

Report of the Directors

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 2022.

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 2022, 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 2022 are set out in the section headed "Management Discussion and Analysis" of this annual report and the consolidated financial statements on pages 90 to 200.

The Board recommended a final dividend of RMB4.55 cents (i.e. HK5.18 cents) per share for the year ended 31 December 2022 (2021: RMB5.98 cents (i.e. HK7.36 cents per share)). The total distribution for the year ended 31 December 2022 is RMB4.55 cents (i.e. HK5.18 cents) per share (2021: RMB11.52 cents (i.e. HK14.02 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 attributable profit audited according to 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 2022 are approximately RMB0.885 billion (31 December 2021: approximately RMB0.708 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 43 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 2022 are set out in notes 32 and 33 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and 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 2022 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 Directors

Mr. CHEN Yinglong	<i>Chairman (appointed on 12 May 2022)</i>
Mr. CHENG Xueren	<i>Managing Director (appointed on 25 March 2022)</i>
Mr. YANG Wenming	
Mr. WU Xian	<i>ex-Chairman (retired on 12 May 2022)</i>

Non-executive Directors

Ms. LI Ru	
Mr. YANG Binghua	
Mr. WANG Kan	
Mr. MENG Qingxin	<i>(appointed on 19 November 2022)</i>
Mr. KUI Kaipin	
Mr. WANG Xiaochun	<i>ex-Deputy Chairman (resigned on 25 March 2022)</i>
Mr. YANG Shanhua	<i>(resigned on 19 November 2022)</i>

Independent Non-executive Directors

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





Report of the Directors

During the Reporting Period and up to the date of this report, Mr. WU Xian retired as an executive Director on 12 May 2022 due to reaching retire age. Mr. WANG Xiaochun resigned as a non-executive Director on 25 March 2022 due to personal health reason. Mr. YANG Shanhua resigned as a non-executive Director on 19 November 2022 due to change of work arrangement.

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) 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 92 of the Articles of Association, Mr. MENG Qingxin shall hold office only until the next general meeting of the Company and, shall then be eligible of re-election.

In accordance with Article 101 of the Articles of Association, Mr. YANG Wenming, Mr. WANG Kan, Mr. YU Tze Shan Hailson and Mr. QIN Ling 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 service contract 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 76 to 82 of this report.

EXECUTIVE DIRECTORS’ EMPLOYMENT AGREEMENTS

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

Mr. CHENG Xueren entered into an employment agreement with the Company with effect from 25 March 2022 and which shall automatically be effective thereafter until terminated by either party to the employment agreement by giving a one month’s prior notice.

Mr. YANG Wenming renewed an employment agreement with the Company commencing from 24 December 2021 and which shall automatically be effective thereafter until terminated by either party to the employment agreement by giving a one month’s prior notice.

NON-EXECUTIVE DIRECTORS’ APPOINTMENT LETTERS

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.

Mr. KUI Kaipin renewed an appointment letter with the Company for a term of three years commencing from 30 May 2020.

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

Mr. LI Weidong renewed 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 RMB14,338,143.

DIRECTORS OF SUBSIDIARIES

A list of the 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 2022, 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 course of the year and remained in force as at the date of this report.

Article 179 of the Articles of Association provides that every Director and officer shall be entitled to be insured against any liability to the Company, a related 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 a related company. Every Director and officer shall be entitled to be insured against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related 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 DIRECTOR'S 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 2022 interim report is as follows:

- Mr. YANG Shanhua resigned as a non-executive Director and a member of audit committee of the Company and Remuneration and Evaluation Committee, with effect from 19 November 2022.
- Mr. MENG Qingxin was appointed as a non-executive Director, with effect from 19 November 2022. He was also appointed as a non-independent director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129) with effect from December 2022.
- Mr. WANG Kan, a non-executive Director, was appointed as a non-executive director of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 01099) with effect from December 2022.

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 2022, 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 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders’ Interests

As at 31 December 2022, 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 Share Capital
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 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 2022.



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, 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 (the “Deposit Service Agreement”).

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 12% of the 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 2022 to 31 December 2022, the maximum daily deposit balance by the Group in Ping An Bank amounted to RMB485,371,000, which was below the annual cap for the maximum daily deposit balance of RMB600 million (including any interest accrued thereon) for the year ended 31 December 2022.

Master Purchase Agreement and Master Supply Agreement with CNPGC (2020-2022)

On 20 November 2019, the Company and CNPGC entered into the agreements to govern the terms of the purchases and the sales and to set the annual caps for the three financial years ended 31 December 2020, 2021 and 2022.

Pursuant to the Master Purchase Agreement, the Group conditionally agreed to purchase TCM, chemical materials and equipment to be supplied by the CNPGC Group during the period from 1 January 2020 to 31 December 2022 (the “Master Purchase Agreement”). The value of the purchases shall not exceed the annual caps of RMB55 million, RMB63 million and RMB70 million for each of the three financial years ended 31 December 2020, 2021 and 2022 respectively.

Pursuant to the Master Supply Agreement, during the period from 1 January 2020 to 31 December 2022, the Group conditionally agreed to supply the products to the CNPGC Group and the CNPGC Group conditionally agreed to purchase the products (the “Master Supply Agreement”). The value of the sales shall not exceed the annual caps of RMB1,200 million, RMB1,450 million and RMB1,700 million for each of the three financial years ended 31 December 2020, 2021 and 2022 respectively.

On 11 November 2022, the Company and CNPGC entered into the supplemental master purchase agreement (the “Supplemental Master Purchase Agreement”) to revise the original purchase cap of RMB70 million to the revised purchase cap of RMB110 million for the year ended 31 December 2022. For further details of the Supplemental Master Purchase Agreement, please refer to the announcement of the Company dated 11 November 2022.

On 20 November 2019 and 11 November 2022, 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 and therefore CNPGC is a connected person of the Company. The transactions contemplated under the Master Supply Agreement, the Master Purchase Agreement and the Supplemental Master Purchase Agreement respectively constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

The 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 a large state-owned pharmaceutical and healthcare group administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its core businesses are pharmaceutical distribution, pharmaceutical scientific research and manufacture of pharmaceutical products. 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 and the equipment for its business use, 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 CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, 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 these continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2019 and 28 December 2019 respectively. The Master Purchase Agreement, the Master Supply Agreement and the respective annual caps were approved by the Company’s independent shareholders at an extraordinary general meeting of the Company held on 17 January 2020.

During the period from 1 January 2022 to 31 December 2022, the actual purchases of materials by the Group from CNPGC Group amounted to RMB56,146,000 (excluding value added tax) which was below the annual cap of RMB110,000,000 for the year ended 31 December 2022.



During the period from 1 January 2022 to 31 December 2022, the actual sales of products by the Group to CNPGC Group amounted to RMB1,004,473,000 (excluding value added tax) which was below the annual cap of RMB1,700,000,000 for the year ended 31 December 2022.

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

As the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps have expired on 31 December 2022. On 11 November 2022, the Company entered into the agreements to govern the terms of the purchases and the sales and to set the annual caps for the three financial years ending 31 December 2023, 2024 and 2025.

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

Pursuant to the New 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 “New Master Supply Agreement”). 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 financial years 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.

On 11 November 2022, 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 New Master Purchase Agreement and the New Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The New 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 R&D, 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 New Master Purchase Agreement enables the Group to source stable and quality supply of the Materials, while the New 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 these renewed continuing connected transactions, please refer to the Company's announcements dated 11 November 2022 and 20 December 2022 and circular dated 15 December 2022. The New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 4 January 2023.

Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance") (11/2019 – 11/2022)

On 20 November 2019, the Company entered into the Financial Services Framework Agreement with Sinopharm Group Finance (the "Financial Services Framework Agreement"), and set the annual caps for the deposit services and the loan services (i.e. the maximum daily deposit balance and general credit limit) during the effective period of the Financial Services Framework Agreement (i.e. from 20 November 2019 to 19 November 2022).

Pursuant to the Financial Services Framework Agreement, the maximum daily deposit balance and general credit limit of the Group shall not exceed the annual caps of RMB600 million and RMB1,200 million during the period from 20 November 2019 to 19 November 2022 respectively. The Group expected the service fees payable to Sinopharm Group Finance for the other financial services would not exceed HK\$3 million for each of the three years ended 19 November 2020, 2021 and 2022.

On 20 November 2019, 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 80% by CNPGC and as to 20% by Sinopharm Group Co., Ltd. (a subsidiary of CNPGC). CNPGC is the parent company of Sinopharm Hongkong and Sinopharm Group Finance. As such, both CNPGC and Sinopharm Group Finance are connected persons of the Company and the procurement of the financial services constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Sinopharm Group Finance is a non-bank financial institution regulated by the People's Bank of China and China Banking Regulatory Commission ("CBRC"). Sinopharm Group Finance is principally engaged in the provision of financial services to the members of the CNPGC Group, including deposit taking, provision of loans, bills acceptance and discounting, finance lease, entrustment loans, settlement services as well as other financial services such as provision of letter of credits, financial advisory and other advisory agency services, guarantee services and other services as may be approved by the CBRC.

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

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 20 November 2019.



New Financial Services Framework Agreement with Sinopharm Group Finance (11/2022 – 11/2025)

On 18 November 2022, the Company entered into the New Financial Services Framework Agreement (the “New 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 New 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 New Financial Services Framework Agreement, the maximum daily outstanding deposit balance is RMB600 million.

On 18 November 2022, 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 New 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 New 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 New 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 period from 1 January 2022 to 31 December 2022, the maximum daily deposit balance by the Group in Sinopharm Group Finance amounted to RMB595,194,000 which was below the annual cap for the maximum daily deposit balance of RMB600 million for the year ended 31 December 2022.

During the period from 1 January 2022 to 19 November 2022, the Group did not utilise the loan services of Sinopharm Group Finance and did not accrue the service fees payable to Sinopharm Group Finance for the other financial services.

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 period from 1 January 2022 to 31 December 2022, there is 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 2022 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 agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

During 2022, 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 of the audited consolidated financial statements of this report. 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.

A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

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 2022, 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 7.0% and 12.1% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 7.0% 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 3.1% and 11.6% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 0.8% 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 plans of the Group are set out in notes 35 to the consolidated financial statements.

AUDITOR

Deloitte Touche Tohmatsu retired as 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 Deloitte Touche Tohmatsu 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.

Ernst & Young shall retire and, being eligible, offer themselves for re-appointment as the auditor of the Company at the AGM. A resolution for the re-appointment of Ernst & Young as the auditor of the Company is to be proposed at the AGM.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2022 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 63 to 64 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 54 to 75 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, 24 March 2023

