borrowings to supplement working capital in stages. As the discount rate in the bills market continued to decline, the Group obtained bills discount finance of RMB400 million and used it as a reserve for the procurement of materials. Apart from the above, no major financing activity has been carried out. As at 31 December 2023, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB6,504,027,000.

Capital expenditure

For the twelve months ended 31 December 2023, the Group's investments in fixed asset and intangible asset was approximately RMB750,233,000, compared with approximately RMB753,162,000 for the same period last year. During the Reporting Period, capital expenditure was mainly used for subsequent investment in some continuous establishment projects of production bases for concentrated TCM granules and TCM decoction pieces, as well as expense for expansion of extraction capacity.

Financing capacity

As at 31 December 2023, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB152,870,000 (31 December 2022: approximately RMB153,576,000). Such capital commitments were mainly used for the construction of plants and purchase of production facilities. The Group is of the view that with available cash balance, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and recognition and support from major financial institutions, the Group will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 31 December 2023 (31 December 2022: nil).

Financial risk

The Group mainly operates in Chinese mainland, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 31 December 2023, the Group had no Hong Kong Dollar bank borrowings. As at 31 December 2023, the Group did not enter into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Plans for material investments or capital assets

During the Reporting Period, the Group has no plans for material investments or capital assets.

Employees and remuneration policies

As at 31 December 2023, the Group had a total of 17,303 (31 December 2022: 17,662) employees, including the Directors, of which 5,811 were sales staff, 6,528 were manufacturing staff, and 4,964 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration for the Reporting Period was approximately RMB2,387,329,000 (twelve months ended 31 December 2022: RMB2,168,604,000).

SUBSEQUENT EVENT

Pre-conditional Proposal for the Privatisation of the Company

On 21 February 2024, Sinopharm Common Wealth Company Limited (the "Offeror") and the Company jointly published an announcement (the "Joint Announcement"). As disclosed in the Joint Announcement, the Offeror requested the Board to put forward to the Scheme Shareholders a pre-conditional proposal for the privatisation of the Company by the Offeror by way of a scheme of arrangement under section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which, if approved, would result in the withdrawal of listing of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For details, please refer to the Joint Announcement. Unless otherwise defined, capitalised terms used in this section headed "SUBSEQUENT EVENT" shall have the same meanings as those defined in the Joint Announcement.

As stated in the Joint Announcement, subject to and after satisfaction of the Pre-Condition(s), a Scheme Document including further details of the Proposal and the Scheme, an explanatory statement of the Scheme, the expected timetable relating to the Proposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee, notices of the Court Meeting and the EGM as well as other particulars required by the Takeovers Code will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code and the Applicable Laws. As additional time is required for satisfying the Pre-Conditions, an application was made to the Executive pursuant to Note 2 to Rule 8.2 of the Takeovers Code for, and the Executive has granted consent for, the extension of the latest date for despatching the Scheme Document to (i) a date no later than seven (7) days after the fulfilment of all Pre-Conditions; or (ii) 25 October 2024, being the date which is seven (7) days after 18 October 2024, the current Pre-Condition Long Stop Date, whichever is earlier. Further announcement(s) will be made as and when appropriate in compliance with the Takeovers Code in relation to the satisfaction of Pre-condition(s) and the despatch of the Scheme Document. For further details of the extension of time for the despatch of the Scheme Document, please refer to the joint announcement dated 11 March 2024 jointly issued by the Offeror and the Company.

FINAL DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: RMB4.55 cents (i.e. HK5.18 cents) per share).

The Directors are pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of traditional Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2023, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2023 are set out in the section headed "Management Discussion and Analysis" and the consolidated financial statements on pages 91 to 208 of this annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: RMB4.55 cents per share (i.e. HK5.18 cents per share)).

DIVIDEND POLICY

The Board has adopted a dividend policy, with effect from 1 January 2019. The dividend policy of the Company aims to provide reasonable and sustainable returns to the shareholders and at the same time, maintain a stable financial position so that the Company can fully grasp any available investment and expansion opportunities from time to time.

The Board may declare dividends on an annual basis and/or declare interim dividends (as the case may be). Dividends may be distributed in the form of cash or shares. The Company determines the profit attributable to its shareholders based on the Hong Kong Accounting Standards. The Board must take into account:

– the Group's actual and anticipated operating results, liquidity and financial condition;

– capital commitment requirement;

– market environment and challenges;

– future development and investment opportunities; and

– any other factors that the Board deems appropriate.

The management will continue to review the dividend policy and propose any amendments for the Board's approval.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders by the Company as at 31 December 2023 are approximately RMB0.985 billion (31 December 2022: approximately RMB0.885 billion).

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 17 and 18 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 34 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS AND UNSECURED NOTES

Particulars of bank loans and other borrowings and unsecured notes of the Group as at 31 December 2023 are set out in notes 32 and 33 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2023 are set out in note 42 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DIRECTORS

The Board comprises the following Directors during the Reporting Period and up to the date of this report:

Executive Director

Mr. CHEN Yinglong	*Chairman*

Non-executive Directors

Mr. CHENG Xueren	*(re-designated from an executive Director and managing Director to a non-executive Director on 21 March 2024)*
Mr. YANG Wenming	*(re-designated from an executive Director to a non-executive Director on 21 March 2024)*
Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. MENG Qingxin	
Mr. KUI Kaipin	*(resigned on 29 August 2023)*

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

During the Reporting Period and up to the date of this report, Mr. CHENG Xueren resigned as the president of the Company and was re-designated from an executive Director and the managing Director to a non-executive Director on 21 March 2024 due to reaching retirement age. Mr. YANG Wenming resigned as the vice president of the Company and was re-designated from an executive Director to a non-executive Director on 21 March 2024 due to reaching retirement age. Mr. KUI Kaipin resigned as a non-executive Director on 29 August 2023 due to change of his work arrangement.

Each of the independent non-executive Directors has submitted an annual confirmation letter to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the "Articles of Association").

In accordance with Article 101 of the Articles of Association, Ms. LI Ru, Mr. YANG Binghua, Mr. XIE Rong and Mr. LI Wedong shall retire by rotation at the forthcoming annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the AGM has an unexpired employment agreement or appointment letter which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 77 to 83 of this report.

EXECUTIVE DIRECTOR'S EMPLOYMENT AGREEMENT

Mr. CHEN Yinglong entered into an employment agreement with the Company with effect from 12 May 2022, which shall automatically be effective thereafter until terminated by either party by giving a one month's prior notice.

NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Mr. CHENG Xueren entered into an appointment letter with the Company for a term of three years commencing from 21 March 2024.

Mr. YANG Wenming entered into an appointment letter with the Company for a term of three years commencing from 21 March 2024.

Ms. LI Ru renewed an appointment letter with the Company for a term of three years commencing from 18 February 2022.

Mr. YANG Binghua renewed an appointment letter with the Company for a term of three years commencing from 24 December 2021.

Mr. WANG Kan renewed an appointment letter with the Company for a term of three years commencing from 24 December 2021.

Mr. MENG Qingxin entered into an appointment letter with the Company for a term of three years commencing from 19 November 2022.

INDEPENDENT NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Mr. XIE Rong renewed an appointment letter with the Company for a term of three years commencing from 5 February 2022.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of three years commencing from 25 November 2022.

Mr. QIN Ling entered into an appointment letter with the Company for a term of three years commencing from 18 February 2022.

Mr. LI Weidong entered into an appointment letter with the Company for a term of three years commencing from 18 February 2022.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year.

DONATIONS

During the Reporting Period, the charitable and other donations (including material object in kind) made by the Group amounted to RMB14,455,000.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2023, the fee for the eligible independent non-executive Directors was fixed at HK$250,000 per annum.

PERMITTED INDEMNITY PROVISION

Article 178 of the Articles of Association provides that every Director or other officer or auditors shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the year and remained in force as of the date of this report.

Article 179 of the Articles of Association provides that every Director or other officer or auditors shall be entitled to be insured against any liability to the Company, an associated company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or an associated company. The Company has arranged appropriate liability insurance to indemnify its Directors and officers in respect of legal actions against the Directors. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information after the date of 2023 interim report is as follows:

– Mr. CHENG Xueren was re-designated from an executive Director and managing Director to a non-executive Director, with effect from 21 March 2024.

– Mr. YANG Wenming was re-designated from an executive Director to a non-executive Director, with effect from 21 March 2024.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2023, none of the Directors and chief executives of the Company had 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 Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 31 December 2023, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) *(Note 1)*	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) *(Note 1)*	32.46%
Ping An Life	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An Group	Interest of controlled corporations	604,296,222 (long position) *(Note 2)*	12.00%

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by China National Pharmaceutical Group Corporation ("CNPGC").

2. The 604,296,222 shares are held by Ping An Life Insurance Company of China Ltd. ("Ping An Life") which is a subsidiary of Ping An (Group) Company of China, Ltd. ("Ping An Group"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under the SFO.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions of the shareholders (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as at 31 December 2023.

CONTINUING CONNECTED TRANSACTIONS

Deposit Service Agreement with Ping An Bank Co., Ltd. ("Ping An Bank")

On 15 January 2020, the Company and Ping An Bank entered into the deposit service agreement (the "Deposit Service Agreement"), pursuant to which Ping An Bank agreed to provide deposit service to the Group commencing from 15 January 2020 for a term of three years.

In accordance with the Deposit Service Agreement, the annual caps for the deposit service during the validity term of the agreement (i.e. from 15 January 2020 to 14 January 2023) shall be the maximum daily deposit balance of not higher than RMB600,000,000 (including any interest accrued thereon).

Ping An Bank is a subsidiary of Ping An Group, which is the holding company of Ping An Life. Ping An Life holds 604,296,222 shares, representing approximately 12% of the total number of issued shares of the Company. Ping An Bank is therefore a connected person of the Company as defined in the Listing Rules, and the transactions contemplated under the Deposit Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board is of the view that entering into the Deposit Service Agreement is in the interest of the Group as it provides the Group with more options in respect of its funding management and the Group shall at its sole discretion select the most suitable service provider. In addition, in view of the close relationship between the Group and Ping An Group, it is expected that the application procedures for deposit service of Ping An Bank will be more efficient, convenient and flexible as compared to those of independent commercial banks, and the terms offered by Ping An Bank under the Deposit Service Agreement will be no less favorable than those offered by independent commercial banks to the Group.

For further details of the Deposit Service Agreement, please refer to the announcement of the Company dated 15 January 2020.

During the period from 1 January 2023 to 14 January 2023, the maximum daily deposit balance by the Group from Ping An Bank amounted to RMB15,201,000 which was below the cap for the maximum daily deposit balance of RMB600 million (including any interest accrued thereon) for such period.

Factoring Services Framework Agreement with Sinopharm Puxin Commercial Factoring Company Limited ("Sinopharm Puxin")

On 27 December 2023, Shandong Yifang Pharmaceutical Co., Ltd. and its subsidiary ("Shandong Yifang") entered into the factoring services framework agreement (the "Factoring Services Framework Agreement") with Sinopharm Puxin, pursuant to which Sinopharm Puxin agreed to provide commercial factoring services to Shandong Yifang during the period from 27 December 2023 to 26 December 2024.

The Board advised the agreement cap of the Factoring Services Framework Agreement and the transactions contemplated thereunder is RMB50,000,000. The agreement cap of the Factoring Services Framework Agreement and the transactions contemplated thereunder is determined with reference to the forecast of the financing needs of Shandong Yifang in terms of obtaining commercial factoring services from Sinopharm Puxin combined with its average daily factoring scale from 2023 to 2024. At the same time, a portion of buffer has been reserved from a prudent perspective after taking into account fluctuations in the price of capital in the future and small fluctuations in the business volume of Shandong Yifang.

Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares of the Company, representing approximately 32.46% of the total number of issued shares of the Company, and the Group holds 87.30% equity of Shandong Yifang. As at the date of this report, Sinopharm Puxin is a wholly-owned subsidiary of CNPGC, and CNPGC is the parent company of Sinopharm Hongkong. As such, Sinopharm Puxin is a connected person of the Company and the Factoring Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The execution of the Factoring Services Framework Agreement would enable Shandong Yifang to expand the diversified financing channels and optimise its financial structure, and its efficiency of capital usage would also be improved.

As far as the Directors are aware, Sinopharm Puxin has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations of the PRC. Meanwhile, the Group will also adopt reasonable internal control procedures and corporate governance measures in relation to its utilisation of the commercial factoring services provided by Sinopharm Puxin to Shandong Yifang.

For further details of the Factoring Services Framework Agreement, please refer to the announcement of the Company dated 27 December 2023.

During the period from 27 December 2023 to 31 December 2023, the actual factoring services provided by Sinopharm Puxin to Shandong Yifang amounted to RMB47,448,000 which was below the agreement cap of RMB50,000,000 for the term of such agreement.

Master Purchase Agreement and Master Supply Agreement with CNPGC (2023-2025)

On 11 November 2022, the Company and CNPGC entered into master agreements (the "Master Agreements") to govern the terms of the purchases and the sales and to set the annual caps for the three years ended/ending 31 December 2023, 2024 and 2025.

Pursuant to the master purchase agreement (the "Master Purchase Agreement"), the Group conditionally agreed to purchase TCM and chemical materials (the "Materials") to be supplied by the CNPGC and its subsidiaries (the "CNPGC Group") during the period from 1 January 2023 to 31 December 2025. The value of the purchases shall not exceed the annual caps of RMB300 million, RMB450 million and RMB675 million for each of the three years ended/ending 31 December 2023, 2024 and 2025 respectively.

Pursuant to the master supply agreement (the "Master Supply Agreement"), the Group conditionally agreed to sell the pharmaceutical products (the "Products") to the CNPGC Group during the period from 1 January 2023 to 31 December 2025. The value of the sales shall not exceed the annual caps of RMB1,750 million, RMB2,100 million and RMB2,500 million for each of the three years ended/ending 31 December 2023, 2024 and 2025 respectively.

The principal business activities of the Group are the manufacture and sales of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. CNPGC is the parent company of Sinopharm Hongkong. As such, CNPGC is a connected person of the Company. The Master Purchase Agreement and the Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Master Agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is the only life- and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering research and development, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc. Members of the CNPGC Group have been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The Master Purchase Agreement enables the Group to source stable and quality supply of the Materials, while the Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC Group is one of the largest pharmaceutical companies in the PRC and has comparatively strong planting resources as well as advanced processing technologies, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group's distributor.

For details of the Master Agreements, please refer to the Company's announcements dated 11 November 2022 and 20 December 2022 and circular dated 15 December 2022. The Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 4 January 2023.

During the year ended 31 December 2023, the actual purchases of the Materials by the Group from CNPGC Group amounted to RMB167,519,000 (excluding value added tax) which was below the annual cap of RMB300,000,000 for the year ended 31 December 2023.

During the year ended 31 December 2023, the actual sales of the Products by the Group to CNPGC Group amounted to RMB1,193,803,000 (excluding value added tax) which was below the annual cap of RMB1,750,000,000 for the year ended 31 December 2023.

Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance") (2022 – 2025)

On 18 November 2022, the Company entered into the Financial Services Framework Agreement (the "Financial Services Framework Agreement") with Sinopharm Group Finance, pursuant to which Sinopharm Group Finance agreed to provide the financial services to the Group during the period from 20 November 2022 to 19 November 2025.

Pursuant to the Financial Services Framework Agreement, the annual caps for the deposit services (i.e. the maximum daily deposit balance, including accrued interest) during the effective period of the Financial Services Framework Agreement, the maximum daily outstanding deposit balance is RMB600 million.

Sinopharm Hongkong is the controlling shareholder holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. Sinopharm Group Finance is owned as to approximately 58.2%, 9.1%, 10.9%, 10.9% and 10.9% by CNPGC, Sinopharm Group Co. Ltd., China National Biotech Group Company Limited, China National Traditional Chinese Medicine Co., Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., respectively, and CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, Sinopharm Group Finance is a connected person of the Company and the Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board considers that entering into the Financial Services Framework Agreement is in the interest of the Group as it provides an option to the Group in procuring financial services for its treasury management. Given the Group's close relationship with the CNPGC Group, the application procedures for financial services from Sinopharm Group Finance (being a subsidiary of CNPGC) are more efficient, convenient and flexible than those of the independent commercial banks. In addition, according to the Financial Services Framework Agreement, the terms of financial services offered by Sinopharm Group Finance will be no less favourable than those offered by the independent commercial banks to the Group.

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 18 November 2022.

During the year ended 31 December 2023, the maximum daily deposit balance by the Group in Sinopharm Group Finance amounted to RMB586,714,000 which was below the annual cap for the maximum daily deposit balance of RMB600 million for the year ended 31 December 2023.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with Shanghai Institute of Pharmaceutical Industry ("SIPI") and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC wholly owned Sinopharm Hongkong, a controlling shareholder of the Company. Therefore, each of SIPI and SPERC is a connected person of the Company under the Listing Rules and the transactions contemplated under the R&D Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the year ended 31 December 2023, there was no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2023 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

During the year ended 31 December 2023, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 40 to the consolidated financial statements. Such related party transactions include the transactions as disclosed in the "CONTINUING CONNECTED TRANSACTIONS" of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditor

For the propose to Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the annual caps.

The Company has received a copy of the auditor's letter.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DEBENTURES ISSUED

For the year ended 31 December 2023, no debenture was issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS

Save as disclosed in "CONTINUING CONNECTED TRANSACTIONS" of this section, none of the Company or any of its subsidiaries entered into contract of significance with the controlling shareholders or any of its subsidiaries other than the Group, nor was there any contract of significance between the Group and the controlling shareholders or any of its subsidiaries other than the Group in relation to provision of services.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 6.6% and 11.8% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 6.6% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and the five largest suppliers accounted for around 2.2% and 7.5% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 2.2% of the Group's total purchases during the year.

Save as disclosed above, at any time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's issued shares) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement schemes of the Group are set out in note 35 to the consolidated financial statements.

AUDITOR

Deloitte Touche Tohmatsu retired as the auditor of the Company with effect from the conclusion of the annual general meeting of the Company held on 30 June 2021 (the "2021 AGM") and did not seek reappointment. At the 2021 AGM, the Company put forward an ordinary resolution for shareholders' approval to propose the appointment of Ernst & Young as the auditor of the Company in place of the retiring auditor, Deloitte Touche Tohmatsu, to hold office until the conclusion of the next annual general meeting of the Company, and the remuneration of which would be determined by the Board.

After the consideration and approval at the 2021 AGM, the Company appointed Ernst & Young as the auditor of the Company. For the details, please refer to the announcement and circular of the Company dated 24 May 2021 and 31 May 2021 respectively published on the website of the Stock Exchange and the website of the Company.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2023 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 55 to 76 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 55 to 76 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

CHEN Yinglong
Chairman

Hong Kong, 21 March 2024

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. Save as disclosed in this report, the Company has applied the Corporate Governance Code (the "Code") as set out in Appendix C1 to the Listing Rules as its corporate governance practices and complied with all of the applicable code provisions during the year ended 31 December 2023.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are regulated in a proper and prudent manner.

CORPORATE CULTURE

The Group has built a corporate culture system that matches its development. Details for the Group's corporate culture are set out in the section headed "ABOUT CHINA TCM" of the "2023 Environmental, Social and Governance Report".

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There are no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Director:	
Mr. CHEN Yinglong	*Chairman*
Non-executive Directors:	
Mr. CHENG Xueren	*(re-designated from an executive Director and managing Director to a non-executive Director on 21 March 2024)*
Mr. YANG Wenming	*(re-designated from an executive Director to a non-executive Director on 21 March 2024)*
Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. Meng Qingxin	
Mr. KUI Kaipin	*(resigned on 29 August 2023)*
Independent Non-executive Directors:	
Mr. XIE Rong	
Mr. YU Tze Shan Hailson	
Mr. QIN Ling	
Mr. LI Weidong	

As at the date of this report, the Board comprises eleven Directors, including one executive Director, six non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, financing, accounting, law, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, execution and risk management through their contribution at Board meetings and the relevant committee works. The Company has complied with the requirements of appointing at least three independent non-executive directors in accordance with the requirements of Rules 3.10 (1) and (2) of the Listing Rules and one of the independent non-executive Directors, Mr. XIE Rong, also has the appropriate professional accounting qualification and financial management expertise. In addition, the Company has complied with Rule 3.10A of the Listing Rules, that is, the independent non-executive directors appointed must account for at least one third of the number of members of the Board. Each of the independent non-executive Directors has provided an annual confirmation letter on his independence in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are in compliance with the independent guidelines set out in Rule 3.13 of the Listing Rules and are independent under the terms of such guidelines.

The Directors are aware of any potential conflicts of interest that may arise on their part in relation to the Group's business. In case of such conflict of interest arises, the Director concerned would declare his/her interest to the Board, and abstain from voting on the issues or matters to be resolved. The role of Chairman and the managing Director is separate which ensures that there is a balance of power and authority. The responsibilities of both are set out in the section headed "RESPONSIBILITY OF THE BOARD" in this Corporate Governance Report.

The Board has put in place mechanisms to ensure independent views and inputs from Directors are available to the Board. The Chairman holds meetings annually with the independent non-executive Directors without the presence of other Directors to encourage them to voice out their independent views and promote an open and constructive dialogue. During the year, the Chairman had one meeting with the independent non-executive Directors to discuss matters relating to the Group and its operations.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officer's liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at quarterly intervals. Other Board meetings are convened when necessary. Joint company secretaries of the Company assist the Chairman in setting the agenda of the Board meetings and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying meeting papers are sent to the Directors within a reasonable time before the meetings. Drafts and final versions of the Board minutes are provided to the Directors for their comments and record within a reasonable time. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. Matters subject to the Board's review and approval include:

- issue and buy back of shares of the Company;
- setting the Group's overall objectives and strategies;
- approval of annual budgets and business plans;
- evaluating and monitoring operating and financial performance;
- reviewing and monitoring internal control and risk management;
- approval of announcements of financial results;
- declaration and recommendation of the payment of dividend;
- appointment of new Directors; and
- appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors and senior management, and certain specific responsibilities to the special committees under the Board.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix D2 to the Listing Rules are set out in notes 12 and 13 to the Consolidated financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2023 is set out below:

Remuneration Band (RMB'000)	**Number of persons**
1,401-1,800	3
1,801-2,200	1

During the year ended 31 December 2023, the Company convened four regular Board meetings, two other Board meetings, the annual general meeting of the Company held on 30 May 2023 (the "2023 AGM") and one extraordinary general meeting (the "EGM"). The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings			
Directors	**Regular Board Meetings**	**Other Board Meetings**	**2023 AGM**	**EGM**
Executive Director:				
Mr. CHEN Yinglong *(Chairman)*	4/4	2/2	1/1	1/1
Non-executive Directors:				
Mr. CHENG Xueren *(re-designated from an executive Director and managing Director to a non-executive Director on 21 March 2024)*	4/4	2/2	1/1	1/1
Mr. YANG Wenming *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	4/4	2/2	1/1	1/1
Ms. LI Ru	4/4	2/2	1/1	0/1
Mr. YANG Binghua	4/4	2/2	1/1	0/1
Mr. WANG Kan	4/4	2/2	0/1	0/1
Mr. MENG Qingxin	4/4	2/2	1/1	0/1
Mr. KUI Kaipin *(resigned on 29 August 2023)*	2/2	1/1	0/1	0/1
Independent Non-executive Directors:				
Mr. XIE Rong	4/4	2/2	1/1	0/1
Mr. YU Tze Shan Hailson	4/4	2/2	1/1	1/1
Mr. QIN Ling	4/4	2/2	1/1	1/1
Mr. LI Weidong	4/4	2/2	1/1	1/1

RESPONSIBILITY OF THE BOARD

As the core of the Company's corporate governance framework, the Board's fundamental responsibility is to exercise its best judgment and to act in the best interests of the Company and its shareholders. The Board is committed to complying with corporate governance standards and adopting effective corporate governance practices to meet legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders. The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policies, overall strategies, risk management and internal control systems, and monitoring of the performance of management team.

The Board has delegated certain functions and powers, such as its responsibilities of day-to-day business and operation, to the Chairman of the Board, managing Director and the special committees under the Board (hereinafter collectively referred to as the "authorized person"). The Board keeps abreast of the decision-making and implementation of authorized matters on a regular basis, carries out the implementation effect assessment of authorized matters in a timely manner, and implements dynamic management towards such matters. The authorized person shall report to the Board on a regular basis, conduct collective research and discussion on the authorized matters in accordance with relevant internal systems, obtain the approval from the Board before making a decision or entering into a commitment on behalf of the Group, and maintain communication with the Board when necessary.

The Company has separated the roles of Chairman of the Board and managing Director. The Chairman of the Board is responsible for leading the Board, 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 so as to guarantee the effective operation of the Board. The managing Director is responsible for managing the business of the Company, implementing policies, business objectives and plans formulated by the Board, undertaking the powers delegated to him by the Board from time to time, and being accountable to the Board for the Company's overall operation.

During the Reporting Period, the duties of the Chairman of the Board and managing Director have been performed by different individuals.

On 21 March 2024, Mr. CHENG Xueren resigned as the president of the Company (i.e. the general manager) as reaching the retirement age, and was re-designated from an executive Director and the managing Director to a non-executive Director. On the same day, the Board also resolved to appoint Mr. CHEN Yinglong, the Chairman of the Board, as the acting president (i.e. the general manager).

The Board has established the Audit Committee, the Remuneration and Evaluation Committee, the nomination committee (the "Nomination Committee") and the strategic committee (the "Strategic 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 actual situation of the Company; monitoring and organizing the Directors and company secretary of the Company 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 Code and the disclosures in the Corporate Governance Report.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors. All Directors (including the non-executive Directors) are appointed for a specific term and subject to retirement by rotation and re-election once every three years in accordance with the Articles of Association.

According to "Core Shareholder Protection Standards" set out in Appendix A1 to the Listing Rules and the Articles of Association, any person appointed as a Director by the Board, either to fill a casual vacancy or as an addition to the Board, shall hold office only until the first annual general meeting of the Company after his appointment, and shall then be eligible for re-election.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will also be arranged as necessary.

The training attended by the Directors during the Reporting Period is summarized as follows:

Directors	Training Types
Executive Director:	
Mr. CHEN Yinglong *(Chairman)*	A
Non-executive Directors:	
Mr. CHENG Xueren *(re-designated from an executive Director and managing Director to a non-executive Director on 21 March 2024)*	A
Mr. YANG Wenming *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	A
Ms. LI Ru	A
Mr. YANG Binghua	A
Mr. WANG Kan	A
Mr. MENG Qingxin	A
Mr. KUI Kaipin *(resigned on 29 August 2023)*	A
Independent Non-executive Directors:	
Mr. XIE Rong	A
Mr. YU Tze Shan Hailson	A
Mr. QIN Lin	A
Mr. LI Weidong	A

A: Online learning – Training topic is reading material related to the new ESG requirements of the Stock Exchange.

NOMINATION COMMITTEE

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

As at the date of this report, the Nomination Committee comprises of one executive Director, two non-executive Directors and four independent non-executive Directors. During the year, one Nomination Committee meeting was held and the following topics were reviewed and discussed: 1) review of the structure of the Board and its committees and other senior management, and the diversity of the composition; 2) the independence of the independent non-executive Directors; 3) time committed by non-executive Directors to the Company in the performance of their duties; and 4) list of Directors to be retiring by rotation in 2023 AGM. The individual attendance of each member is set out below:

Members of the Nomination Committee	**Attendance/ Number of meeting**
Executive Director:	
Mr. CHEN Yinglong *(Chairman)*	1/1
Non-executive Directors:	
Mr. CHENG Xueren *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	1/1
Mr. YANG Wenming *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	1/1
Independent Non-executive Directors:	
Mr. XIE Rong	1/1
Mr. YU Tze Shan Hailson	1/1
Mr. QIN Ling	1/1
Mr. LI Weidong	1/1

NOMINATION POLICY

The Nomination Committee has formulated a nomination policy (the "Nomination Policy"). The Nomination Policy aims to ensure that the Nomination Committee will identify and nominate suitable candidates based on merit and a range of diversity criteria, including their professional experience, business perspective, skills, cultural and educational background, age and length of service. The Company has formulated:

– the procedure for selection, appointment and re-appointment of Directors which have been formally and carefully considered;

– the procedure for making recommendations to the shareholders on electing or re-electing any Directors at a general meeting; and

– the nomination criteria and nomination procedure for the shareholders to nominate new Directors.

The Nomination Committee reviews and monitors the structure, size and composition of the Board in terms of skills, knowledge, experience and diversity annually and makes recommendations on any proposed changes to the Board to complement the Company's strategies.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

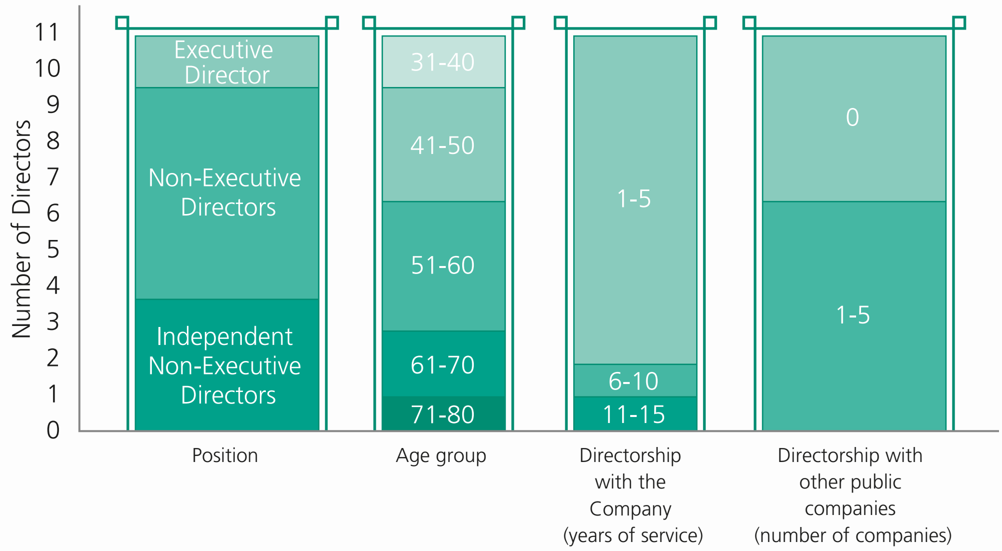
The Company considered diversity of Board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

Currently the Board has one female non-executive Director. We will continue to embrace gender diversity when making future Board appointments but no specific targets or timelines to further enhance gender diversity have been set as it is of the view that all aspects of diversity should be considered as a whole in the selection of suitable candidates for appointment to the Board.

The same approach to gender diversity at the Board level also applies to the Group's employees. The gender ratio in the Group's employees for the year ended 31 December 2023 is set out in the section headed "Protecting Rights and Interests of Employees" in the "2023 Environmental, Social and Governance (ESG) Report".

An analysis of the composition of the current Board based on a range of diversity perspectives is set out below:



AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprises of four independent non-executive Directors, which complies with the requirements under Rule 3.21 of the Listing Rules. The terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system, internal control procedures and reviewing risk management system; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, six Audit Committee meetings were held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Audit Committee	Attendance/ Number of Meetings
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	6/6
Mr. YU Tze Shan Hailson	6/6
Mr. QIN Ling	6/6
Mr. LI Weidong	6/6

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2022 and the interim results and the interim report of the Group for the six months ended 30 June 2023, as well as the effectiveness of the internal control and risk management system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting department, and their training programmes and budget.

REMUNERATION AND EVALUATION COMMITTEE

As at the date of this report, the Remuneration and Evaluation Committee comprises of four independent non-executive Directors. The main roles and functions of the Remuneration and Evaluation Committee are as follows:

(a) making recommendations to the Board on the Company's remuneration policy and structure for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors. The Company has adopted the model whereby the Remuneration and Evaluation Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

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

In determining the emolument payable to the Directors, the Remuneration and Evaluation Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration. It also reviews and approves the management's remuneration proposals based on the corporate policies and goals set by the Board, reviews and evaluates the performance of executive Directors during the relevant financial year to determine the amount of bonus payment (if any), and the emoluments of the non-executive Directors and the independent non-executive Directors are recommended by Remuneration and Evaluation Committee to the Board to ensure that no Director and any of his associates shall be involved in determining his own remuneration.

The principal objectives of the Company's remuneration policy include:

- providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

- providing basic remuneration to the employees that is competitive to the industry and general market condition;

- awarding employees in recognition of good individual and corporate performance; and

- encouraging future employee contributions to achieve overall corporate goals.

During the year, one Remuneration and Evaluation Committee meeting was held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Remuneration and Evaluation Committee	**Attendance/ Number of Meeting**
Independent Non-executive Directors:	
Mr. QIN Ling *(Chairman)*	1/1
Mr. XIE Rong	1/1
Mr. YU Tze Shan Hailson	1/1
Mr. LI Weidong	1/1

During the year, the Remuneration and Evaluation Committee had determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

STRATEGIC COMMITTEE

The Board set up the Strategic Committee in January 2014. As at the date of this report, the Strategic Committee comprises of one executive Director, two non-executive Directors and two independent non-executive Directors including Mr. CHEN Yinglong, Mr. CHENG Xueren, Mr. YANG Wenming, Mr. YU Tze Shan Hailson and Mr. QIN Ling. Mr. CHEN Yinglong was appointed as the chairman.

The Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies, material investment decisions, ESG of the Group. The Board considers that the proposals submitted by the Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

During the year, one Strategic Committee meeting was held and the abovementioned responsibilities were fulfilled. The individual attendance of each member is set out below:

Members of the Strategic Committee	**Attendance/ Number of Meeting**
Executive Director:	
Mr. CHEN Yinglong *(Chairman)*	1/1
Non-executive Directors:	
Mr. CHENG Xueren *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	1/1
Mr. YANG Wenming *(re-designated from an executive Director to a non-executive Director on 21 March 2024)*	1/1
Independent Non-executive Directors:	
Mr. YU Tze Shan Hailson	1/1
Mr. QIN Ling	1/1

During the year, the Strategy Committee had reviewed "2022 Environmental, Social and Governance Report" and made the detailed recommendations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2023, the Group has been complying with applicable laws and regulations applicable to the Group, including "Pharmaceutical Administration Law of the People's Republic of China" and its implementation regulations, "Regulations of the People's Republic of China on Traditional Chinese Medicine", "Regulations on Protection of Traditional Chinese Medicines", "Law of the People's Republic of China on the Protection of the Rights and Interests of Consumers", "Law of the People's Republic of China on Traditional Chinese Medicine", "Trademark Law of the People's Republic of China", "Patent Law of the People's Republic of China" and its implementation regulations, "Environmental Protection Law of the People's Republic of China" and "Labor Contract Law of the People's Republic of China". The Group attaches great importance to product safety and conducts multiple quality inspection in the production process to ensure the compliance with the applicable quality regulations promulgated by the relevant authorities. The Group's production subsidiaries have obtained relevant drug production and operation permission.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group attaches high importance to environmental management and has developed a comprehensive environmental management and monitoring system to strictly perform in accordance with relevant laws and regulations governing the amount and standard of emissions. Apart from monitoring its own emission data, the Group has also entrusted third parties to monitor its sewage emission on a quarterly basis and the emission of exhaust gases from boilers every six months. Having established the hazardous waste management system, the transfer of hazardous waste generated from production is recorded and the waste is recycled or disposed of regularly by local qualified professional hazardous waste recycling companies. The storage area of the hazardous waste is monitored, and relevant information filed by the local environmental protection department.

The Group promotes the concept of green production to achieve the goals of saving energy, reducing consumption and alleviating pollution. Striving to improve the environment surrounding the plant, the Group has put much efforts into the improvement of facilities over the years by replacing oil-burning boilers with gas-burning boilers and upgrading the sewage treatment facilities. In addition, through corporate culture education, the Group carries out the resources conservation campaigns and promotes the importance of green living to all staff, encouraging them to join the green living community.

ESG REPORT

The Group has published the "2023 Environmental, Social and Governance Report" in accordance with the "Environmental, Social and Governance Reporting Guide" set out in the Appendix C2 to the Listing Rules.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development and construction for talents and keeps building the platform for the mutual growth of all staff together with the Group through various means. The Group strictly complies with the requirements of "Labor Law of the People's Republic of China", "Labor Contract Law of the People's Republic of China" and the Labour Legislation of Hong Kong Special Administrative Region, and abides by the open, fair and just principles while providing employment opportunities, remuneration, leave, benefits, etc. without discriminatory acts towards differences on gender, religion, culture and educational background, etc. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC to avoid child labour or forced labour.

Moreover, the Group attaches great importance to training of employees. Pre-service trainings including corporate culture and company regulations will be arranged for the new recruit when onboarding. Staff members of different grading are further provided with different training. Besides, the Group provides off-line training course covering marketing, production, human resources, financial management and so on, on a regular basis, to ensure that employees can solve problems encountered in work through trainings and their comprehensive capabilities can be enhanced.

The Group strives to take care of the interests of customers and maintain product safety. All production lines obtained certificates as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently, there is 1 innovative drug and 35 classical formulae at different research and development stages and the Group possesses production approvals for more than 813 drugs.

In addition, the Group maintained good and stable working relationship with the major suppliers of raw materials during the year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix C3 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at Board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs, results and cash flow of the Group for that period. In preparing the accounts for the year ended 31 December 2023, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditor's reporting responsibilities is set out in the Independent Auditor's Report on pages 84 to 90 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors, Ernst & Yong, for statutory audit and non-audit service are set out below:

Services rendered	Fee paid/ payable in 2023 RMB'000
Audit service	5,255
Non-audit service *(Note)*	300
Total	5,555

Note: Non-audit service mainly comprised review of the interim report of the Group during the year.

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji and Ms. NG Sau Mei (a representative of an external service provider) served as the joint company secretaries of the Company during the Reporting Period. The main contact of Ms. NG in the Company is Mr. ZHAO. Both Ms. NG and Mr. ZHAO confirmed that they had taken not less than 15 hours relevant professional training which complied with Rule 3.29 of the Listing Rules during the Reporting Period.

INSIDE INFORMATION DISCLOSURE POLICY

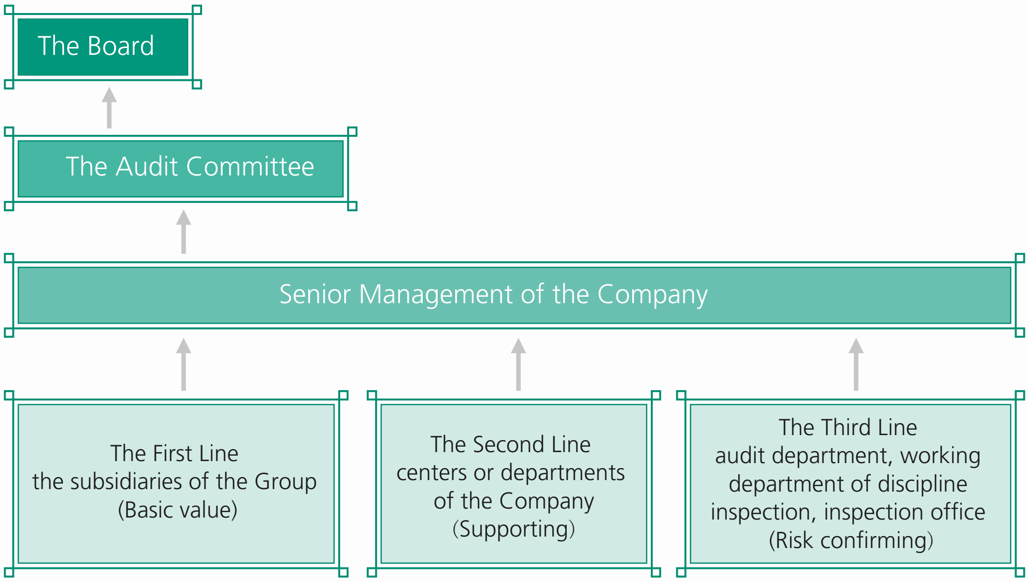
In 2013, the Board adopted an inside information disclosure policy in relation to the procedures and internal controls for handling and disseminating inside information. The Group's inside information disclosure policy sets out guidelines and procedures for Directors, senior management and related personnel to ensure that the Group's inside information is distributed to the public in an equal, accurate, timely and clear manner. The Directors, senior management and related personnel with potential inside information and/or inside information shall take reasonable steps to ensure that appropriate measures are in place to keep the information in strict confidence and that the recipients are aware of their responsibilities for keeping the information in confidence. The inside information must be disclosed in accordance with the Administrative Measures for the Information Disclosure and let all market users obtain the same information at the same time. The inside information will be updated and amended according to the changing circumstances and the changes of the Listing Rules, Part XIVA of the SFO and related statutory and regulatory requirements from time to time.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has established a risk management and internal control system in accordance with the requirements of code provision D.2 of the Code and the Board continues to monitor and review, at least on an annual basis, the effectiveness of its operation in order to ensure that the Group has adequate resources, staff qualifications and experience in accounting, internal audit and financial reporting functions, and that the training programmes received by staff and the related budget are adequate. Such system is designed to mitigate the inherent risks faced by the Group in its business to an acceptable level, rather than eliminate all risks. Therefore, this system only provides reasonable, not absolute, assurance against major false statements or financial losses in financial data.

The Strategic and Operation Management Department, as a coordinating unit between the Company's subsidiaries and functional departments and the Audit Committee, reports regularly every year to the Audit Committee on the Group's risk management and internal control for the previous reporting period and provides annual work reports for review.

For risk management, the Company's risk management framework takes the following "three lines" model as a guide.



During the Reporting Period, the Company further demonstrated the role of "three lines", carried out risk management works of each business procedure, strengthened horizontal synergy and vertical management, and made works in institutionalization and process construction go deeper: 1) The Company conducted comprehensive inspection on the system and improved system construction. It organized subsidiaries at all levels to conduct inspection on system defects, continued to promote "establishment, amendment and abolition" of the system, refined and sorted out business processes to ensure that the Company's internal management and control are rule-based, evidence-based and effectively implemented. During the year, the Group has added 765 systems and revised 662 systems; 2) The Company strengthened supervision over the implementation of the systems, and organized and carried out special work to identify and evaluate defects in the internal control system. The Company focused on important areas and key aspects to ensure that management and control are rule-based, evidence-based and effectively implemented. It supervised the implementation of rectification in view of issues found in inspection, all of which were completed as planned by the end of the year; 3) The Company strengthened the capability of internal control management departments of key subsidiaries, and promoted the internal control system in subsidiaries. The Company emphasized key subsidiaries such as Jiangyin Tianjiang, Guangdong Yifang, Tongjitang Pharmaceutical, and Healthcare Industry Company to promote their management function of "connecting the high and low level". For example, Jiangyin Tianjiang's headquarters has created a closed loop of integrated system management of review, training and inspection, while creating the "Solid Foundation Initiative" of systems for subsidiaries to collaboratively enhance the awareness of system regulation.

During the year, the Company focused on special work to prevent and defuse risks and improve the Company's efficiency: 1) launched self-evaluation of internal control in 68 subsidiaries, which revealed the weak links in operation and management, supervised subsidiaries to make rectifications and promoted the continuous improvement of the internal control system; 2) organized investigation of responsibility for illegal operation and investment, raised the awareness of responsibility and improved the basis of responsibility management and investigation. During the year, 6 supporting systems including the Working Rules for Interviewing Responsibilities for Operation and Investment were established and revised; 4 times of investigation of responsibility for illegal operation and investment were carried out on subsidiaries at all levels, and responsibility investigation and punishment were strictly implemented; 3) carried out economic responsibility audits and other audit projects on 26 subsidiaries, with economic responsibility audits coverage of 100% during 5 years.

In terms of internal control, during the Reporting Period, the Company continued to strengthen audit supervision and promote internal management. A total of 534 problems were found during audit, 468 of which should be rectified when due, 398 of which had been completed, and the completion rate of due rectification was 85.04%. 245 defects were found in the internal control self-evaluation, all of which were general defects, 242 of which should be rectified when due, 242 of which had been completed, and the completion rate of rectification was 100%.

During the Reporting Period, the Company is of the view that the existing risk management internal control systems of the Group are effective and adequate.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with its shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email: ir@china-tcm.com.cn
Telephone: (852) 2854 3393, (86) 757 8833 3168
Fax: (852) 2544 1269
Address: Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

During the year ended 31 December 2023, the Board has reviewed the effectiveness of the shareholders' communication policy and considered it to be effective and adequate.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in code provision A.2.1 of the Code, including:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

ARTICLES OF ASSOCIATION

During the year, the Company noted that the amendments to Appendix A1 to the Listing Rules have come into effect and the "Core Shareholder Protection Standards" has replaced the "old Articles of Association". To comply with the "Core Shareholder Protection Standards" set out in Appendix A1, proposed amendments to the Articles of Association were approved at the 2023 AGM.

Details of the amendments are set out in the circular of the Company dated 8 May 2023. For the revised Articles of Association, please refer to the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.china-tcm.com.cn.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.china-tcm.com.cn after the relevant general meetings.

CONVENING OF GENERAL MEETING ON REQUEST

In accordance with Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

PUTTING FORWARD PROPOSALS AT ANNUAL GENERAL MEETING

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Companies Ordinance.

Section 615 of the Companies Ordinance provides that the Company must give notice of a resolution if it has received requests to do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than: (i) six weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Companies Ordinance provides that the Company that is required under Section 615 of the Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and e nd no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. CHEN Yinglong, aged 52, was appointed to the Board and served as the Chairman of the Board on 12 May 2022. Mr. CHEN graduated from Heilongjiang University with a bachelor degree of English majoring in English Literature in 1993 and completed the master course of Management Science and Engineering in School of Management of Harbin Institute of Technology in 1999. Mr. CHEN has the professional qualification of senior enterprise information manager and senior economist. Mr. CHEN was the business manager of the first business department of Harbin Metals and Minerals Import and Export Corporation from December 1993 to September 1994; the first representative of Harbin branch of Eisenberg Group United Development Co., Ltd. from September 1994 to October 1999; the general manager of Harbin Runhe Technology Development Co., Ltd. from October 1999 to April 2004; a director and general manager of Harbin Baida Pharmaceutical Co., Ltd. from April 2004 to November2009; a manager of the raw material department and successively a manager of the safety and environmental protection department of China National Pharmaceutical Industry Company Limited from November 2009 to August 2010; the deputy general manager, general legal adviser and secretary of the board of directors of China Traditional Chinese Medicine Co. Ltd. (formerly known as China National Corp. of Traditional & Herbal Medicine) from August 2010 to December 2018; a vice president of the Company from December 2018 to May 2020, during which he was also the standing committee member of the municipal committee and deputy mayor of Baishan City of Jilin Province; a director of public affairs department of China National Pharmaceutical Group Co., Ltd. from May 2020 to June 2022; the secretary of the Party Committee of the Company (as the acting president (i.e. the general manager)) since March 2024, Mr. CHEN also serves as the chairman of the board, general manager and provisional deputy Party secretary of the China Traditional Chinese Medicine Co. Ltd., and a director of Sinopharm Common Wealth Company Limited.

NON-EXECUTIVE DIRECTORS

Mr. CHENG Xueren, aged 60, was appointed to the Board on 25 March 2022. Mr. CHENG was graduated from Anhui Institute of Traditional Chinese Medicine (currently known as Anhui University of Traditional Chinese Medicine) with a bachelor degree in Traditional Chinese Medicine in 1985, and finished master course of Basic Theory of Integrated Chinese and Western Medicine in Guangzhou University of Chinese Medicine in 1992. Mr. CHENG has the professional qualifications of chief pharmacist and attending physician. Mr. CHENG was a physician of Anhui Chuzhou People's Hospital from July 1985 to August 1989; a doctor of Guangdong Second Hospital of Traditional Chinese Medicine from July 1992 to March 1993; a R&D director, a person in charge of quality, a deputy manager of production, the deputy manager of sale, chairman, general manager and secretary of Party committee of Guangdong Yifang Pharmaceutical Co., Ltd. from March 1993 to September 2021. In which, he was the vice director of Guangdong Institute of Traditional Chinese Medicine from March 1993 to May 2015. Mr. CHENG served as a vice president and president of the Company from December 2019 to March 2024. He resigned as the president of the Company (i.e. the general manager) in March 2024, and re-designated from an executive Director and the managing Director to a non-executive Director as he has reached the retirement age. Mr. CHENG also serves as a director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), China Traditional Chinese Medicine Co. Ltd., and multiple subsidiaries of the Company.

Mr. YANG Wenming, aged 60, was appointed to the Board on 24 December 2018. Mr. YANG graduated from Zhejiang University majoring in Biological and Medical Instruments and obtained a bachelor degree of Engineering in 1985. Mr. YANG also has the senior engineer professional qualification. He was previously a staff member of the quality standard department, a senior staff member, a principal staff member, the deputy department head of the external cooperation department, the assistant of general manager and the department head of the external cooperation department and the assistant of general manager of China National Medical Equipment Industry Corporation from August 1985 to March 1999 and the assistant of the department head of the Medical Equipment Administration Department and the deputy director of the Medical Equipment Products Examination and Registration Centre of the State Medicine Administrative Bureau of China from January 1997 to January 1998. He was previously an office manager, manager of the information department, manager of the discipline inspection and supervision office, manager of the audit department, deputy secretary of discipline inspection committee, vice president of labour union and the staff supervisor of China National Pharmaceutical Group Corporation (中國醫藥集團總公司) (currently known as China National Pharmaceutical Group Co., Ltd.), and deputy general manager, deputy secretary of the Party Committee and secretary of discipline inspection committee, president of labour union of China National Pharmaceutical Industry Company Limited from March 1999 to April 2017; the deputy secretary of the Party Committee, secretary of discipline inspection committee and president of labour union of Shanghai Shyndec Pharmaceutical Co., Ltd. from November 2016 to December 2018; the secretary of the Party Committee and vice president of the Company from December 2018 to March 2024. Mr. YANG resigned as the secretary of the Party Committee and vice president of the Company in March 2024, and re-designated from an executive Director to a non-executive Director as he has reached the retirement age. Mr. YANG also serves as a director in multiple subsidiaries of the Company and China Traditional Chinese Medicine Co. Ltd.

Ms. LI Ru, aged 44, was appointed to the Board on 18 February 2019. Ms. LI graduated from pharmaceutical preparations at Shenyang Pharmaceutical University in 2001. She was product manager, regional sales manager and divisional sales manager of the narcotics department at China National Medicines Corporation Ltd. (國藥集團藥業股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600511) successively from September 2001 to January 2010, and market manager of Nycomed Pharma AS (奈科明製藥有限公司) from January 2010 to January 2012. Since January 2012 until the present, Ms. LI has acted as deputy director and director of the risk and operation management department (currently known as risk management department) of China National Pharmaceutical Group Co., Ltd. successively. Ms. LI also serves as a director of the China Traditional Chinese Medicine Co. Ltd. and Sinopharm Common Wealth Company Limited.

Mr. YANG Binghua, aged 43, was appointed to the Board on 24 December 2018. Mr. YANG obtained a bachelor degree in Politics and Administration of Public Administration from China Youth University for Political Sciences in 2004 and obtained a master degree in Public Administration from School of Government of Peking University in 2011. He was previously a staff member, a senior staff member and a principal staff member of the information research office of the State Council State-owned Assets Supervision and Administration Commission ("SASAC") Office, the deputy department head of the second secretarial department, a deputy director of the party committee office, the deputy department head and the department head of the propaganda department of party committee directly under the SASAC from July 2004 to March 2017, during when, Mr. YANG engaged in the basic training programme in Daqing Oilfield production plant No. 2 from April 2010 to March 2011; in the basic training programme of the governmental and enterprises customers division of China Telecom from August 2012 to December 2013; a staff member of the management enhancement group office of SASAC from July 2012 to August 2014. Since March 2017, Mr. YANG has acted as a deputy director, deputy director (in charge of the department), and director of party committee department China National Pharmaceutical Group Co., Ltd successively. Mr. YANG also serves as a director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), China Traditional Chinese Medicine Co. Ltd and Sinopharm Common wealth Company Limited.

Mr. WANG Kan, aged 39, was appointed to the Board on 24 December 2018. Mr. WANG obtained a bachelor degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center in 2007, a master degree in Pharmacy from the School of Pharmacy of Peking University Health Science Center and double bachelor degree of Economics from China Center for Economic Research of Peking University in 2009. Mr. WANG worked at the planning development and industrial management department of China National Pharmaceutical Industry Company Limited and investment management department and securities department of China National Biotech Group Company Limited from August 2009 to November 2014. Mr. WANG has successively served as a director assistant, deputy director and director of the investment management department of China National Pharmaceutical Group Co., Ltd. since November 2014, and as a deputy general manager of China Sinopharm International Corporation since August 2021. Mr. WANG also serves as a director of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 01099), China National Biotec Group Company Limited, Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), China Traditional Chinese Medicine Co. Ltd., Sinopharm Common Wealth Company Limited and Fresenius Kabi SSPC.

Mr. MENG Qingxin, aged 44, was appointed to the Board on 19 November 2022. Mr. MENG was graduated from Northwest Minzu University in environmental engineering in 2003. Mr. MENG has a senior engineering qualification. From August 2003 to August 2007, Mr. MENG served as the technical safety specialist in equipment department of the 200 National Factory; from August 2007 to February 2009, he served as a technical safety specialist in equipment department of Beijing Aerospace Guanghua Electronics Technology Co., Ltd.; from February 2009 to December 2012, he served as a deputy director of equipment department and a deputy director of safety and security department of Beijing Aerospace Guanghua Electronics Technology Co., Ltd.; from December 2012 to October 2013, he served as a deputy director of the Ninth Standardization Research Office of China Aerospace Science and Technology Corporation. Since October 2013, he has successively served as a senior supervisor, a director assistant and a deputy director of the safety, environmental protection and quality management department of China National Pharmaceutical Group Corporation (currently known as China National Pharmaceutical Group Co., Ltd.). Mr. MENG is currently the director of safety, environmental protection and quality management department of China National Pharmaceutical Group Co., Ltd. Mr. MENG also serves as a director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), China Traditional Chinese Medicine Co. Ltd. and Sinopharm Common Wealth Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XIE Rong, aged 71, was appointed to the Board on 5 February 2013. Mr. XIE obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. Mr. XIE has over 50 years of working experience. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002 respectively; a professor of the Shanghai National Accounting Institute from October 2002 to November 2017, and the vice president of the Shanghai National Accounting Institute from October 2002 to August 2012. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange, stock code: 600104) from April 2003 to May 2018 and was its independent director from April 2003 to June 2008. Mr. XIE was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 01138. HK & 600026.SH), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 00670. HK & 600115.SH), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 00998. HK & 601998.SH), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 01065. HK & 600874.SH), Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange, stock code: 01099), Shanghai Baosight Software Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600845) and China Everbright Bank Company Limited (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 06818. HK & 601818.SH), Shenwan Hongyuan Group Co., Ltd. (a company listed on the Stock Exchange and the Shenzhen Stock Exchange, stock code: 06806. HK & 000166.SZ), and Shanghai Bairun Investment Holding Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002568) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014, from August 2007 to September 2014, from April 2010 to April 2016, from January 2013 to January 2019, from January 2015 to November 2021 and from June 2015 to November 2021 respectively. Mr. XIE has been an independent director of Baoshan Iron & Steel Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600019) and Shanghai Foreign Service Holding Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600662) since June 2018 and September 2021, respectively.

Mr. YU Tze Shan Hailson, aged 67, was appointed to the Board on 25 November 2013. Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a chartered engineer and a fellow of the Institution of Engineering and Technology, Hong Kong Institution of Engineers, the Institute of Arbitrators of the United Kingdom and Hong Kong Institute of Arbitrators.

Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. Since 1998, Mr. YU has been a deputy managing director of Versitech Limited (港大科橋有限公司) and deputy director in charge of transfer of colleague scientific technology achievement at Technology Transfer Office of The University of Hong Kong. In 2021, he was the chief operation officer of HKU Innovation Holdings Limited in charge of its 9 AI, robot and biological pharmaceutical scientific research centre. Mr. YU has retired from The University of Hong Kong in 2022, and served as the director of scientific results transfer and entrepreneurship in Macau University of Science and Technology since 2023.

Mr. YU was an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange, stock code: 01099) from September 2014 to September 2020. He has served as an independent non-executive director of China NT Pharma Group Company Limited (a company listed on the Stock Exchange, stock code: 01011) since June 2017. He also serves as an independent non-executive director of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (a company listed on the Stock Exchange and the Shanghai Stock Exchange, stock code: 02196. HK & 600196.SH) since June 2021.

Mr. QIN Ling, aged 65, was appointed to the Board on 18 February 2019. Mr. QIN graduated from the Basic Medical and Life Sciences in Physical Education Faculty of the Beijing Sport University in 1982 and received his PhD in Exercise Science from the German Sports University, Cologne, Germany in 1992. He completed a post-doctoral research relating to osteoporosis in the AO Research Institute in 1992. He was the laboratory director of the Department of Trauma & Reconstructive Surgery, School of Medicine, Free University of Berlin, Germany from July 1993 to August 1994, and director of the research laboratory in the Department of Orthopaedics & Traumatology from September 1994 until the present. He also served (or serves) as director of the Bone Quality and Health Centre, and director of Innovative Orthopaedics Biomaterial and Drug Translational Research Laboratory, Li Ka Shing Institute of Health Sciences, Faculty of Medicine, the Chinese University of Hong Kong (CUHK). Mr. QIN is currently a professor of Orthopaedics and director of laboratory of CUHK, head of the CUHK Hong Kong – Shenzhen Innovation and Technology Research Institute (Futian), and a doctorate and a post-doctorate supervisor.

Mr. LI Weidong, aged 56, was appointed to the Board on 18 February 2019. Mr. LI graduated from Nanjing University with bachelor's degrees in science and law in 1992 and obtained a doctor of philosophy in law from the City University of Hong Kong in 2004. Mr. LI acted as a professional lawyer of Nanjing Zhongshan Law firm from September 1992 to January 1994 and as a professional lawyer of Jiangsu Jingwei Law Firm from February 1994 to April 1997. Mr. LI is currently a director of Haipai Law Firm (Shenzhen and Hong Kong), an independent non-executive director of Ocean Line Port Development Limited (a company listed on the Stock Exchange, stock code: 8502), an independent director of LUFAX Holding, Ltd. (a company listed on the New York Stock Exchange and Stock Exchange, stock code: LU.NYSE & 06623.HK) and Shenzhen Yan Tian Port Holdings Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 000088).

SENIOR MANAGEMENT

Mr. SHEN Lixin, aged 57, was appointed as the vice president and financial director on 3 September 2021. Mr. SHEN graduated from Dongbei University of Finance and Economics with a bachelor's degree in trade and economics in 1989. Mr. SHEN holds professional qualifications as a senior accountant. Mr. Shen served as a cadre of the Finance Department of China National Pharmaceutical Corporation from July 1989 to January 1999, the deputy director of the Finance Department of China National Pharmaceutical Group Corporation (currently known as China National Pharmaceutical Group Co., Ltd.) from January 1999 to January 2003, the director of the Finance Department of Sinopharm Group Pharmaceutical Holdings Co. Ltd. (currently known as Sinopharm Group Co. Ltd., a company listed on the Stock Exchange, stock code: 01099) from January 2003 to July 2003, and the financial director of China National Corp. of Tradition & Herbal Medicines (currently known as China National Traditional Chinese Medicine Co., Ltd.) from July 2003 to May 2010. From May 2010 to September 2021, he served as the financial director of China National Medicines Corporation Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600511).

Mr. LAN Qingshan, aged 59, was appointed as a vice president on 24 December 2018. Mr. LAN was graduated from Jiangxi University of Traditional Chinese Medicine (currently known as Jiangxi University of Traditional Chinese Medicine) with a bachelor degree of Traditional Chinese Medicine in 1985 and a master degree of Traditional Chinese Medicine in 1990, and completed the EMBA programme from Peking University in 2000. Mr. LAN has the professional qualifications of university teacher certification, practicing physician, practicing pharmacist and chief pharmacist. He was a teaching assistant, house physician and lecturer of Jiangxi University of Traditional Chinese Medicine from July 1985 to September 1992. Mr. LAN has been with Jiangzhong (Pharmaceutical) Group Co., Ltd. for 17 years, served as the deputy general manager of Jiangxi Dongfeng Pharmaceutical Co., Ltd., the general manager of Jiangzhong Pharmaceutical Trading Co., Ltd., the deputy general manager of Jiangzhong Pharmaceutical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600750), the general manager of Jiangxi Hengseng Food Company, person-incharge of the new products research and development department of Jiangzhong Group and the general manager of Jiang Zhong Xiao Zhou Medicine Trading Limited Company from October 1992 to December 2009. In which, he was the Deputy County Chief of Duchang County People's Government of Jiangxi in a temporary basis from April to December 2009. He was the deputy general manager and a senior staff of Medicinal Resources Industry Centre and the president of the Chinese Medicine Research Institute of China National Traditional Chinese Medicine Co., Ltd. from January 2010 to December 2018.

Mr. ZHAO Dongji, aged 56, has been appointed as a vice president, joint company secretary, chief legal advisor and chief compliance officer since 5 June 2017, 21 July 2017, 14 October 2019 and 24 March 2023 respectively. Mr. ZHAO was a non-executive director and an executive director of the Company from February 2013 to June 2017 and from June 2017 to December 2018 respectively. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 30 years of related working experience, including over 20 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd. from June 2004 to February 2011. Mr. ZHAO has served as the manager, the chief investment officer and the deputy general manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) from 2011 to July 2017. Mr. ZHAO has served as a director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) since 19 May 2021.

Mr. HUANG Zhangxin, aged 56, was appointed as a vice president in 15 October 2019. Mr. HUANG was graduated from Shanghai Medical University majoring in Medicinal Chemistry in Department of Pharmacy in July 1991 and obtained a master degree in Economics and Management from Party School of the Guangdong Provincial Committee of CPC in July 2001. Mr. HUANG has professional qualifications of pharmaceutical engineer and senior pharmaceutical R&D engineer. Mr. HUANG served as officer in Rongqi Government in Shunde, Foshan, Guangdong from August 1991 to January 1996; deputy general manager in Shunde Nanfang Bio-Pharmaceutical Co., Ltd. (順德南方生物製藥有限公司) from January 1996 to January 2001; deputy general manager of the Company's subsidiary,Guangdong Medi-World Pharmaceutical Co., Ltd., and director of R&D, assistant to general manager and deputy general manager of Winteam Pharmaceutical Group Limited from January 2001 to October 2013; and deputy secretary of the Party Committee, vice president, general engineer and director of production, safety and environmental protection department of the Company from October 2013 to September 2019.

Independent Auditor's Report

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To the members of
China Traditional Chinese Medicine Holdings Co. Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (the "Group") set out on pages 91 to 208, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other 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 material accounting policy information.

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 2023, 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 Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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	**How our audit addressed the key audit matters**
Impairment of goodwill and other intangible assets	
As at 31 December 2023, the carrying values of goodwill and other intangible assets with indefinite useful lives in the consolidated financial statements amounted to RMB3,457,903,000 and RMB1,956,814,000, respectively. In accordance with HKFRSs, the Company is required to perform impairment tests for goodwill and other intangible assets with indefinite useful lives annually and management performed impairment tests on these assets by using the discounted cash flow model as at 31 December 2023. The impairment tests involve significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates used. This matter was significant to our audit because the balances were material and the test process involved significant judgements. The significant judgements and estimates and the disclosures about the impairment of goodwill and other intangible assets with indefinite useful lives are included in notes 3, 16, 19 and 20 respectively to the consolidated financial statements.	Our audit procedures included, among others, the following: Involved our internal valuation specialists to assist us in evaluating the methodologies and the discount rates used by the Group for determining the recoverable amounts of each cash-generating unit (the "CGU"); Evaluated the underlying data used in management's cash flow projection on the future revenues and operating results by comparing to the financial performance of each CGU during the year 2023; Evaluated management's assumptions of growth rates of each CGU by examining the business development plans and historical annual growth of each CGU. We also checked the mathematical accuracy of computation supporting the value in use model; and Assessed the adequacy of the related disclosures in the consolidated financial statements.

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KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment of other long-term non-financial assets	
The carrying values of the Group's property, plant and equipment, other intangible assets with finite useful lives and right-of-use assets as at 31 December 2023 amounted to RMB6,813,539,000, RMB3,529,551,000 and RMB1,146,048,000, respectively. These assets are reviewed annually by management for potential indicators of impairment. For certain long-term non-financial assets where such indicators exist, management engages an independent external valuer to assist to perform detailed impairment review of their recoverable amounts. This matter was significant to our audit because the assessment involves a significant degree of management judgements and estimates in determining the key assumptions. The significant judgements and estimates and related disclosures of these non-financial assets are included in notes 3, 17, 18 and 19 respectively to the consolidated financial statements.	Our audit procedures included, among others: Evaluated the competence, capabilities and independence of management's independent third party valuer and involved our internal valuation specialists to assist us in evaluating the methodologies used by the independent external valuer for determining the recoverable amounts, and assessing the discount rates and market data used in the assessment of the recoverable amounts of the non-financial assets. Examined the underlying data used such as management's projection on the future revenues and operating results by comparing with the financial performance of the CGU to which the long-term non-financial assets belong during the year 2023 and examined the business development plan and historical annual growth of each CGU to evaluate the growth rate of each CGU used in the projection.

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KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
As at 31 December 2023, the Group had trade receivables of RMB9,171,283,000, after making a provision of RMB118,367,000. The Group uses a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on the number of days past due 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 calibrates the matrix to adjust the historical credit loss experience with forward-looking information. This matter was significant to our audit because of the high level of management estimation required and the materiality of the amounts. The disclosures about the provision for impairment of trade receivables are included in notes 3 and 23 respectively to the consolidated financial statements.	Our audit procedures included, among others: Assessed the Group's internal controls over the credit control of trade receivables and evaluated the mathematic calculation by recalculating the provision matrix of ECLs. Evaluated the assumptions used in the ECL model by 1) assessing management's assumptions regarding the groupings of customer segments with similar loss patterns by reviewing the credit terms and historical payment patterns of different categories of the customers; and 2) examining the underlying data used in the provision matrix by checking to the corresponding ageing and payment records on a sampling basis; and 3) evaluating forward-looking adjustments by reviewing the model calibration performed by management based on latest credit loss experience. Assessed the adequacy of the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and 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.

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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, in accordance with section 405 of the Hong Kong Companies Ordinance, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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

- 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.

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 Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong

21 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
Revenue	4	**18,121,861**	14,304,242
Cost of sales		**(8,847,369)**	(7,105,790)
Gross profit		**9,274,492**	7,198,452
Other income	6	**290,015**	230,010
Other gains and losses	7	**4,287**	(193,773)
Selling and distribution expenses		**(6,403,201)**	(4,604,098)
Administrative expenses		**(1,043,318)**	(944,404)
Research and development expenses		**(685,632)**	(611,831)
Impairment losses under the expected credit loss model, net of reversal	8	**(9,366)**	(10,073)
PROFIT FROM OPERATIONS		**1,427,277**	1,064,283
Finance costs	9	**(199,045)**	(220,695)
Share of losses of associates		**(3,699)**	(3,479)
PROFIT BEFORE TAX		**1,224,533**	840,109
Income tax credit/(expense)	10	**171,537**	(119,144)
PROFIT FOR THE YEAR	11	**1,396,070**	720,965
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:			
Re-measurement of defined benefit plan		**(1,851)**	1,274
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Change in fair value on debt instruments measured at fair value through other comprehensive income		**(1,953)**	10,791
Impairment loss recognised/(reversed) for debt instruments at fair value through other comprehensive income included in profit or loss		**587**	(939)
Income tax relating to items that may be reclassified subsequently		**218**	(1,556)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(2,999)**	9,570
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,393,071**	730,535

	Notes	2023 RMB'000	2022 RMB'000 (Restated)
Profit attributable to:			
Owners of the parent		**1,285,200**	764,486
Non-controlling interests		**110,870**	(43,521)
		1,396,070	720,965
Total comprehensive income attributable to:			
Owners of the parent		**1,282,149**	773,334
Non-controlling interests		**110,922**	(42,799)
		1,393,071	730,535
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and Diluted (RMB cents)	*15*	**25.52**	15.18

Consolidated Statement of Financial Position

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000 (Restated)	1 January 2022 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	*17*	**6,813,539**	6,764,445	6,659,985
Investment properties	*17*	**75,743**	89,751	268,768
Right-of-use assets	*18*	**1,146,048**	1,159,821	1,205,766
Goodwill	*16*	**3,457,903**	3,456,313	3,492,184
Other intangible assets	*19*	**5,486,365**	5,874,634	6,257,809
Investments in associates	*21*	**11,847**	15,353	18,006
Deposits and prepayments	*22*	**57,577**	107,919	96,235
Deferred tax assets	*31*	**219,480**	202,065	208,520
Total non-current assets		**17,268,502**	17,670,301	18,207,273
CURRENT ASSETS				
Trade and other receivables	*23*	**9,686,644**	8,141,891	8,904,939
Inventories	*25*	**5,959,149**	6,039,880	5,042,890
Debt instruments at fair value through other comprehensive income ("FVTOCI")	*26*	**886,777**	605,122	1,240,756
Time deposits		**–**	–	5,000
Pledged bank deposits	*27(a)*	**249,958**	114,729	114,704
Cash and cash equivalents	*27(b)*	**3,017,318**	3,065,054	2,894,757
Total current assets		**19,799,846**	17,966,676	18,203,046
CURRENT LIABILITIES				
Trade and other payables	*28*	**6,049,707**	5,232,179	6,236,167
Lease liabilities	*18*	**18,593**	16,764	14,996
Contract liabilities	*29*	**210,506**	290,677	204,079
Interest-bearing bank and other borrowings	*32*	**2,120,207**	1,255,268	1,140,495
Unsecured notes	*33*	**830,540**	3,241,610	1,015,226
Tax payable		**103,047**	66,286	153,565
Total current liabilities		**9,332,600**	10,102,784	8,764,528
NET CURRENT ASSETS		**10,467,246**	7,863,892	9,438,518
TOTAL ASSETS LESS CURRENT LIABILITIES		**27,735,748**	25,534,193	27,645,791

	Notes	**31 December 2023 RMB'000**	31 December 2022 RMB'000 (Restated)	1 January 2022 RMB'000 (Restated)
NON-CURRENT LIABILITIES				
Deferred government grants	*30*	**421,291**	437,839	390,695
Deferred tax liabilities	*31*	**1,187,045**	1,619,307	1,699,955
Unsecured notes	*33*	**1,197,112**	–	2,234,858
Interest-bearing bank and other borrowings	*32*	**913,813**	466,060	575,558
Lease liabilities	*18*	**79,869**	62,872	82,496
Total non-current liabilities		**3,799,130**	2,586,078	4,983,562
Net assets		**23,936,618**	22,948,115	22,662,229
EQUITY				
Equity attributable to owners of the parent				
Share capital	*34*	**11,982,474**	11,982,474	11,982,474
Reserves		**9,177,661**	8,185,653	7,737,382
		21,160,135	20,168,127	19,719,856
Non-controlling interests		**2,776,483**	2,779,988	2,942,373
Total equity		**23,936,618**	22,948,115	22,662,229

Approved and authorised for issue by the board of directors on 21 March 2024 and signed on its behalf by:

CHEN Yinglong
DIRECTOR

CHENG Xueren
DIRECTOR

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Attributable to owners of the parent								
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000	FVTOCI reserve RMB'000	Other reserves RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non–controlling interests ("NCI") RMB'000	Total RMB'000
At 31 December 2021	11,982,474	(165,183)	719,329	(12,500)	(51,334)	7,245,883	19,718,669	2,942,260	22,660,929
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	–	–	–	–	1,187	1,187	113	1,300
At 1 January 2022 (restated)	11,982,474	(165,183)	719,329	(12,500)	(51,334)	7,247,070	19,719,856	2,942,373	22,662,229
Profit for the year (restated)	–	–	–	–	–	764,486	764,486	(43,521)	720,965
Other comprehensive income for the year	–	–	–	8,848	–	–	8,848	722	9,570
Total comprehensive income for the year (restated)	–	–	–	8,848	–	764,486	773,334	(42,799)	730,535
Deregistration of subsidiaries	–	–	–	–	–	–	–	1,448	1,448
Dividends distributed to NCI of subsidiaries	–	–	–	–	–	–	–	(93,058)	(93,058)
Final 2021 dividend declared	–	–	–	–	–	(316,337)	(316,337)	–	(316,337)
Acquisition of non-controlling interests of subsidiaries	–	–	–	–	(9,288)	–	(9,288)	(29,476)	(38,764)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	1,500	1,500
Change in other reserves arising from an associate	–	–	–	–	562	–	562	–	562
Transfer to statutory surplus reserve	–	–	154,778	–	–	(154,778)	–	–	–
At 31 December 2022 (restated)	11,982,474	(165,183)	874,107	(3,652)	(60,060)	7,540,441	20,168,127	2,779,988	22,948,115
Profit for the year	–	–	–	–	–	1,285,200	1,285,200	110,870	1,396,070
Other comprehensive income for the year	–	–	–	(3,051)	–	–	(3,051)	52	(2,999)
Total comprehensive income for the year	–	–	–	(3,051)	–	1,285,200	1,282,149	110,922	1,393,071
Deregistration of subsidiaries	–	–	–	–	–	–	–	(505)	(505)
Dividends distributed to NCI of subsidiaries	–	–	–	–	–	–	–	(60,177)	(60,177)
Final 2022 dividend declared	–	–	–	–	–	(235,995)	(235,995)	–	(235,995)
Acquisition of non-controlling interests of subsidiaries	–	–	(43,026)	–	(11,120)	–	(54,146)	(58,215)	(112,361)
Acquisition of a subsidiary (note 45)	–	–	–	–	–	–	–	4,470	4,470
Transfer to statutory surplus reserve	–	–	51,469	–	–	(51,469)	–	–	–
At 31 December 2023	11,982,474	(165,183)	882,550	(6,703)	(71,180)	8,538,177	21,160,135	2,776,483	23,936,618

Note:

(a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China ("PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their boards of directors annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in converted into capital by means of capitalisation.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**1,224,533**	840,109
Adjustments for:			
Depreciation and amortisation	*11*	**1,133,271**	1,099,397
Amortisation of deferred government grants	*6*	**(41,843)**	(77,775)
Impairment losses recognised/(reversed) in respect of			
– goodwill	*11*	**–**	35,871
– right-of-use assets	*11*	**–**	12,451
– other intangible assets	*11*	**–**	1
– property, plant and equipment	*11*	**20,773**	135,075
– trade receivables	*11*	**10,151**	10,898
– other receivables	*11*	**(1,372)**	114
– debt instruments at FVTOCI	*11*	**587**	(939)
Write-down of inventories	*11*	**9,646**	24,632
Finance costs	*9*	**199,045**	220,695
Interest income	*6*	**(65,257)**	(67,269)
Net gain on disposal of property, plant and equipment	*7*	**(26,342)**	(4,747)
Net gain on disposal of right-of-use assets	*7*	**(7,619)**	–
Net loss on disposal of other intangible assets	*7*	**238**	–
Net foreign exchange losses	*7*	**384**	117
Share of losses of associates	*21*	**3,699**	3,479
		2,459,894	2,232,109
Decrease/(increase) in inventories		**70,944**	(1,021,622)
(Increase)/decrease in trade and other receivables		**(1,388,516)**	722,668
Increase/(decrease) in trade and other payables		**927,006**	(1,038,564)
(Decrease)/increase in contract liabilities		**(80,268)**	86,598
(Increase)/decrease in debt instruments at FVTOCI		**(556,769)**	392,050
Cash generated from operations		**1,432,291**	1,373,239
PRC Enterprise Income Tax paid		**(263,482)**	(280,877)
Net cash flows from operating activities		**1,168,809**	1,092,362

	Notes	**2023** **RMB'000**	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash acquired	*45*	**501**	–
Purchase of property, plant and equipment		**(483,925)**	(523,785)
Payments for acquisition of right-of-use assets		**(65)**	(589)
Purchase of other intangible assets		**(4,621)**	(2,899)
Proceeds from disposal of intangible assets		**44**	4
Proceeds from disposal of property, plant and equipment		**45,121**	14,054
Proceeds on disposal of right-of-use assets		**10,570**	–
Placement of time deposits		**(60,000)**	–
Withdrawal of time deposits		**60,000**	5,000
Assets-related government grants received		**25,295**	67,084
Capital injection to an associate		**(568)**	(266)
Increase in pledged bank deposits		**(135,229)**	(25)
Interest received		**65,257**	67,269
Net cash flows used in investing activities		**(477,620)**	(374,153)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of unsecured notes	*41*	**3,000,000**	3,000,000
Issuance cost of unsecured notes	*41*	**(4,740)**	(4,167)
New bank and other borrowings	*41*	**3,806,752**	3,747,971
Repayments of unsecured notes	*41*	**(4,200,000)**	(3,000,000)
Repayments of bank and other borrowings	*41*	**(2,539,872)**	(3,636,583)
Principal portion of lease payments	*41*	**(22,625)**	(19,122)
Dividends paid	*41*	**(240,000)**	(314,427)
Interest paid	*41*	**(177,912)**	(205,755)
Dividends paid to non-controlling interests of subsidiaries	*41*	**(93,924)**	(87,971)
Acquisition of additional interests in a subsidiary		**(111,985)**	(38,725)
Capital injection from non-controlling interests		**–**	1,500
Net cash flows used in financing activities		**(584,306)**	(557,279)

	Notes	2023 RMB'000	2022 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**106,883**	160,930
Cash and cash equivalents at beginning of year	*27(b)*	**2,879,563**	2,717,684
Effect of foreign exchange rate changes, net		**373**	949
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,986,819**	2,879,563
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	*27(b)*	**3,017,318**	3,065,054
Restricted cash	*27(b)*	**(30,499)**	(185,491)
Cash and cash equivalents as stated in the statement of cash flows		**2,986,819**	2,879,563

1. CORPORATE AND GROUP INFORMATION

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

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

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

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These 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 Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 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 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in HKAS 12 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 (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

    Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets at 1 January 2022, with cumulative effect recognised as an adjustment to the balances of retained profits and non-controlling interests at that date. The quantitative impact on the financial statements is summarised below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Impact on the consolidated statements of financial position:

	As at 31 December 2023 RMB'000	Increase/ (decrease) As at 31 December 2022 RMB'000	As at 1 January 2022 RMB'000
Assets			
Deferred tax assets	**17,802**	17,036	21,051
Total non-current assets	**17,802**	17,036	21,051
Total assets	**17,802**	17,036	21,051
Liabilities			
Deferred tax liabilities	**16,691**	15,523	19,751
Total non-current liabilities	**16,691**	15,523	19,751
Total liabilities	**16,691**	15,523	19,751
Net assets	**1,111**	1,513	1,300
Equity			
Retained profits (included in reserves)	**959**	1,407	1,187
Equity attributable to owners of the parent	**959**	1,407	1,187
Non-controlling interests	**152**	106	113
Total equity	**1,111**	1,513	1,300

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Impact on the consolidated statements of profit or loss (continued):

	Increase/(decrease) For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Income tax expense from continuing operations	**402**	(213)
Profit for the year from continuing operations	**(402)**	213
Profit for the year	**(402)**	213
Attributable to:		
Owners of the parent	**(448)**	220
Non-controlling interests	**46**	(7)
	(402)	213
Total comprehensive income for the year	**(402)**	213
Attributable to:		
Owners of the parent	**(448)**	220
Non-controlling interests	**46**	(7)
	(402)	213

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately, which have been reflected in the reconciliation disclosed in note 31 to the financial statements. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")* [1, 4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

2.4 MATERIAL ACCOUNTING POLICIES

Investments in associates

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 has 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.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in profit or loss and 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 are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associate is included as part of the Group's investments in associates.

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, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

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

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

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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

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

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.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and, deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Related parties

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

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

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

or

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

Owned properties	2% to 5%
Plant, machinery and equipment	6.67% to 33.4%
Motor vehicles	10% to 25%
Office equipment and others	10% to 33.4%

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

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each investment property to its residual value over its estimated useful life. The annual rates used for this purpose are 2% to 5%.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Licenses and franchises, customer relationship, software and distribution network

Licenses and franchises, customer relationship, software and distribution network, purchased or acquired through business combinations are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives as below:

Licenses and franchises	12 to 20 years
Customer relationship	5 to 21 years
Software	5 to 10 years
Distribution network	10 years

Product protection rights

The product protection rights mainly comprises the licenses for manufacturing and trading of concentrated Traditional Chinese Medicines ("TCM") granules and patterns and knowhows regarding production technology and processes of various concentrated TCM granules. Production protection rights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 25 years.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Trademark

Trademarks (including brand names) are assessed to have indefinite useful lives or finite useful lives ranging from 10 years to 44 years according to the managements' assessment regarding the foreseeable limit to the period over which these trademarks are expected to generate net cash flows for the Group. Trademarks with finite useful lives are amortised on the straight-line basis over their estimated useful lives.

Research and development costs

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

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

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.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	30 to 50 years
Buildings	1 to 20 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.

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.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

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

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in 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.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

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

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

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.

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

Subsequent measurement

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at amortised cost

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

Financial assets at fair value through other comprehensive income

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in 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 profit or loss.

Derecognition of financial assets

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

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

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

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.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers 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 in default when contractual payments are more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

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. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

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 which apply the simplified approach as detailed below.

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

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 or payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, loans from a director and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing 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 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, 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 profit or loss.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Income tax

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

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

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

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

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

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

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.

(a) *Sale of goods*

Revenue from the sale of goods includes the sale of TCM products. 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 goods. Some contracts for the sale of goods provide customers with rebates giving rise to variable consideration.

Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customers. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) TCM healthcare service

TCM healthcare service comprises of consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) physiotherapy. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For all of the three performance obligations, control of the respective service is transferred at a point in time, i.e. upon completion of the respective service or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from physiotherapy is recognised evenly upon each of the completed services. Transactions are settled by payment from commercial insurance, the government's insurance schemes, or directly paid by bank cards, third-party payment platforms or cash from customers.

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.

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.

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).

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Employee retirement benefits

Chinese Mainland

The employees of the Group's subsidiary which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain 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.

Hong Kong

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognised as expenses in profit or loss in the period in which they are incurred.

Defined benefit plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Defined benefit plan (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales", "selling and distribution expenses" and "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Borrowing costs

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

Dividends

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

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

2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Withholding taxes arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distribution of dividends from a subsidiary according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether the subsidiary of the Group is determined to be Chinese resident enterprise by the PRC governing tax authorities in the future.

Management considered that the Group's subsidiary in Chinese Mainland will distribute 30% of the retained profits as at the end of each of the reporting periods in the foreseeable future and provision for withholding tax was made accordingly. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

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.

Impairment of goodwill and other intangible assets with indefinite useful lives

The Group determines whether goodwill and other intangible assets with indefinite useful lives is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and other intangible assets with indefinite useful lives is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The information about the Group's goodwill and other intangible assets with indefinite useful lives is disclosed in notes 16, 19 and 20 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of other long-term non-financial assets

The Group assesses whether there are any indicators of impairment for other long -term non-financial assets, excluding goodwill and other intangible assets with indefinite useful lives, at the end of each reporting period. These non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17, 18 and 19 to the consolidated financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

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 (i.e., gross domestic product) 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.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 23 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down of inventories in the period in which the estimate has been changed. The information about the Group's inventories is disclosed in note 25 to the consolidated financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as the expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed as at the end of each of the reporting periods. Further details of property, plant and equipment are set out in note 17 to the consolidated financial statements.

Deferred tax

Deferred tax are recognised on the temporary differences arising between the carrying amounts of assets or liabilities in the Group's consolidated financial statements and their tax basis. Significant management estimation is required to determine the amount of the deferred tax, including the likely timing and level of future taxable profits, future tax planning strategies, and applicability and sustainability of preferential tax policies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Deferred tax (continued)

The Group's applicable tax rate with respect to the deferred tax liabilities on fair value adjustments arising from acquisitions of Guangdong Yifang and Jiangyin Tianjiang ("YF and TJ") was 25% before the year ended 31 December 2023 ("Applicable Tax Rate"). Following the guiding principles of the Conference on Executives in Charges for Chinese Central State-owned Enterprises (中央企業負責人會議) held in December 2023, the Group has passed a refined business plan which includes comprehensive measures to maintain the portion of research and development expenses to revenue of YF and TJ at a level over 5% in the foreseeable future. By further taking into accounts the fact that no obstacles have been identified in extending their qualifications as advanced and new technology enterprises during the past years, it is probable that YF and TJ would continuously enjoy preferential enterprise income tax rate of 15% in the foreseeable future. Therefore, the board of directors of the Company has approved the changes in accounting estimates with respect to the Applicable Tax Rate to "15%" during the year ended 31 December 2023. The change in calculation of accounting estimates adopts the prospective applicable method, and its impacts on the Group's consolidated financial statements is an increase in net profit of RMB295,152,000 for the year ended 31 December 2023 and a decrease in net profit of RMB295,152,000 in aggregate for the years ending 31 December 2024 to 2036, respectively.

The information about the Group's deferred tax is disclosed in note 31 to the consolidated financial statements.

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	2023 **RMB'000**	2022 RMB'000
Types of goods or services		
Concentrated TCM granules	**9,108,382**	7,710,933
TCM finished drugs	**3,994,333**	3,121,636
TCM decoction pieces	**2,811,368**	1,933,386
Chinese medicinal herbs integration business	**1,855,534**	1,272,761
TCM great health products	**212,832**	134,202
TCM medical institutions	**139,412**	131,324
Total	**18,121,861**	14,304,242

	2023 **RMB'000**	2022 RMB'000
Geographical markets		
Chinese Mainland	**18,024,104**	14,173,919
Hong Kong	**41,695**	26,333
Overseas and others	**56,062**	103,990
Total	**18,121,861**	14,304,242
Timing of revenue recognition		
At point in time	**18,121,861**	14,304,242

4. REVENUE (CONTINUED)

(ii) Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

	2023 **RMB'000**	2022 RMB'000
Revenue from contracts with customers		
External customers	**18,121,861**	14,304,242
Intersegment sales	**2,474,126**	2,306,772
Subtotal	**20,595,987**	16,611,014
Intersegment adjustments and eliminations	**(2,474,126)**	(2,306,772)
Total	**18,121,861**	14,304,242

(iii) Performance obligations for contracts with customers

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

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

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

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

The Group regularly reviews the estimates and accordingly adjusts provisions.

4. REVENUE (CONTINUED)

(iii) Performance obligations for contracts with customers (continued)

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

The Group provides medical diagnosis and health examination services.

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

5. OPERATING SEGMENTS INFORMATION

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

i. Yi Fang segment mainly engages in the manufacture and sales of concentrated TCM granules ("CTCMG"), TCM healthcare products, and TCM decoction pieces under "Yi Fang" brand. Majority of the revenue of Yi Fang segment is derived from the sales of CTCMG.

ii. Tian Jiang segment mainly engages in the manufacture and sales of CTCMG, TCM decoction pieces, and TCM healthcare products under "Tian Jiang" brand. The Tianjiang segment also provides a variety of Chinese medical related healthcare solutions, including Chinese medical consultation and diagnosis, TCM physiotherapy, and prescription with concentrated TCM granules, TCM decoction pieces and TCM healthcare product (the "TCM Healthcare Solutions"), through its offline medical institutions under "Tian Jiang" brand. Majority of the revenue of Tian Jiang segment is derived from the sales of CTCMG.

iii. Tong Ji Tang segment mainly engages in the manufacture and sales of CTCMG, TCM decoction pieces and TCM finished drugs under "Tong Ji Tang" brand. The Tong Ji Tang segment also engages in the manufacture and sales of a wide range of healthcare products in great health industry.

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

iv. Medi-World segment mainly engages in the manufacture and sales of TCM finished drugs under various brands, including but not limited to "Medi-world", "De Zhong" and "Feng Liao Xing"; and provision of a variety of TCM Healthcare Solutions through its offline medical institutions under "Feng Liao Xing" brand.

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

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

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

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

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

(i) Segment results, assets and liabilities

Year ended 31 December 2023	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue (note 4)						
External customers	6,794,514	5,119,857	2,035,495	4,171,995	–	18,121,861
Intersegment sales	324,147	302,292	335,346	1,512,341	(2,474,126)	–
Total segment revenue	7,118,661	5,422,149	2,370,841	5,684,336	(2,474,126)	18,121,861
Segment results	628,627	471,524	236,398	105,944	–	1,442,493
Reconciliation:						
Other unallocated head office and corporate expenses						(46,423)
Profit for the year						1,396,070
Other segment information:						
Interest income	16,773	4,107	4,363	40,014	–	65,257
Finance cost	(75,704)	(73,370)	21,216	(71,187)	–	(199,045)
Share of losses of associates	–	3	–	(3,702)	–	(3,699)
Depreciation and amortisation	(480,076)	(372,345)	(104,760)	(176,090)	–	(1,133,271)
Write-down of inventories	(5,590)	1,738	(5,340)	(454)	–	(9,646)
Impairment losses under the expected credit loss model, net of reversal	(9,455)	(1,852)	(1,765)	3,706	–	(9,366)
Impairment loss recognised in respect of						
– goodwill	–	–	–	–	–	–
– right of use assets	–	–	–	–	–	–
– other intangible assets	–	–	–	–	–	–
– property, plant and equipment	(10,963)	(9,057)	–	(753)	–	(20,773)

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

As at 31 December 2023	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment assets	15,836,717	12,160,190	5,855,965	7,577,820	–	41,430,692
Reconciliation:						
Elimination of intersegment receivables						(5,097,060)
Deferred tax assets						219,480
Corporate and other unallocated assets						515,236
Total assets						37,068,348
Segment liabilities	5,001,209	4,646,332	1,309,704	5,688,360	–	16,645,605
Reconciliation:						
Elimination of inter-segment payables						(5,097,060)
Tax payable						103,047
Deferred tax liabilities						1,187,045
Corporate and other unallocated liabilities						293,093
Total liabilities						13,131,730

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

Year ended 31 December 2022	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue (note 4)						
External customers	5,559,073	4,145,173	1,419,925	3,180,071	–	14,304,242
Intersegment sales	366,410	340,564	336,129	1,263,669	(2,306,772)	–
Total segment revenue	5,925,483	4,485,737	1,756,054	4,443,740	(2,306,772)	14,304,242
Segment results (restated)	300,307	340,901	98,862	17,526	–	757,596
Reconciliation:						
Other unallocated head office and corporate expenses						(36,631)
Profit for the year (restated)						720,965
Other segment information:						
Interest income	17,976	3,392	4,310	41,591	–	67,269
Finance cost	(89,954)	(70,034)	13,881	(74,588)	–	(220,695)
Share of losses of associates	–	25	–	(3,504)	–	(3,479)
Depreciation and amortisation	(457,261)	(372,188)	(105,544)	(164,404)	–	(1,099,397)
Write-down of inventories	1,736	(9,970)	(10,792)	(5,606)	–	(24,632)
Impairment losses under the expected credit loss model, net of reversal	4,587	(15,678)	(1,323)	2,341	–	(10,073)
Impairment loss recognised in respect of						
– goodwill	–	–	–	(35,871)	–	(35,871)
– right of use assets	(12,451)	–	–	–	–	(12,451)
– other intangible assets	(1)	–	–	–	–	(1)
– property, plant and equipment	(134,674)	(401)	–	–	–	(135,075)

5. OPERATING SEGMENTS INFORMATION (CONTINUED)

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

As at 31 December 2022	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
Segment assets (restated)	16,480,031	11,831,102	5,418,427	6,787,526	–	40,517,086
Reconciliation:						
Elimination of intersegment receivables						(6,242,297)
Deferred tax assets (restated)						202,065
Corporate and other unallocated assets						1,160,123
Total assets (restated)						35,636,977
Segment liabilities (restated)	5,951,364	4,188,718	1,105,203	5,002,874	–	16,248,159
Reconciliation:						
Elimination of inter-segment payables						(6,242,297)
Tax payable						66,286
Deferred tax liabilities (restated)						1,619,307
Corporate and other unallocated liabilities						997,407
Total liabilities (restated)						12,688,862

(ii) Geographical information and information about major customers

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

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both 2023 and 2022.

6. OTHER INCOME

	2023 RMB'000	2022 RMB'000
Government grants		
– Unconditional subsidies (note i)	**175,068**	74,476
– Conditional subsidies (note ii)	**41,843**	77,775
Interest income on bank deposits	**65,257**	67,269
Rental income from investment properties	**7,847**	10,490
Total other income	**290,015**	230,010

Notes:

(i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy.

(ii) Including government grants and subsidies have been received to compensate for the Group's research and development expenditures, which relate to future costs to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants are recognised in profit or loss when related costs are subsequently incurred and the Group receives government's acknowledgement of compliance. Other government grants have been received to compensate for the construction of the production line. The subsidies are recognised in profit or loss over the useful lives of the relevant assets.

7. OTHER GAINS AND LOSSES

	Notes	**2023 RMB'000**	2022 RMB'000
Impairment loss recognised in respect of			
– goodwill	*16*	**–**	(35,871)
– right-of-use assets	*18*	**–**	(12,451)
– other intangible assets	*19*	**–**	(1)
– property, plant and equipment	*17*	**(20,773)**	(135,075)
Net gain on disposal of property, plant and equipment		**26,342**	4,747
Net gain on disposal of right of use assets		**7,619**	–
Net loss on disposal of other intangible assets		**(238)**	–
Donation		**(14,455)**	(14,338)
Net foreign exchange losses		**(384)**	(117)
Others		**6,176**	(667)
Total gains/(losses)		**4,287**	(193,773)

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

	2023 RMB'000	2022 RMB'000
Impairment losses (recognised)/reversed in respect of		
– trade receivables	**(10,151)**	(10,898)
– other receivables	**1,372**	(114)
– debt instruments at FVTOCI	**(587)**	939
Total	**(9,366)**	(10,073)

Details of impairment assessment for the year ended 31 December 2023 are set out in note 39.

9. FINANCE COSTS

	2023 **RMB'000**	2022 RMB'000
Interest expense:		
– Interest on interest-bearing bank and other borrowings	**76,289**	77,658
– Effective interest expense on unsecured notes	**89,416**	118,557
– Factoring of trade receivables	**29,871**	19,245
– Interest on lease liabilities	**3,469**	5,235
Total	**199,045**	220,695

10. INCOME TAX (CREDIT)/EXPENSE

	2023 **RMB'000**	2022 RMB'000
Current tax:		
Enterprise income tax ("EIT")	**290,495**	189,400
(Over)/under provision in prior year	**(12,561)**	5,493
Subtotal	**277,934**	194,893
Deferred tax credit	**(449,471)**	(75,749)
Total	**(171,537)**	119,144

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

10. INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years. Certain subsidiaries of the Group were qualified enterprises located in the western region of the PRC or recognised as advanced and new technology enterprises and, accordingly, enjoyed a preferential enterprise income tax rate of 15% during the year ended 31 December 2023 and 2022. Certain subsidiaries of the Group were qualified enterprise with operation of medicinal plants primary processing business in the PRC and enjoys a full enterprise income tax exemption during the years ended 31 December 2023 and 2022.

The income tax expense for the year is reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 **RMB'000**	2022 RMB'000
Profit before tax	**1,224,533**	840,109
Tax at the domestic income tax rate of 25%	**306,133**	210,027
Income tax at concessionary rate	**(179,065)**	(126,041)
Effect on deferred tax of decrease in rate (note 3.1)	**(295,152)**	–
Additional tax deduction for qualified research and development expenses	**(78,393)**	(78,723)
Effect of tax exemptions granted to PRC subsidiaries	**(32,279)**	(23,856)
Tax effect of expenses not deductible for tax purposes	**18,036**	18,082
Tax effect of income not taxable for tax purposes	**(9,332)**	(26,243)
(Over)/under provision in respect of prior years	**(12,561)**	5,493
Tax losses not recognised	**82,646**	107,911
Utilisation of tax losses previously not recognised	**(9,746)**	(3,567)
Withholding tax on interest income from PRC entities	**6,409**	9,158
Withholding tax on distributable profits of PRC entities	**31,767**	26,903
Income tax (credit)/expense for the year	**(171,537)**	119,144

The domestic tax rate (which is PRC corporate tax rate) in the jurisdictions where the operation of the Group is substantially based is used.

11. PROFIT FOR THE YEAR

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

	Notes	**2023 RMB'000**	2022 RMB'000
Directors' remuneration	*12*	**8,932**	8,971
Other staff costs			
Salaries, wages and other benefits		**2,216,823**	2,018,194
Contributions to defined contribution retirement benefits		**161,574**	141,439
Subtotal		**2,378,397**	2,159,633
Cost of sales		**8,847,369**	7,105,790
Included: Write-down of inventories to net realisable value*	*25*	**9,646**	24,632
Auditor's remuneration		**5,255**	4,993
Impairment loss recognised/(reversed) in respect of			
– goodwill	*7*	**–**	35,871
– right of use assets	*7*	**–**	12,451
– other intangible assets	*7*	**–**	1
– Property, plant and equipment	*7*	**20,773**	135,075
– trade receivables	*8*	**10,151**	10,898
– other receivables	*8*	**(1,372)**	114
– debt instruments at FVTOCI	*8*	**587**	(939)
Depreciation of			
– investment properties	*17*	**29,927**	17,164
– property, plant and equipment	*17*	**653,510**	632,747
– right-of-use assets	*18*	**50,363**	49,306
Amortisation of other intangible assets	*19*	**399,471**	400,180
Total depreciation and amortisation		**1,133,271**	1,099,397
Gross rental income from investment properties	6	**(7,847)**	(10,490)
Less: Direct operating expenses incurred for investment properties		**1,186**	1,453
Total		**(6,661)**	(9,037)

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

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for both years, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

			2023		
	Directors' fees RMB'000	**Salaries and allowances RMB'000**	**Discretionary bonuses RMB'000**	**Retirement benefits RMB'000**	**Total RMB'000**
Executive directors					
Chen Yinglong	–	1,095	1,512	116	2,723
Cheng Xueren	–	1,006	1,440	45	2,491
Yang Wenming	–	1,046	1,440	116	2,602
Independent non-executive directors					
Xie Rong	225	54	–	–	279
Yu Tze Shan Hailson	225	54	–	–	279
Qin Ling	225	54	–	–	279
Li Weidong	225	54	–	–	279
Total	900	3,363	4,392	277	8,932

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	2022				
	Directors' fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Retirement benefits RMB'000	Total RMB'000
Executive directors					
Chen Yinglong	–	742	1,031	74	1,847
Cheng Xueren	–	761	1,104	22	1,887
Yang Wenming	–	1,060	1,473	108	2,641
Wu Xian	–	562	773	61	1,396
Non-executive director					
Wang Xiaochun	94	9	25	–	128
Independent non-executive directors					
Xie Rong	215	53	–	–	268
Yu Tze Shan Hailson	215	53	–	–	268
Qin Ling	215	53	–	–	268
Li Weidong	215	53	–	–	268
Total	954	3,346	4,406	265	8,971

The executive directors' emoluments shown above for both years were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emoluments shown above for both years were for his services as director of the Company or its subsidiaries.

The independent non-executive directors' emoluments shown above for both years were for their services as directors of the Company.

Some directors were also the employees of the CNPGC and their remuneration were paid and borne by CNPGC and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2023 and 2022.

Neither the chief executive officer nor any of the directors waived any emoluments, compensation loss and inducement to join or upon joining the Group during the years ended 31 December 2023 and 2022.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2022: two directors), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining two (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 **RMB'000**	2022 RMB'000
Salaries and allowances	**1,857**	2,687
Discretionary bonuses	**2,400**	3,487
Retirement benefits	**231**	326
Total	**4,488**	6,500

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

	2023 **Number of** **individuals**	2022 Number of individuals
HK$		
2,000,001 – 2,500,000	**2**	1
2,500,001 – 3,000,000	**–**	2
Total	**2**	3

14. DIVIDENDS

No dividend was proposed for the year ended 31 December 2023 (2022: HK5.18 cents per share).

The proposed 2022 final dividend of HK5.18 cents per ordinary share, amounting to a total of HK$260,855,000 (approximately RMB235,995,000), was approved by the Company's shareholders at the annual general meeting on 30 May 2023.

15. EARNINGS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Profit attributable to ordinary equity holders of the parent	**1,285,200**	764,486

	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	5,035,801

No diluted earnings per share amounts for both 2023 and 2022 were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

16. GOODWILL

	2023 RMB'000	2022 RMB'000
COST		
At 1 January	**3,568,984**	3,568,984
Additions	**1,590**	–
At 31 December	**3,570,574**	3,568,984
IMPAIRMENT		
At 1 January	**(112,671)**	(76,800)
Impairment loss recognised for the year	**–**	(35,871)
At 31 December	**(112,671)**	(112,671)
CARRYING VALUES		
At 31 December	**3,457,903**	3,456,313

Particulars regarding to the carrying amount of goodwill and impairment testing on goodwill are disclosed in note 20.

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
COST								
At 1 January 2022	5,342,195	1,943,388	43,266	617,661	965,969	8,912,479	324,531	9,237,010
Additions	54,766	54,210	2,646	536,159	101,331	749,112	1	749,113
Transfer from construction in progress	347,167	177,872	169	(593,254)	67,989	(57)	57	–
Transfer from right-of-use assets	–	–	–	1,100	–	1,100	7,629	8,729
Transfer from investment properties	192,241	–	–	–	–	192,241	(192,241)	–
Transfer to other intangible assets	–	–	–	(14,111)	–	(14,111)	–	(14,111)
Transfer to investment properties	(8,861)	–	–	–	–	(8,861)	8,861	–
Transfer to right-of-use assets	–	–	–	–	–	–	(23,044)	(23,044)
Disposals	(3,490)	(24,709)	(29,836)	(2,741)	(14,737)	(75,513)	–	(75,513)
At 31 December 2022	5,924,018	2,150,761	16,245	544,814	1,120,552	9,756,390	125,794	9,882,184
Additions	**32,680**	**70,487**	**4,713**	**534,408**	**97,751**	**740,039**	**5,583**	**745,622**
Acquisition of a subsidiary	**6,017**	**772**	**–**	**–**	**1,309**	**8,098**	**–**	**8,098**
Transfer from construction in progress	**150,847**	**143,573**	**377**	**(298,446)**	**3,649**	**–**	**–**	**–**
Transfer from right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**1,888**	**1,888**
Transfer from investment properties	**9,205**	**–**	**–**	**–**	**–**	**9,205**	**(9,205)**	**–**
Transfer to other intangible assets	**–**	**–**	**–**	**(6,873)**	**–**	**(6,873)**	**–**	**(6,873)**
Transfer to investment properties	**(20,241)**	**–**	**–**	**–**	**–**	**(20,241)**	**20,241**	**–**
Disposals	**(40,768)**	**(1,165)**	**(6,773)**	**(419)**	**(42,798)**	**(91,923)**	**–**	**(91,923)**
At 31 December 2023	**6,061,758**	**2,364,428**	**14,562**	**773,484**	**1,180,463**	**10,394,695**	**144,301**	**10,538,996**

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Owned properties RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Office equipment and others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Total RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2022	969,192	783,567	24,826	232	474,677	2,252,494	55,763	2,308,257
Additions	311,736	142,583	5,684	–	172,744	632,747	17,164	649,911
Transfer from right-of-use assets	–	–	–	–	–	–	515	515
Transfer from investment properties	40,610	–	–	–	–	40,610	(40,610)	–
Transfer to investment properties	(2,616)	–	–	–	–	(2,616)	2,616	–
Transfer to right-of-use assets	–	–	–	–	–	–	(1,904)	(1,904)
Disposals	(3,029)	(21,311)	(26,632)	(401)	(12,493)	(63,866)	–	(63,866)
Impairment	129,542	2,633	–	401	–	132,576	2,499	135,075
At 31 December 2022	1,445,435	907,472	3,878	232	634,928	2,991,945	36,043	3,027,988
Additions	**320,844**	**160,904**	**4,079**	**–**	**167,683**	**653,510**	**29,927**	**683,437**
Acquisition of a subsidiary	**2,084**	**294**	**–**	**–**	**571**	**2,949**	**–**	**2,949**
Transfer from right-of-use assets	**–**	**–**	**–**	**–**	**–**	**–**	**675**	**675**
Transfer from investment properties	**4,858**	**–**	**–**	**–**	**–**	**4,858**	**(4,858)**	**–**
Transfer to investment properties	**(6,771)**	**–**	**–**	**–**	**–**	**(6,771)**	**6,771**	**–**
Disposals	**(23,015)**	**(13,158)**	**(6,101)**	**(56)**	**(43,778)**	**(86,108)**	**–**	**(86,108)**
Impairment	**8,557**	**11,424**	**5**	**753**	**34**	**20,773**	**–**	**20,773**
At 31 December 2023	**1,751,992**	**1,066,936**	**1,861**	**929**	**759,438**	**3,581,156**	**68,558**	**3,649,714**
CARRYING VALUES								
At 31 December 2023	**4,309,766**	**1,297,492**	**12,701**	**772,555**	**421,025**	**6,813,539**	**75,743**	**6,889,282**
At 31 December 2022	4,478,583	1,243,289	12,367	544,582	485,624	6,764,445	89,751	6,854,196

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) For investment properties, the Group leases out various offices and warehouses under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 8 years, with no unilateral rights to extend the lease beyond initial period.

(b) The Group is not exposed to foreign currency risk for investment properties as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

(c) All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair values of the investment properties as at 31 December 2023 was RMB136,585,000 (2022: RMB128,358,000). The fair value of the investment properties as at 31 December 2023 and 31 December 2022 have been arrived at based on a valuation carried out by Ravia Global Appraisal Advisory Limited, an independent valuer not connected with the Group.

The fair value of the investment properties as at 31 December 2023 was determined based on the market approach (direct comparison approach) assuming sale of the property interests in their existing states with the benefit of vacant possession and with reference to comparable sales transactions as available in the relevant market. There has been no change from the valuation technique used in the prior year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about their fair value under level 2 fair value hierarchy are as follows:

	2023		2022	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Commercial property units	**2,069**	**5,040**	1,509	7,710
Office and Plant units	**73,674**	**131,545**	88,242	120,648
Total	**75,743**	**136,585**	89,751	128,358

17. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(d) Certain of the Group's buildings with carrying values of RMB672,502,000 (2022: RMB635,284,000) were pledged to secure certain interest-bearing bank and other borrowings and bills payables granted to the Group.

(e) The Group has not yet obtained the building ownership certificates for buildings situated in the PRC with an aggregate carrying value of RMB625,578,000 (2022: RMB1,010,123,000). The buildings are currently in use and in the opinion of directors, there is no material legal impediment for the Group to obtain the building ownership certificates.

18. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 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 1 to 20 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. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

18. LEASES (CONTINUED)

The Group as a lessee (continued)

(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:

	Notes	Leasehold land RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2022		1,130,562	75,204	1,205,766
Additions		1,151	2,363	3,514
Transfer from investment property	*17*	21,140	–	21,140
Transfer to construction in progress	*17*	(1,100)	–	(1,100)
Transfer to investment property	*17*	(7,114)	–	(7,114)
Depreciation charge		(30,753)	(19,181)	(49,934)
Impairment	*7*	(12,451)	–	(12,451)
As at 31 December 2022 and 1 January 2023		**1,101,435**	**58,386**	**1,159,821**
Additions		**104**	**17,177**	**17,281**
Acquisition of a subsidiary		**–**	**23,473**	**23,473**
Transfer to investment property	*17*	**(1,213)**	**–**	**(1,213)**
Depreciation charge		**(29,653)**	**(20,710)**	**(50,363)**
Disposals		**(2,951)**	**–**	**(2,951)**
As at 31 December 2023		**1,067,722**	**78,326**	**1,146,048**

Certain of the Group's right-of-use assets with carrying values of RMB91,902,000 (2022: RMB140,835,000) were pledged to secure certain interest-bearing bank and other borrowings and bills payables granted to the Group.

18. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

	2023 **RMB'000**	2022 RMB'000
Carrying amount at 1 January	**79,636**	97,492
New leases	**16,658**	1,266
Acquisition of a subsidiary	**24,793**	–
Accretion of interest recognised during the year	**3,469**	5,235
Payments	**(26,094)**	(24,357)
Carrying amount at 31 December	**98,462**	79,636
Analysed into:		
Current portion	**18,593**	16,764
Non-current portion	**79,869**	62,872

	2023 **RMB'000**	2022 RMB'000
Lease liabilities payable:		
Within one year	**18,593**	16,764
Within a period of more than one year but not more than two years	**20,017**	15,274
Within a period of more than two years but not more than five years	**43,652**	31,984
Within a period of more than five years	**16,200**	15,614
Total	**98,462**	79,636
Less: Amount due for settlement with 12 months shown under current liabilities	**18,593**	16,764
Amount due for settlement after 12 months shown under non-current liabilities	**79,869**	62,872

18. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities (continued)

The weighted average incremental borrowing rate applied to lease liabilities is 4.87% (2022: 4.88%).

For both years, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 12 months to 20 years, with no extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The Group has obtained the land use right certificates for all leasehold lands except for the leasehold land with a carrying amount of RMB6,335,000 (2022: RMB6,845,000) in which the Group is in the process of obtaining the certificates.

The Group regularly entered into short-term leases for plant and warehouse. As at 31 December 2023 and 2022, the portfolio of short-term leases was similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Restrictions or covenants on leases

In addition, lease liabilities of RMB98,462,000 are recognized with related right-of-use assets of RMB92,771,000 as at 31 December 2023 (2022: lease liabilities of RMB79,636,000 are recognized with related right-of-use assets of RMB74,434,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

19. OTHER INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Licences and franchises RMB'000	Total RMB'000
COST							
At 1 January 2022	2,830,052	2,006,335	59,000	51,189	2,245,552	336,447	7,528,575
Additions	300	–	–	2,232	–	367	2,899
Transfer from construction in progress	–	–	–	14,111	–	–	14,111
Disposals	(7)	–	–	(213)	–	–	(220)
At 31 December 2022	**2,830,345**	**2,006,335**	**59,000**	**67,319**	**2,245,552**	**336,814**	**7,545,365**
Additions	**–**	**74**	**–**	**3,933**	**–**	**604**	**4,611**
Transfer from construction in progress	**–**	**–**	**–**	**6,873**	**–**	**–**	**6,873**
Disposals	**(5,979)**	**–**	**–**	**(1,705)**	**–**	**(11,046)**	**(18,730)**
At 31 December 2023	**2,824,366**	**2,006,409**	**59,000**	**76,420**	**2,245,552**	**326,372**	**7,538,119**
AMORTISATION AND IMPAIRMENT							
At 1 January 2022	354,280	22,934	59,000	20,744	736,972	76,836	1,270,766
Amortisation for the year	272,728	979	–	8,778	109,041	8,654	400,180
Write-back on disposals	(3)	–	–	(213)	–	–	(216)
Impairment loss recognised in profit or loss	–	–	–	1	–	–	1
At 31 December 2022	**627,005**	**23,913**	**59,000**	**29,310**	**846,013**	**85,490**	**1,670,731**
Amortisation for the year	**259,284**	**985**	**–**	**10,528**	**114,461**	**14,213**	**399,471**
Write-back on disposals	**(5,977)**	**–**	**–**	**(1,426)**	**–**	**(11,045)**	**(18,448)**
At 31 December 2023	**880,312**	**24,898**	**59,000**	**38,412**	**960,474**	**88,658**	**2,051,754**
CARRYING VALUES							
At 31 December 2023	**1,944,054**	**1,981,511**	**–**	**38,008**	**1,285,078**	**237,714**	**5,486,365**
At 31 December 2022	2,203,340	1,982,422	–	38,009	1,399,539	251,324	5,874,634

19. OTHER INTANGIBLE ASSETS (CONTINUED)

At 31 December 2023, the carrying amount of other intangible assets with finite useful lives was RMB3,529,551,000 (2022: RMB3,917,820,000). Other intangible assets with finite useful lives are amortised on a straight-line:

	2023 **RMB'000**	2022 RMB'000
Product protection rights	**1,944,054**	2,203,340
Trademarks	**24,697**	25,608
Software	**38,008**	38,009
Customer relationship	**1,285,078**	1,399,539
Licences and franchises	**237,714**	251,324
Total	**3,529,551**	3,917,820

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2023, the following other intangible assets, trademarks (including brand names) acquired through business combinations, are assessed to have indefinite useful lives. The trademarks have a legal life of 5 years and 10 years respectively but are renewable at minimal cost. The directors of the Company are of the opinion that the Group could renew and maintain the trademarks (including brand names) continuously and has the ability to do so. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the trademarks (including brand names) have no foreseeable limit to the period over which the products are expected to generate net cash flows for the Group. As a result, the trademarks (including brand names) are considered by the management of the Group as having an indefinite useful life because they are expected to contribute to net cash inflows indefinitely. The trademarks (including brand names) will not be amortised until the useful life is determined to be finite. Instead they will be tested for impairment annually and whenever there is an indication that they may be impaired. Particulars of the impairment testing are disclosed in note 20.

19. OTHER INTANGIBLE ASSETS (CONTINUED)

	Trademarks	
	2023	2022
	RMB'000	RMB'000
Tongjitang Group*		
– Tongjitang Pharmaceutical	**209,047**	209,047
– Jingfang	**37,779**	37,779
– Pulante	**5,037**	5,037
Shanghai Tongjitang	**110,403**	110,403
Jiangyin Tianjiang Group	**645,674**	645,674
Jiangyin Yifang Group	**948,874**	948,874
Total	**1,956,814**	1,956,814

* Tongitang Pharmaceutical, Jingfang and Pulante are collectively referred to as Tongjitang Group.

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and trademarks (including brand names) with indefinite useful lives set out in notes 16 and 19 have been allocated to individual CGUs as below:

	Goodwill		Trademarks	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Manufacture and sale of pharmaceutical products				
Dezhong	**100,391**	100,391	**–**	–
Guangdong Medi-World	**26,055**	26,055	**–**	–
Tongjitang Group				
– Tongjitang Pharmaceutical	**770,153**	770,153	**209,047**	209,047
– Jingfang	**139,184**	139,184	**37,779**	37,779
– Pulante	**–**	–	**5,037**	5,037
Jiangyin Tianjiang	**925,154**	925,154	**645,674**	645,674
Jiangyin Yifang	**1,283,826**	1,283,826	**948,874**	948,874
Shanghai Tongjitang	**111,101**	111,101	**110,403**	110,403
Tongjitang Herbal	**29,433**	29,433	**–**	–
Zhonglian Pharmaceutical	**68,567**	68,567	**–**	–
Sale of pharmaceutical products				
Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")	**2,449**	2,449	**–**	–
Beijing Xiaochengcong Traditional Chinese Medicine Clinic Co., Ltd.("Beijing Xiaochengcong")	**1,590**	–	**–**	–
Total	**3,457,903**	3,456,313	**1,956,814**	1,956,814

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

In addition to goodwill and trademarks above, property, plant and equipment, other intangible assets with finite useful lives and right-of-use assets that generate cash flows together with the related goodwill and trademarks are also included in the respective CGUs for the purpose of impairment assessment.

During the year ended 31 December 2023, the management of the Group has recognised an impairment loss of Nil (2022: RMB35,871,000 in relation to goodwill in the CGUs of Huayi and Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain")). The impairment loss has been included in profit or loss in the other gains and losses line item.

In the opinion of the directors, no additional impairment loss of other CGUs was identified during the years ended 31 December 2023 and 2022.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. The recoverable amounts of the CGUs as at 31 December 2023 have been arrived at based on the valuations carried out on the respective dates by independent qualified professional valuers. The key assumptions used in the valuations are those regarding the discount rates, growth rates, budgeted sales and gross profit margin. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGUs.

For the purpose of impairment testing, goodwill and other intangible assets with indefinite useful lives have been allocated to the relevant CGUs. The Group determined the value-in-use by preparing cash flow projections of these CGUs derived from the most recent financial forecast approved by the management covering a 5-year period with an average sales growth rate as mentioned below. Cash flows beyond the fifth year are extrapolated using an estimated growth rate as mentioned below. Other key assumptions for the value-in-use calculations relate to the estimation of cash flow projections which include gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The discount rate reflects specific risks relating to the relevant CGUs.

20. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (CONTINUED)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

	Average growth rate for five-year period		Growth rate beyond the fifth year		Pre-tax discount rates	
	2023	2022	**2023**	2022	**2023**	2022
Jiangyin Tianjing	**11.93%**	18.82%	**2.30%**	3.00%	**11.20%**	11.19%
Jiangyin Yifang	**11.23%**	19.47%	**2.30%**	3.00%	**11.08%**	10.94%
Dezhong	**15.96%**	16.00%	**2.30%**	3.00%	**12.97%**	12.21%
Tongjitang Pharmaceutical	**14.86%**	13.01%	**2.30%**	3.00%	**12.36%**	12.21%
Jingfang	**13.28%**	18.79%	**2.30%**	3.00%	**11.74%**	11.85%
Shanghai Tongjitang	**4.67%**	10.77%	**2.30%**	3.00%	**11.92%**	11.96%
Others	**4.28%-11.47%**	4.40%-12.12%	**2.30%**	3.00%	**12.05%-12.95%**	11.99%-13.12%

As at 31 December 2023, the recoverable amounts of Jiangyin Tianjing CGU and Jiangyin Yifang CGU exceeded their carrying amounts by 64% and 43%, respectively; and the recoverable amount for above CGUs, other than Jiangyin Tianjing CGU and Jiangyin Yifang CGU, exceeds their carrying amount by 4% to 42%.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the above CGUs that contain goodwill and other intangible assets with indefinite useful lives to exceed their recoverable amounts.

21. INTERESTS IN ASSOCIATES

	2023 **RMB'000**	2022 RMB'000
Cost of investments in associates, unlisted	**51,543**	50,975
Share of post-acquisition losses, other comprehensive expense and reserve movement of associates	**(39,696)**	(35,622)
Total	**11,847**	15,353

21. INTERESTS IN ASSOCIATES (CONTINUED)

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Country of establishment and principal place of operation	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activities
		2023	2022	**2023**	2022	
Mianyang Anju District Feishui Town Tiantai Mountain Chinese Medicine Herbs Planting Professional Cooperatives	The PRC	**37.6%**	37.6%	**37.6%**	37.6%	Chinese Medicine Herbs planting
An District Feishui Town Tianfu Fuzi Professional Cooperatives	The PRC	**37.5%**	37.5%	**37.5%**	37.5%	Fuzi planting
Guangdong Baobaobao Healthy Soup Co., Ltd.	The PRC	**49%**	49%	**49%**	49%	Healthy soup production
Guangdong Haisikanger Rehabilitation Medical Co., Ltd.	The PRC	**40%**	40%	**40%**	40%	Rehabilitation service
Huizhou Gehong TCM Clinics Co., Ltd.	The PRC	**35%**	35%	**35%**	35%	Chinese medical institution
Liaoxingtang (Foshan Nanhai) TCM Clinic Co., Ltd.	The PRC	**35%**	35%	**35%**	35%	Chinese medical institution
Sinopharm Intelligent Technology (Shanghai) Co., Ltd.*	The PRC	**10%**	10%	**10%**	10%	Internet information service for drug

* The Group has power over the associate via voting rights from one board seat of Sinopharm Intelligent Technology (Shanghai) Co., Ltd.

21. INTERESTS IN ASSOCIATES (CONTINUED)

Aggregate information of associates that are not individually material

	2023 RMB'000	2022 RMB'000
The Group's share of losses and total comprehensive expense	**(3,699)**	(3,479)
Aggregate carrying amount of the Group's interests in associates	**11,847**	15,353

22. DEPOSITS AND PREPAYMENTS

	2023 RMB'000	2022 RMB'000
Prepayments for acquisition of property, plant and equipment	**57,577**	107,919

23. TRADE AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	**9,289,650**	7,729,974
Less: Allowance for credit losses	**(118,367)**	(110,297)
Net carrying amount	**9,171,283**	7,619,677
Prepayments	**133,641**	150,250
Advance tax payments	**203,094**	164,473
Other receivables	**209,861**	240,424
Less: Allowance for credit losses	**(31,235)**	(32,933)
Subtotal	**515,361**	522,214
Total	**9,686,644**	8,141,891

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

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2023 RMB'000	2022 RMB'000
0 to 90 days	**5,371,081**	5,235,952
91 to 180 days	**1,941,711**	1,366,199
181 to 365 days	**1,893,764**	1,038,373
Over 365 days	**83,094**	89,450
Total	**9,289,650**	7,729,974

As at 31 December 2023, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of RMB1,315,041,000 (2022: RMB676,305,000) which were past due as at the reporting date.

Included in trade and other receivables are RMB12,664,000 (2022: RMB10,009,000) and RMB20,382,000 (2022: RMB32,699,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currencies of the relevant group entities.

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

	31 December 2023 RMB'000	31 December 2022 RMB'000
At the beginning of the year	**143,230**	132,946
Impairment losses, net (note 8)	**8,779**	11,012
Amount written off as uncollectible	**(2,409)**	(728)
Acquisition of a subsidiary	**2**	–
At the end of the year	**149,602**	143,230

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two year and are not subject to enforcement activity.

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2023

Group A

	Aging Less than 1 year	 1 to 2 Years	 Over 2 Years	 Total
Expected credit loss rate (%)	0.15	70.57	100.00	0.61
Gross carrying amount (RMB'000)	5,534,509	24,634	8,062	5,567,205
Expected credit losses (RMB'000)	8,303	17,383	8,062	33,748

Group B

	Aging Less than 1 year	 1 to 2 Years	 Over 2 Years	 Total
Expected credit loss rate (%)	2.00	56.67	100.00	3.26
Gross carrying amount (RMB'000)	709,557	13,115	2,031	724,703
Expected credit losses (RMB'000)	14,191	7,432	2,031	23,654

Group C

	Aging Less than 1 year	 1 to 2 Years	 Over 2 Years	 Total
Expected credit loss rate (%)	1.19	69.93	100.00	2.03
Gross carrying amount (RMB'000)	2,962,489	31,637	3,616	2,997,742
Expected credit losses (RMB'000)	35,224	22,125	3,616	60,965

TOTAL

	Aging Less than 1 year	 1 to 2 Years	 Over 2 Years	 Total
Expected credit loss rate (%)	0.63	67.65	100.00	1.27
Gross carrying amount (RMB'000)	9,206,555	69,386	13,709	9,289,650
Expected credit losses (RMB'000)	57,718	46,940	13,709	118,367

23. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2022

Group A

	Aging			
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.15	59.44	100.00	0.84
Gross carrying amount (RMB'000)	4,795,186	15,757	23,883	4,834,826
Expected credit losses (RMB'000)	7,338	9,366	23,883	40,587

Group B

	Aging			
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.99	53.89	100.00	3.07
Gross carrying amount (RMB'000)	616,712	10,984	1,070	628,766
Expected credit losses (RMB'000)	12,293	5,919	1,070	19,282

Group C

	Aging			
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	1.13	64.35	100.00	2.23
Gross carrying amount (RMB'000)	2,228,606	35,067	2,709	2,266,382
Expected credit losses (RMB'000)	25,153	22,566	2,709	50,428

TOTAL

	Aging			
	Less than 1 year	1 to 2 Years	Over 2 Years	Total
Expected credit loss rate (%)	0.59	61.24	100.00	1.43
Gross carrying amount (RMB'000)	7,640,504	61,808	27,662	7,729,974
Expected credit losses (RMB'000)	44,784	37,851	27,662	110,297

24. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2023 and 2022 that were transferred to banks by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards, it continues to recognise the full carrying amount and has recognised the cash received on the transfer as secured other borrowing (see note 32). These financial assets are carried at amortised cost in the consolidated statement of financial position.

	Bills discounted to banks with full recourse	
	2023	2022
	RMB'000	RMB'000
Carrying amount of transferred assets	**22,475**	36,972
Carrying amount of associated liabilities	**(22,475)**	(36,972)
Net position	**–**	–

25. INVENTORIES

	2023	2022
	RMB'000	RMB'000
Raw materials	**1,754,470**	1,785,310
Work in progress	**1,834,172**	1,963,450
Finished goods	**2,370,507**	2,291,120
Total	**5,959,149**	6,039,880

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

	2023	2022
	RMB'000	RMB'000
Carrying amount of inventories sold	**8,837,723**	7,081,158
Write down of inventories	**9,646**	24,632
Total	**8,847,369**	7,105,790

26. DEBT INSTRUMENTS AT FVTOCI

The amounts represent the bills receivable that were held under the "hold to collect and sell" business model and the ageing analysis based on invoice date at the end of each reporting period are as follows:

	2023	2022
	RMB'000	RMB'000
0 to 90 days	**540,450**	436,747
91 to 180 days	**339,391**	141,938
181 to 365 days	**6,936**	26,437
Total	**886,777**	605,122

As at 31 December 2023, certain amount of the bills receivable with the carrying value of RMB213,481,000 (2022: RMB211,748,000) was pledged to secure bills payable granted to the Group.

27. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.20% to 1.80% per annum (2022: 0.25% to 1.70%).

(b) Bank balances and cash

Included in bank balances and cash is RMB2,986,819,000 (2022: RMB2,879,563,000) which represents cash held by the Group and short-term deposits carrying interest at prevailing market rates ranging from 0.10% to 2.0% per annum (2022: 0.25% to 1.90% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB30,499,000 (2022: RMB185,491,000), in which RMB19,661,000 (2022: RMB166,475,000) represents the cash collected on behalf of financial institutions that entered into the non-recourse factoring arrangements of trade receivables with the Group.

Included in pledged bank deposits/bank balances and cash are RMB13,789,000 (2022:RMB11,147,000) and RMB1,813,000 (2022: RMB1,369,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currencies of the relevant group entities.

Details of impairment assessment of pledged bank deposits/bank balances and cash are set out in note 39.

28. TRADE AND OTHER PAYABLES

	2023	2022
	RMB'000	RMB'000
Trade payables	**1,689,929**	1,386,867
Deposits received	**1,083,413**	1,022,284
Salaries and welfare payables	**459,795**	403,140
Other tax payables	**168,947**	318,425
Accruals of operating expenses	**962,296**	796,847
Bills payables	**1,052,727**	502,104
Dividends payable	**65,204**	98,923
Consideration payable for acquisition of subsidiaries	**3,586**	3,717
Collection of accounts receivable on behalf of financial institutions that entered into the non-recourse factoring arrangement with the Group	**19,661**	166,475
Other payables	**544,149**	533,397
Total	**6,049,707**	5,232,179

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

	2023	2022
	RMB'000	RMB'000
0 to 90 days	**2,129,680**	1,366,448
91 to 180 days	**458,940**	330,655
181 to 365 days	**107,337**	112,123
Over 365 days	**46,699**	79,745
Total	**2,742,656**	1,888,971

Included in trade and other payables is RMB1,438,000 (2022: RMB1,410,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities.

29. CONTRACT LIABILITIES

	2023 **RMB'000**	2022 RMB'000
Amounts received in advance of delivery products	**210,506**	290,677

Contract liabilities as at 1 January 2023 and 2022 were fully recognised as revenue for the years ended 31 December 2023 and 2022, respectively.

The Group has elected the practical expedient of not to disclose information about the remaining performance obligations as the majority of the services have original expected duration of one year or less or the services are rendered in a short period of time.

30. DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under non-current liabilities are as follows:

	2023 **RMB'000**	2022 RMB'000
At the beginning of the year	**437,839**	390,695
Additions	**25,295**	124,919
Credited to profit or loss (note 6)	**(41,843)**	(77,775)
At the end of the year	**421,291**	437,839

As at 31 December 2023, deferred government grants of the Group mainly includes various conditional government grants relating to purchase of property, plant and equipment. Such deferred government grants will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

31. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2023 **RMB'000**	2022 RMB'000 (Restated)
Deferred tax assets	**(219,480)**	(202,065)
Deferred tax liabilities	**1,187,045**	1,619,307
Total	**967,565**	1,417,242

31. DEFERRED TAXATION (CONTINUED)

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the current and prior years are as follows:

	Excess of fair value over the carrying amounts for intangible assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	ECL provision RMB'000	Fair value changes of debt instruments at FVTOCI RMB'000	Withholding tax on distributable profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022 (restated)	1,540,512	90,872	(34,423)	(2,540)	49,190	(37,705)	(4,816)	(109,655)	1,491,435
(Credited)/charged to profit or loss (restated)	(92,049)	1,056	(76)	–	26,903	(13,364)	(529)	14,951	(63,108)
Credit to other comprehensive income	–	–	–	1,556	–	–	–	–	1,556
Release upon dividends declared	–	–	–	–	(12,641)	–	–	–	(12,641)
At 31 December 2022 (restated)	1,448,463	91,928	(34,499)	(984)	63,452	(51,069)	(5,345)	(94,704)	1,417,242
Acquisition of a subsidiary	–	–	–	–	–	–	–	12	12
(Credited)/charged to profit or loss*	(407,081)	2,823	(1,902)	–	31,767	8,452	(361)	(21,441)	(387,743)
Credit to other comprehensive income	–	–	–	(218)	–	–	–	–	(218)
Release upon dividends declared	–	–	–	–	(61,728)	–	–	–	(61,728)
At 31 December 2023	1,041,382	94,751	(36,401)	(1,202)	33,491	(42,617)	(5,706)	(116,133)	967,565

* Include an amount of RMB295,152,000 credited to the Group's profit or loss with respect to the changes of accounting estimates regarding the change of applicable tax rate of deferred tax liabilities on fair value adjustments arising from acquisitions of TJ & YF from 25% to 15% as at 31 December 2023, for details please refer to note 3.

31. DEFERRED TAXATION (CONTINUED)

At the end of the reporting period, the Group had unused tax losses of RMB1,590,731,000 (2022: RMB1,372,895,000) available for offset against future profits. A deferred tax asset of RMB6,458,000 (2022: RMB5,345,000) has been recognised in respect of RMB43,051,000 (2022: RMB41,614,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB1,547,680,000 (2022: RMB1,317,656,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses with expiry dates as disclosed in the following table:

	2023	2022
	RMB'000	RMB'000
2024	**105,013**	114,759
2025	**105,555**	105,555
2026	**339,425**	339,425
2027	**209,192**	209,192
2028	**36,236**	36,236
2029	**35,381**	35,381
2030	**112,802**	112,802
2031	**220,621**	220,621
2032	**143,685**	143,685
2033	**239,770**	–
Total	**1,547,680**	1,317,656

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB8,616,604,000 (2022: RMB7,870,317,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not be reversed in the foreseeable future.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2023 **RMB'000**	2022 RMB'000
Bank loans	**2,467,007**	1,642,153
Other loans	**567,013**	79,175
Total	**3,034,020**	1,721,328
Secured	**535,783**	459,127
Unsecured	**2,498,237**	1,262,201
Total	**3,034,020**	1,721,328

	2023 **RMB'000**	2022 RMB'000
Carrying amounts of the above borrowings are repayable:		
Within one year	**2,120,207**	1,255,268
More than one year, but not exceeding two years	**319,817**	66,028
More than two years, but not exceeding five years	**577,179**	368,032
More than five years	**16,817**	32,000
Total	**3,034,020**	1,721,328
Less: Amounts due within one year shown under current liabilities	**2,120,207**	1,255,268
Amounts shown under non-current liabilities	**913,813**	466,060

As at 31 December 2023, secured other borrowings amounting to RMB22,475,000 were guaranteed by bills receivable (2022: RMB36,972,000).

	2023 **RMB'000**	2022 RMB'000
Fixed rate borrowings	**2,891,020**	1,638,328
Floating rate borrowings	**143,000**	83,000
Total	**3,034,020**	1,721,328

32. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2023	2022
Effective interest rate		
– Fixed rate borrowings	**0.00%-4.75%**	0.00%-4.75%
– Floating rate borrowings	**3.40%-4.35%**	4.35%-4.70%

The Group's floating rate borrowings carried interest from Loan Prime Rate ("LPR") less 0.05% to LPR plus 0.05% (2022: LPR plus 0.05%).

At the end of the reporting period, the Group had the following undrawn borrowing facilities:

	2023 **RMB'000**	2022 RMB'000
Fixed rate		
– expiring within one year	**3,189,410**	3,810,962
– expiring beyond one year	**3,314,617**	1,624,024
Total	**6,504,027**	5,434,986

(a) The following assets were pledged as securities for bills payable and interest-bearing bank and other borrowings:

	Carrying value	
	31 December **2023** **RMB'000**	31 December 2022 RMB'000
Property, plant and equipment	**672,502**	635,284
Right-of-use assets	**91,902**	140,835
Debt instruments at FVTOCI	**213,481**	211,748
Pledged bank deposits	**249,958**	114,729
Total	**1,227,843**	1,102,596

33. UNSECURED NOTES

	2023 **RMB'000**	2022 RMB'000
Carrying amount repayable	**2,027,652**	3,241,610
Less: Amounts due within one year shown under current liabilities	**830,540**	3,241,610
Amounts shown under non-current liabilities	**1,197,112**	–

On 26 October 2022, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 270 days and a coupon rate of 1.88% per annum, which was fully paid on 24 July 2023.

On 18 May 2023, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 200 days and a coupon rate of 2.30% per annum, which was fully paid on 5 December 2023.

On 18 May 2023, the Company issued the medium-term notes in an aggregate amount of RMB1,200,000,000, with a maturity of three years and a coupon rate of 3.04% per annum.

On 5 June 2023, the Company fully repaid the medium-term notes amounting to RMB2,200,000,000 which were issued on 5 June 2020.

On 17 July 2023, the Company issued the short-term commercial papers in an aggregate amount of RMB800,000,000, with a maturity of 270 days and a coupon rate of 2.32% per annum.

34. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2023 **'000**	2022 '000	**2023** **RMB'000**	2022 RMB'000
Authorised	Unlimited number of ordinary shares with no par value			
Issued and fully paid	**5,035,801**	5,035,801	**11,982,474**	11,982,474

35. DEFINED BENEFIT OBLIGATIONS

The Group undertook the expense related to both the retirement and the early retirement schemes for the medical and social welfare of those early retired and retired employees. The Group recognised the relevant estimated liabilities as well as charges to profit or loss once the Group undertook the obligations. These benefits are unfunded.

Where these schemes fall due more than 12 months after the end of reporting period, they were discounted using the appropriate discount rate, and carried at discounted amounts as liabilities. The discount rate was determined using the yield rate of government bonds with similar terms at the date of the financial statements.

Actuarial gains or losses included the experience adjustment (the impact of difference between the previous actuarial assumption and actual results) and the impact of changes on actuarial assumption. The actuarial gains or losses were recognised in other comprehensive income when incurred and will not be reclassified to profit or loss in a subsequent period.

Interest expense is charged to profit or loss and is derived from the discount rate determined at the commencement of the retirement scheme within an accounting period and the early retirement scheme multiplying with the average present value over the entire terms.

The principal actuarial assumptions used as at the end of the reporting are as follows:

Discount rates:	2.50%
Expected rate of future pension cost increases:	0%/4.50%

36. OPERATING LEASES

The Group as lessor

All of the properties held for rental purposes have committed lessees for the next 5 years.

Minimum lease payments receivable on leases are as follows:

	2023 **RMB'000**	2022 RMB'000
Within one year	**3,946**	4,651
In the second year	**2,776**	1,625
In the third year	**2,689**	1,597
In the fourth year	**564**	1,533
In the fifth year	**193**	1,268
After the fifth year	**–**	411
Total	**10,168**	11,085

37. CAPITAL COMMITMENTS

	2023 **RMB'000**	2022 RMB'000
Contracted but not provided for in the consolidated financial statements		
– Acquisition of other intangible assets	**5,613**	6,509
– Acquisition of property, plant and equipment (note a)	**147,257**	147,067
Total	**152,870**	153,576

Note:

(a) Pursuant to the cooperation agreement entered into by the Group, and the cooperation agreement between the Group and relevant engineering constructors and equipment suppliers carries out a series of engineering project construction and equipment procurement applications, and improves the production technology level and production scale to support the business development requirements of the Company.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year. The capital structure of the Group consists of net debt, which includes lease liabilities, interest-bearing bank and other borrowings, and unsecured notes as disclosed in notes 18, 32 and 33 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity.

The adjusted debt-to-equity ratios at 31 December 2023 and 2022 are as follows:

	2023 **RMB'000**	2022 RMB'000
Current liabilities:		
Interest-bearing bank and other borrowings	**2,120,207**	1,255,268
Unsecured notes	**830,540**	3,241,610
Total – current	**2,950,747**	4,496,878
Non-current liabilities:		
Interest-bearing bank and other borrowings	**913,813**	466,060
Unsecured notes	**1,197,112**	–
Total – non-current	**2,110,925**	466,060
Total debt	**5,061,672**	4,962,938
Less: Cash and cash equivalents	**2,986,819**	2,879,563
Adjusted net debt	**2,074,853**	2,083,375
Total equity	**23,936,618**	22,948,115
Adjusted net debt-to-equity ratio	**9%**	9%

The Group is not subject to externally imposed capital requirements except for financial covenants relating to certain of the banking facilities of the Group. The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Debt instrument at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debt instruments at FVTOCI	886,777	–	886,777
Financial assets included in trade and other receivables	–	9,349,909	9,349,909
Pledged bank deposits	–	249,958	249,958
Cash and cash equivalents	–	3,017,318	3,017,318
Total	886,777	12,617,185	13,503,962

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in trade and other payables	5,409,005
Interest-bearing bank and other borrowings	3,034,020
Unsecured notes	2,027,652
Lease liabilities	98,462
Total	10,569,139

39. FINANCIAL INSTRUMENTS (CONTINUED)

Categories of financial instruments (continued)

2022

Financial assets

	Debt instrument at FVTOCI RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Debt instruments at FVTOCI	605,122	–	605,122
Financial assets included in trade and other receivables	–	7,827,168	7,827,168
Pledged bank deposits	–	114,729	114,729
Cash and cash equivalents	–	3,065,054	3,065,054
Total	605,122	11,006,951	11,612,073

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in trade and other payables	4,510,614
Interest-bearing bank and other borrowings	1,721,328
Unsecured notes	3,241,610
Lease liabilities	79,636
Total	9,553,188

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, debt instruments at FVTOCI, time deposits, pledged bank deposits, bank balances and cash, trade and other payables, lease liabilities, unsecured notes and interest-bearing bank and other borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity for the years ended 31 December 2023 and 2022 to a reasonably possible change by 5% in the RMB exchange rates against HK$ and US$, with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	2023 **RMB'000**	2022 RMB'000
If HK$ weakens against RMB by 5% Decrease in profit before tax	**(992)**	(793)
If HK$ strengthens against RMB by 5% Increase in profit before tax	**992**	793
If USD weakens against RMB by 5% Decrease in profit before tax	**(832)**	(1,278)
If USD strengthens against RMB by 5% Increase in profit before tax	**832**	1,278

The Group manages the foreign currency risk by closely monitoring the movements of foreign currency exchange rates. The Group currently does not have a foreign exchange hedging policy. Management will consider hedging foreign currency exposure should the need arise.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings and unsecured notes. The Group is exposed to cash flow interest rate risk in relation to the floating rate borrowings. The Group does not have any interest rate hedging policy. However, the management monitors the related interest rate risk exposure closely and will consider hedging the interest rate risk exposure should the need arise.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 50 basis points, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in the Group's profit before tax	
	2023	2022
	RMB'000	RMB'000
If decrease by 50 basis points	**850**	24
If increase by 50 basis points	**(850)**	(24)

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Debt instrument at FVTOCI	886,777	–	–	–	886,777
Trade receivables*	–	–	–	9,289,650	9,289,650
Financial assets included in other receivables					
– Normal**	209,861	–	–	–	209,861
Pledged deposits					
– Not yet past due	249,958	–	–	–	249,958
Cash and cash equivalents					
– Not yet past due	3,017,318	–	–	–	3,017,318

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Debt instrument at FVTOCI	605,122	–	–	–	605,122
Trade receivables*	–	–	–	7,729,974	7,729,974
Financial assets included in other receivables					
– Normal**	240,424	–	–	–	240,424
Pledged deposits					
– Not yet past due	114,729	–	–	–	114,729
Cash and cash equivalents					
– Not yet past due	3,065,054	–	–	–	3,065,054

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the financial statements.

** The credit quality of the financial assets included in other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

As at 31 December 2023 and 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Maximum exposure and year-end staging (continued)

Before accepting any new customer, the management of the Group carries out researches on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group only accepts bills issued or guaranteed by reputable PRC. In addition, the Group reviews the recoverability of each individual trade debt on a regular basis to ensure that adequate impairment losses are made for irrecoverable amounts. The Group performs impairment test assessment under ECL model upon application of HKFRS 9 on trade balances based on provision matrix.

The credit risk on liquid funds is limited because the counterparties are state-owned banks and banks with high credit ratings assigned by international credit-rating agencies.

The Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and different regions of the PRC.

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and lease liabilities Cash flows are being closely monitored on an ongoing basis.

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

	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**More than 5 years RMB'000**	**Total undiscounted cash flows RMB'000**	**Total carrying amount RMB'000**
31 December 2023					
Trade and other payables	**5,409,005**	**–**	**–**	**5,409,005**	**5,409,005**
Interest-bearing bank and other borrowings	**2,153,396**	**980,951**	**2,233**	**3,136,580**	**3,034,020**
Unsecured note	**850,209**	**1,272,960**	**–**	**2,123,169**	**2,027,652**
Lease liabilities	**23,330**	**74,524**	**17,462**	**115,316**	**98,462**
Total	**8,435,940**	**2,328,435**	**19,695**	**10,784,070**	**10,569,139**

	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
31 December 2022					
Trade and other payables	4,510,614	–	–	4,510,614	4,510,614
Interest-bearing bank and other borrowings	1,224,984	504,745	15,731	1,745,460	1,721,328
Unsecured note	3,287,458	–	–	3,287,458	3,241,610
Lease liabilities	20,438	54,341	16,940	91,719	79,636
Total	9,043,494	559,086	32,671	9,635,251	9,553,188

39. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value		Fair value hierarchy	Valuation techniques(s) and key input(s)	Sensitivity of fair value of the input(s)
	2023	2022			
Financial assets at FVTOCI					
Debt instrument at FVTOCI	**886,777**	605,122	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period	1% (2022: 1%) increase/decrease in the discount rate would result in decrease/increase in the fair value by RMB79,000 (2022: RMB69,000).

There were no transfers between Level 1 and 3 during both years.

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	2023 **RMB'000**	2022 RMB'000
Carrying amount	**2,027,652**	3,241,610
Fair value under level 2 fair value hierarchy	**2,018,958**	3,246,483

The fair values of the financial liabilities included in the level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

40. RELATED PARTY TRANSACTIONS

Key management remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company and certain of the highest paid employees as disclosed in notes 12 and 13, is as follows:

	2023 **RMB'000**	2022 RMB'000
Short-term employee benefits	**12,912**	14,880
Post-employments benefits	**508**	591
Total	**13,420**	15,471

Other related party transactions

Name of related party	**Relationship**
CNPGC	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group
Ping An Bank	Fellow subsidiary of a substantial shareholder

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material related party transactions:

	2023 **RMB'000**	2022 RMB'000
(i) Sales of finished goods to CNPGC's subsidiaries other than the Group	**1,193,803**	1,004,473
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**167,519**	56,146
(iii) Obtain of Commercial Factoring Services from Sinopharm Puxin Commercial Factoring Company Limited	**47,448**	–
(iv) Other purchase from CNPGC's subsidiaries other than the Group	**24,863**	10,220
(v) Rental income from CNPGC's subsidiaries other than the Group	**2,963**	2,646
(vi) Interest income from CNPGC's subsidiaries other than the Group	**23**	621

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions (continued)

	2023 RMB'000	2022 RMB'000
(vii) Interest income from Ping An Bank	**127**	5,942
(viii) Interest expense to CNPGC's subsidiaries other than the Group	**93**	–
(ix) Interest expense to Ping An Bank	**4**	5

Particulars of significant balances between the Group and the related parties are as follows:

	2023 RMB'000	2022 RMB'000
(i) Trade and other receivable balances due from CNPGC's subsidiaries other than the Group as included in trade and other receivables balances set out in note 23	**787,903**	455,174
(ii) Trade and other payable balances due to CNPGC's subsidiaries other than the Group as included in trade and other payables balances set out in note 28	**42,385**	30,311
(iii) Time deposits and bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 27	**586,714**	549,635
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 27	**7,046**	9,040

The above related party transactions (i), (ii), (iii) and related party balances (iii), (iv) constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Continuing Connected transactions" of the section headed "Report of the Directors" of the annual report.

40. RELATED PARTY TRANSACTIONS (CONTINUED)

Transactions/balances with other state-controlled entities

The Group itself is part of a large group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("state-controlled entities") in the ordinary course of business. The directors of the Company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counterparty is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current year in which the directors of the Company are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Other payables RMB'000	Lease liabilities RMB'000	Interest-bearing bank and other borrowings RMB'000	Unsecured notes RMB'000	Dividend payable RMB'000	Dividend payable to non-controlling interests RMB'000	Total RMB'000
At 1 January 2022	30,089	97,492	1,716,053	3,250,084	1,280	92,426	5,187,424
Financing cash flows	–	(24,357)	33,732	(127,031)	(314,427)	(87,971)	(520,054)
Net foreign exchange loss	–	–	–	–	(1,780)	–	(1,780)
Dividend recognised	–	–	–	–	316,337	93,058	409,395
New leases entered	–	1,266	–	–	–	–	1,266
Interest expense	–	5,235	77,658	118,557	–	–	201,450
Non-cash items	–	–	(106,115)	–	–	–	(106,115)
At 31 December 2022 and 1 January 2023	30,089	79,636	1,721,328	3,241,610	1,410	97,513	5,171,586
Financing cash flows	(30,089)	(26,094)	1,221,160	(1,303,374)	(240,000)	(93,924)	(472,321)
Net foreign exchange gain	–	–	–	–	4,033	–	4,033
Dividend recognised	–	–	–	–	235,995	60,177	296,172
New leases entered	–	16,658	–	–	–	–	16,658
Interest expense	–	3,469	76,289	89,416	–	–	169,174
Non-cash items	–	–	15,243	–	–	–	15,243
Acquisition of a subsidiary	–	24,793	–	–	–	–	24,793
At 31 December 2023	–	98,462	3,034,020	2,027,652	1,438	63,766	5,225,338

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(a) General information of subsidiaries

Details of subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below:

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Directly held the Company						
Jiangyin Yifang Pharmaceutical Co., Ltd.	The PRC	**RMB84,555,556**	RMB84,555,556	**87.30%**	87.30%	Manufacture of TCM Products
Jiangyin Tianjiang Enterprise Co., Ltd.	The PRC	**RMB3,005,467,800**	RMB3,005,467,800	**100%**	100%	Manufacture and management of TCM Products
Indirectly held the Company						
Jiangyin Tianjiang Pharmaceutical Co., Ltd.#	The PRC	**RMB310,000,000**	RMB310,000,000	**87.30%**	87.30%	Development, manufacture and sale of TCM granules
Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd.#	The PRC	**USD6,460,000**	USD6,460,000	**98.30%**	98.30%	Development, manufacture and sale of Chinese pharmaceutical products
Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd.#	The PRC	**USD7,526,100**	USD7,526,100	**98%**	98%	Development, manufacture and sale of Chinese pharmaceutical products
Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd.*	The PRC	**USD172,640,000**	USD172,640,000	**100%**	100%	Development, manufacture and sale of pharmaceutical products and investment holding
Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd.#	The PRC	**RMB24,529,300**	RMB24,529,300	**100%**	100%	Manufacture and sale of pharmaceutical products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd.^	The PRC	**RMB1,543,800,000**	RMB1,543,800,000	**100%**	100%	Manufacture and sale of TCM decoction products
Feng Liao Xing (Zhongshan) Pharmaceutical Co., Ltd.^	The PRC	**RMB26,000,000**	RMB26,000,000	**100%**	100%	Retail of Pharmaceuticals and decoction Pharmaceutical
Foshan Winteam Pharmaceutical Sales Co., Ltd.^	The PRC	**RMB260,000,000**	RMB260,000,000	**100%**	100%	Trading of pharmaceutical products
Sinopharm Group Feng Liao Xing Traditional Chinese Medicine Health Industry Co., Ltd.^	The PRC	**RMB119,917,100**	RMB90,000,000	**100%**	100%	Investment of the TCM health industry
Guizhou Tongjitang Pharmacy Chain Co., Ltd.^	The PRC	**RMB5,000,000**	RMB5,000,000	**60%**	60%	Retail of pharmaceuticals
Huayi Pharmaceutical Co., Ltd.^	The PRC	**RMB139,000,000**	RMB139,000,000	**100%**	100%	Development, manufacture, and sale of TCM products
Sinopharm Wuzhai Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB30,000,000**	RMB30,000,000	**87.30%**	87.30%	Manufacture and sale of TCM decoction products
Jilin Baiqi Pharmaceutical Co., Ltd.^	The PRC	**RMB180,450,000**	RMB180,450,000	**65%**	65%	Development, manufacture, and sale of TCM products
Shanghai Tongjitang Pharmaceutical Co., Ltd.^	The PRC	**RMB80,000,000**	RMB80,000,000	**100%**	100%	Manufacture and sale of TCM decoction products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Guizhou Tongjitang Herbal Co., Ltd.^	The PRC	**RMB60,000,000**	RMB60,000,000	**100%**	100%	Manufacture and sale of TCM decoction products
Shandong Zhongping Pharmaceutical Co., Ltd.^	The PRC	**RMB300,000,000**	RMB300,000,000	**44.5%**	44.5%	Manufacture of TCM Products
Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB102,040,800**	RMB102,040,800	**44.5%**	44.5%	Development, manufacture, and sale of TCM products
Lixian Dahuang Technology and Science Co., Ltd.^	The PRC	**RMB94,613,000**	RMB94,613,000	**74.2%**	74.2%	Development, manufacture, and sale of TCM decoction products
Xihebanxia Technology and Science Co., Ltd.^~	The PRC	**RMB99,870,000**	RMB99,870,000	**44.5%**	44.5%	Development, manufacture, and sale of TCM decoction products
Jiangxi Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB220,000,000**	RMB150,000,000	**87.3%**	52.4%	Development, manufacture and sale of TCM
Jiangxi Fanglian Pharmaceutical Co., Ltd.^	The PRC	**RMB5,000,000**	RMB5,000,000	**87.3%**	52.4%	Sale of TCM products
Heilongjiang Sinopharm Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB121,460,000**	RMB36,000,000	**87.3%**	87.3%	Manufacture and sale of TCM
Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd.^	The PRC	**RMB39,000,000**	RMB39,000,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products
Sinopharm Pulante (Qinghai) Pharmaceutical Co., Ltd.^	The PRC	**RMB87,520,000**	RMB87,520,000	**100%**	100%	Development, manufacture, marketing and sale of medicine products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Guangdong Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB364,491,680**	RMB364,491,680	**87.3%**	87.3%	Development, manufacture, and sale of TCM granules
Longxi Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Longxiyifang Pharmaceutical Company Limited^	The PRC	**RMB50,000,000**	RMB50,000,000	**87.3%**	87.3%	Sale of TCM products
Anhui Tianxiang Pharmaceutical Co., Ltd.^	The PRC	**RMB110,000,000**	RMB110,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Jiangyin Tianjiang Chinese Medical Clinics Co., Ltd.^~	The PRC	**RMB11,500,000**	RMB11,500,000	**44.5%**	44.5%	Retail of pharmaceuticals and provision of TCM consultation services
Chongqing Tianjiang Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB190,000,000**	RMB190,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**52.4%**	52.4%	Development, manufacture and sale of TCM products
Sinopharm Tianxiong Pharmaceutical Co., Ltd.^	The PRC	**RMB150,500,000**	RMB150,500,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Shandong Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB300,000,000**	RMB300,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products
Zhejiang Yifang Pharmaceutical Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**87.3%**	87.3%	Development, manufacture and sale of TCM products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Shaanxi Yifang Pingkang Pharmaceutical Co., Ltd.^	The PRC	**RMB390,000,000**	RMB150,000,000	**87.3%**	44.5%	Development, manufacture and sale of TCM products
Shaanxi Jitaining Pharmaceutical Co., Ltd.^	The PRC	**RMB2,000,000**	RMB2,000,000	**87.3%**	44.5%	Sale of TCM products
Hunan Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**79.4%**	79.4%	Development, manufacture and sale of TCM products
Changde Yifan Pharmaceutical Co., Ltd.^	The PRC	**RMB20,000,000**	RMB12,000,000	**79.4%**	79.4%	Sale of TCM products
Sichuan Tianhao Pharmaceutical Co., Ltd.^	The PRC	**RMB10,000,000**	RMB10,000,000	**82.7%**	82.7%	Manufacture and sale of TCM products
Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd.^	The PRC	**RMB200,000,000**	RMB200,000,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Sinopharm Group Beijing Huamiao Pharmaceutical Co., Ltd.^	The PRC	**RMB244,383,898**	RMB244,383,898	**100%**	100%	Manufacture and sale of TCM decoction products
Heilongjiang Sinopharm Medical Material Co., Ltd.^	The PRC	**RMB30,000,000**	RMB30,000,000	**100%**	100%	Sale of medical herbs
Sichuan Jiangyou Zhongbafuzi Technology Development Co., Ltd.^	The PRC	**RMB54,200,000**	RMB54,200,000	**100%**	100%	Manufacture and sale of TCM decoction products

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Anhui Fengliaoxing TCM Decoction Pieces Co., Ltd.^	The PRC	**RMB28,595,300**	RMB28,595,300	**51%**	51%	Manufacture and sale of TCM decoction products
Taizhou Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB70,000,000**	RMB70,000,000	**87.3%**	87.3%	Manufacture and sale of TCM products
Sichuan Sinopharm Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB233,061,200**	RMB233,061,200	**53.22%**	53.22%	Development, manufacture and sale of TCM
Fujian Tianjiang Pharmaceutical Co., Ltd.^~	The PRC	**RMB136,500,000**	RMB136,500,000	**44.5%**	44.5%	Development, manufacture and sale of TCM
Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.^~	The PRC	**RMB89,981,200**	RMB89,981,200	**44.5%**	44.5%	Development, manufacture and sale of TCM
Guangdong Jiuan Pharmaceutical Marketing Service Co., Ltd.^	The PRC	**RMB100,000,000**	RMB100,000,000	**100%**	100%	Marketing, advertising and consulting of TCM
Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd.*	The PRC	**RMB249,759,458**	RMB249,759,458	**100%**	100%	Development, manufacture, marketing and sale of TCM products
Sinopharm Group Zhonglian Pharmaceutical Co., Ltd.^~	The PRC	**RMB622,280,661**	RMB622,280,661	**44.5%**	44.5%	Development, manufacture and sale of TCM

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(a) General information of subsidiaries (continued)

Name of subsidiary	Place of establishment and operation	Issued and fully paid capital/registered capital		Equity interest attributable to the Group		Principal activities
		2023	2022	**2023**	2022	
Indirectly held the Company (continued)						
Foshan Nanhai Golden Footwear Co., Ltd.^	The PRC	**RMB207,697,944**	RMB207,697,944	**100%**	100%	Property leasing
Gansu Longzhong Pharmaceutical Co., Ltd.^	The PRC	**RMB50,000,000**	RMB50,000,000	**44.5%**	44.5%	Manufacture and sale of TCM decoction products
Beijing Xiaochengcong Traditional Chinese Medicine Clinic Co., Ltd.@	The PRC	**RMB20,000,000**	RMB5,000,000	**75%**	–	TCM Healthcare Solutions

* These companies were established in the PRC in the form of wholly-Foreign-owned enterprises.
# These companies were established in the PRC in the form of Sino-foreign equity joint ventures.
^ These companies were established in the PRC in the form of domestic enterprises.
~ 51% directly or indirectly controlled by Jiangyin Tiangjiang which is a 87.3% owned subsidiary of the Group.
@ On 31 March 2023, the Group acquired 75% of equity interests in Beijing Xiaochengcong from an independent third party.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests

The table below shows details of a non-wholly- owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	**Place of establishment and principal place of business**	**Proportion of ownership interest and voting rights held non-controlling interests**	**Profit allocated to non-controlling interests**	**Accumulated non-controlling interests**
		2023	**2023 RMB'000**	**2023 RMB'000**
Jiangyin Tianjiang Group (note)	The PRC	**12.70%**	**31,007**	**1,194,248**
Jiangyin Yifang Group (note)	The PRC	**12.70%**	**77,355**	**1,389,348**
Individually immaterial subsidiaries with non–controlling interests			**2,508**	**192,887**
Total			**110,870**	**2,776,483**

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held non-controlling interests	Profit allocated to non-controlling interests	Accumulated non-controlling interests
		2022	2022 RMB'000	2022 RMB'000
Jiangyin Tianjiang Group (note)	The PRC	12.70%	27,787	1,179,314
Jiangyin Yifang Group (note)	The PRC	12.70%	(72,991)	1,403,581
Individually immaterial subsidiaries with non–controlling interests (restated)			1,683	197,093
Total (restated)			(43,521)	2,779,988

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

Note: The amounts have been adjusted for inter group elimination which primarily represent the goodwill and other intangible assets arising from the acquisition of the Jiangying Tianjiang Group.

Summarised consolidated financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below.

The following table lists out the information relating to Jiangyin Tianjiang Group and Jiangyin Yifang Group, the only sub-group of the Group which has material non-controlling interest as at 31 December 2023.

2023

	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Current assets	**6,525,135**	**8,860,462**
Non-current assets	**4,839,843**	**5,687,868**
Current liabilities	**(4,454,377)**	**(4,055,603)**
Non-current liabilities	**(583,816)**	**(1,561,869)**
Net equity (Note)	**6,326,785**	**8,930,858**
Equity attributable to owners of Jiangyin Tianjiang Group/Jiangyin Yifang Group	**5,879,195**	**8,638,614**
Non-controlling interests of Jiangyin Tianjiang Group/Jiangyin Yifang Group	**447,590**	**292,244**

Note: The net equity of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes fair value adjustments on properties, intangible assets and related deferred taxation arising from a business combination amounting to RMB1,644,035,000 and RMB2,225,049,000, respectively.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2023 (continued)

	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Revenue	5,466,684	7,182,021
Expenses	(5,185,343)	(6,381,968)
Profit and total comprehensive income for the year (Note)	281,341	800,053
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group/Jiangyin Yifang Group	286,751	827,833
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group/Jiangyin Yifang Group	(5,410)	(27,780)
Total comprehensive income for the year	281,341	800,053
Dividends declared to non-controlling interests	24,118	33,397
Net cash inflow from operating activities	105,062	1,087,183
Net cash outflow from investing activities	(269,252)	(205,099)
Net cash inflow/(outflow) from financing activities	114,999	(802,266)
Net cash outflow	(49,191)	79,818

Note: The profit for the year of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes adjustments for depreciation of properties and amortisation of intangible assets recognised upon the business combination amounting to RMB21,398,000 and RMB44,435,000, respectively.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2022

	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Current assets	5,916,873	9,301,468
Non-current assets	4,895,511	5,947,426
Current liabilities	(3,863,295)	(5,401,274)
Non-current liabilities	(777,606)	(1,347,073)
Net equity (Note)	6,171,483	8,500,547
Equity attributable to owners of Jiangyin Tianjiang Group/Jiangyin Yifang Group	5,718,407	8,129,400
Non-controlling interests of Jiangyin Tianjiang Group/Jiangyin Yifang Group	453,076	371,147

Note: The net equity of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes fair value adjustments on properties, intangible assets and related deferred taxation arising from a business combination amounting to RMB1,559,694,000 and RMB2,180,614,000, respectively.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

(b) Details of a non-wholly owned subsidiary that has material non-controlling interests (continued)

2022 (continued)

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	Jiangyin Tianjiang Group RMB'000	Jiangyin Yifang Group RMB'000
Revenue	4,517,048	5,956,265
Expenses	(4,180,096)	(5,663,721)
Profit and total comprehensive income for the year (Note)	336,952	292,544
Total comprehensive income attributable to owners of Jiangyin Tianjiang Group/Jiangyin Yifang Group	354,141	418,711
Total comprehensive expense attributable to the non-controlling interests of Jiangyin Tianjiang Group/Jiangyin Yifang Group	(17,189)	(126,167)
Total comprehensive income for the year	336,952	292,544
Dividends declared to non-controlling interests	39,196	53,501
Net cash inflow from operating activities	532,605	368,366
Net cash outflow from investing activities	(377,139)	(13,506)
Net cash inflow (outflow) from financing activities	(420,119)	(373,233)
Effect of foreign exchange rate changes, net	9	–
Net cash outflow	(264,644)	(18,373)

Note: The profit for the year of Jiangyin Tianjiang Group and Jiangyin Yifang Group includes adjustments for depreciation of properties and amortisation of intangible assets recognised upon the business combination amounting to RMB104,228,000 and RMB148,747,000, respectively.

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2023	2022
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**13,584,986**	13,584,368
Total non-current assets	**13,584,986**	13,584,368
CURRENT ASSETS		
Other receivables	**120**	118
Amounts due from subsidiaries (note a)	**2,532,887**	4,285,496
Bank balances and cash	**12,845**	11,273
Total current assets	**2,545,852**	4,296,887
CURRENT LIABILITIES		
Trade and other payables	**6,516**	17,348
Amounts due to subsidiaries (note b)	**298,005**	887,051
Unsecured notes	**830,540**	3,241,610
Total current liabilities	**1,135,061**	4,146,009
NET CURRENT ASSETS	**1,410,791**	150,878
TOTAL ASSETS LESS CURRENT LIABILITIES	**14,995,777**	13,735,246
NON-CURRENT LIABILITIES		
Unsecured notes	**1,197,112**	–
Deferred tax liabilities	**18,077**	54,122
Total non-current liabilities	**1,215,189**	54,122
NET ASSETS	**13,780,588**	13,681,124
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves (note c)	**1,798,114**	1,698,650
TOTAL EQUITY	**13,780,588**	13,681,124

Approved and authorised for issue by the board of directors on 21 March 2024 and are signed on its behalf by:

CHEN Yinglong
DIRECTOR

CHENG Xueren
DIRECTOR

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note a: Amounts due to subsidiaries represent short-term operating receivables which are unsecured, interest bearing from 3.25% to 4.35% per annum (2022: 3.25% to 4.35%) and repayable in the following year and dividends receivable which are unsecured and repayable on demand.

Note b: The amounts are unsecured, interest-free and repayable on demand.

Note c: Movements in the Company's reserves.

	Translation reserve RMB'000	**Accumulated profits** RMB'000	**Total** RMB'000
At 1 January 2022	813,199	707,786	1,520,985
Profit and total comprehensive income for the year	–	494,002	494,002
Final 2021 dividend declared (note 14)	–	(316,337)	(316,337)
At 31 December 2022	813,199	885,451	1,698,650
Profit and total comprehensive income for the year	–	335,459	335,459
Final 2022 dividend declared (note 14)	–	(235,995)	(235,995)
At 31 December 2023	813,199	984,915	1,798,114

All of the Company's retained profits is available for distribution to equity shareholders.

44. MAJOR NON-CASH TRANSACTIONS

During the current year, bills received by the Group from its customers with an aggregate amount of RMB236,126,000 (2022: RMB132,317,000) were endorsed for the settlement of payables for acquisition of property, plant and equipment.

During the current year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB23,625,000 (2022: RMB14,120,000) and RMB23,625,000 (2022: RMB14,120,000), respectively, in respect of lease arrangements for land and buildings, machinery and equipment.

45. BUSINESS COMBINATION

On 31 March 2023, the Group acquired 75% of equity interests in Beijing Xiaochengcong from an independent third party. The Group entered into an agreement, pursuant to which the Group agreed to subscribe for 75% of the enlarged share capital of Beijing Xiaochengcong at a cash consideration of RMB15,000,000 on 26 December 2022, and obtained control of Beijing Xiaochengcong on 31 March 2023. Beijing Xiaochengcong is engaged in the provision of Chinese medicine services. This acquisition has been accounted for using the purchase method.

45. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities of Beijing Xiaochengcong as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000 (Unaudited)
Cash and cash equivalents	501
Trade and other receivables	16,465
Inventories	179
Property, plant and equipment	5,149
Right-of-use assets	23,473
Deferred tax assets	931
Deferred tax liabilities	(943)
Trade and other payables	(2,935)
Contract liabilities	(147)
Lease liabilities	(24,793)
Total identifiable net assets at fair value	17,880
Consideration transferred	15,000
Plus: Non-controlling interests	4,470
Less: Fair value of identifiable net assets acquired	(17,880)
Goodwill on acquisition (note 16)	1,590

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash considerations	15,000
Less: Cash paid through capital injection during the year	(15,000)
Bank balances and cash acquired	501
Net inflow of cash and cash equivalents included in cash flows from investing activities	501
Transaction costs of the acquisition included in cash flows from operating activities	–
Total net cash inflow	501

45. BUSINESS COMBINATION (CONTINUED)

Acquisition-related costs were not material and have been expensed and are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Since the acquisition, Beijing Xiaochengcong contributed RMB3,142,000 to the Group's revenue, and caused a loss of RMB6,817,000 to the consolidated profit for the year.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB18,122,446,000 and RMB1,393,736,000 respectively.

46. CONTINGENT LIABILITIES

During the year, the Group endorsed certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognized on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	2023 **RMB'000**	2022 RMB'000
Outstanding endorsed and discounted bills receivable with recourse	**195,229**	326,827

The outstanding endorsed and discounted bills receivable are aged within 180 days at the end of the reporting period. The directors of the Company consider that the carrying amounts of the endorsed and discounted bills receivable approximate their fair values.

47. EVENT AFTER THE REPORTING PERIOD

On 21 February 2024, Sinopharm Common Wealth Company Limited (the "Offeror") and the Company jointly published an announcement (the "Joint Announcement"). As disclosed in the Joint Announcement, the Offeror requested the Board to put forward to the Scheme Shareholders a pre-conditional proposal for the privatisation of the Company by the Offeror by way of a scheme of arrangement under section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which, if approved, would result in the withdrawal of listing of the shares of the Company on the Stock Exchange. For details, please refer to the Joint Announcement. Unless otherwise defined, capitalised terms used in this section headed "EVENT AFTER THE REPORTING PERIOD" shall have the same meanings as those defined in the Joint Announcement.

As stated in the Joint Announcement, subject to and after satisfaction of the Pre-Condition(s), a Scheme Document including further details of the Proposal and the Scheme, an explanatory statement of the Scheme, the expected timetable relating to the Proposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee, notices of the Court Meeting and the EGM as well as other particulars required by the Takeovers Code will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code and the Applicable Laws. As additional time is required for satisfying the Pre-Conditions, an application was made to the Executive pursuant to Note 2 to Rule 8.2 of the Takeovers Code for, and the Executive has granted consent for, the extension of the latest date for despatching the Scheme Document to (i) a date no later than seven (7) days after the fulfilment of all Pre-Conditions; or (ii) 25 October 2024, being the date which is seven (7) days after 18 October 2024, the current Pre-Condition Long Stop Date, whichever is earlier. Further announcement(s) will be made as and when appropriate in compliance with the Takeovers Code in relation to the satisfaction of Pre-condition(s) and the despatch of the Scheme Document. For further details of the extension of time for the despatch of the Scheme Document, please refer to the joint announcement dated 11 March 2024 jointly issued by the Offeror and the Company.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2024.