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国药集团
SINOPHARM

CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
中國中藥控股有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “Board”) of directors (the “Directors”) of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2023 (the “Reporting Period” or the “Period”):

RESULTS HIGHLIGHTS

	Year ended 31 December		Change
	2023	2022	
	RMB'000	RMB'000 (Restated)	
Revenue			
Chinese medicinal herbs integration business	1,855,534	1,272,761	45.8%
TCM decoction pieces	2,811,368	1,933,386	45.4%
Concentrated TCM granules	9,108,382	7,710,933	18.1%
TCM finished drugs	3,994,333	3,121,636	28.0%
TCM great health products	212,832	134,202	58.6%
TCM medical institutions	139,412	131,324	6.2%
Total	18,121,861	14,304,242	26.7%
Gross Profit	9,274,492	7,198,452	28.8%
Profit for the year	1,396,070	720,965	93.6%
Basic earnings per share (RMB cents)	25.52	15.18	68.1%

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, bring 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 for 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 copes 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 enhance 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 will be 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 and 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 have resigned as the president and vice president of the Company, respectively, and 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 of 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 enjoys more prudent and sustainable development under the new governance structure.

CHEN Yinglong

Chairman

Hong Kong, 21 March 2024

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 medicinal herbs and with a base area of over 460,000 mu, of which 82 varieties entered the traceability system of Chinese medicinal 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 (蟲草清肺膠囊) 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 atracylodes 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 atracylodes 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 seipiae 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 Niu Huang 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:

Business segments	Twelve months ended 31 December					
	2023	2022	Change	2023	2022	Change
	Revenue RMB'000	Revenue RMB'000		Cost of sales RMB'000	Cost of sales RMB'000	
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	2022	Change
	RMB'000	RMB'000	
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		Change
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	
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		Change
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>	
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		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
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		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
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		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i> (Restated)
REVENUE	3	18,121,861	14,304,242
Cost of sales		<u>(8,847,369)</u>	<u>(7,105,790)</u>
Gross profit		9,274,492	7,198,452
Other income	5	290,015	230,010
Other gains and losses	6	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	7	<u>(9,366)</u>	<u>(10,073)</u>
PROFIT FROM OPERATIONS		1,427,277	1,064,283
Finance costs		(199,045)	(220,695)
Share of losses of associates		<u>(3,699)</u>	<u>(3,479)</u>
PROFIT BEFORE TAX		1,224,533	840,109
Income tax credit/(expense)	8	<u>171,537</u>	<u>(119,144)</u>
PROFIT FOR THE YEAR	9	<u>1,396,070</u>	<u>720,965</u>
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		<u>(1,851)</u>	<u>1,274</u>

	<i>Notes</i>	2023 RMB'000	2022 RMB'000 (Restated)
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		<u>1,393,071</u>	<u>730,535</u>
Profit attributable to:			
Owners of the parent		1,285,200	764,486
Non-controlling interests		110,870	(43,521)
		<u>1,396,070</u>	<u>720,965</u>
Total comprehensive income attributable to:			
Owners of the parent		1,282,149	773,334
Non-controlling interests		110,922	(42,799)
		<u>1,393,071</u>	<u>730,535</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and Diluted (RMB cents)	<i>11</i>	<u>25.52</u>	<u>15.18</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Notes</i>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		6,813,539	6,764,445
Investment properties		75,743	89,751
Right-of-use assets		1,146,048	1,159,821
Goodwill	<i>12</i>	3,457,903	3,456,313
Other intangible assets		5,486,365	5,874,634
Investments in associates		11,847	15,353
Deposits and prepayments		57,577	107,919
Deferred tax assets		219,480	202,065
		<hr/>	<hr/>
Total non-current assets		17,268,502	17,670,301
Current assets			
Trade and other receivables	<i>13</i>	9,686,644	8,141,891
Inventories	<i>14</i>	5,959,149	6,039,880
Debt instruments at fair value through other comprehensive income ("FVTOCI")		886,777	605,122
Pledged bank deposits		249,958	114,729
Cash and cash equivalents		3,017,318	3,065,054
		<hr/>	<hr/>
Total current assets		19,799,846	17,966,676
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	6,049,707	5,232,179
Lease liabilities		18,593	16,764
Contract liabilities		210,506	290,677
Interest-bearing bank and other borrowings		2,120,207	1,255,268
Unsecured notes		830,540	3,241,610
Tax payable		103,047	66,286
		<hr/>	<hr/>
Total current liabilities		9,332,600	10,102,784
		<hr/>	<hr/>
NET CURRENT ASSETS		10,467,246	7,863,892
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		27,735,748	25,534,193
		<hr/>	<hr/>

	2023	2022
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
NON-CURRENT LIABILITIES		
Deferred government grants	421,291	437,839
Deferred tax liabilities	1,187,045	1,619,307
Unsecured notes	1,197,112	–
Interest-bearing bank and other borrowings	913,813	466,060
Lease liabilities	79,869	62,872
	<hr/>	<hr/>
Total non-current liabilities	3,799,130	2,586,078
	<hr/>	<hr/>
Net assets	23,936,618	22,948,115
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	11,982,474	11,982,474
Reserves	9,177,661	8,185,653
	<hr/>	<hr/>
	21,160,135	20,168,127
	<hr/>	<hr/>
Non-controlling interests	2,776,483	2,779,988
	<hr/>	<hr/>
Total equity	23,936,618	22,948,115
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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 People’s Republic of China (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.

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

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.

Impact on the consolidated statements of financial position:

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

Impact on the consolidated statements of profit or loss:

	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	<u>(402)</u>	<u>213</u>
Profit for the year	<u>(402)</u>	<u>213</u>
Attributable to:		
Owners of the parent	(448)	220
Non-controlling interests	<u>46</u>	<u>(7)</u>
	<u>(402)</u>	<u>213</u>
Total comprehensive income for the year	<u>(402)</u>	<u>213</u>
Attributable to:		
Owners of the parent	(448)	220
Non-controlling interests	<u>46</u>	<u>(7)</u>
	<u>(402)</u>	<u>213</u>

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. 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.

- (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	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{1, 4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ^{1, 4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> 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 CHANGES IN ACCOUNTING ESTIMATION

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.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

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

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

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

- (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.

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.

4. 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.
- 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.

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 3)						
External customers	6,794,514	5,119,857	2,035,495	4,171,995	-	18,121,861
Intersegment sales	<u>324,147</u>	<u>302,292</u>	<u>335,346</u>	<u>1,512,341</u>	<u>(2,474,126)</u>	<u>-</u>
Total segment revenue	<u>7,118,661</u>	<u>5,422,149</u>	<u>2,370,841</u>	<u>5,684,336</u>	<u>(2,474,126)</u>	<u>18,121,861</u>
Segment results	628,627	471,524	236,398	105,944	-	1,442,493
Reconciliation:						
Other unallocated head office and corporate expenses						<u>(46,423)</u>
Profit for the year						<u><u>1,396,070</u></u>
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 profits and 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	<u>(10,963)</u>	<u>(9,057)</u>	<u>-</u>	<u>(753)</u>	<u>-</u>	<u>(20,773)</u>
As at 31 December 2023						
Segment assets	<u>15,836,717</u>	<u>12,160,190</u>	<u>5,855,965</u>	<u>7,577,820</u>	<u>-</u>	<u>41,430,692</u>
Reconciliation:						
Elimination of intersegment receivables						(5,097,060)
Deferred tax assets						219,480
Corporate and other unallocated assets						515,236
Total assets						<u><u>37,068,348</u></u>
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						<u><u>13,131,730</u></u>

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 3)						
External customers	5,559,073	4,145,173	1,419,925	3,180,071	-	14,304,242
Intersegment sales	<u>366,410</u>	<u>340,564</u>	<u>336,129</u>	<u>1,263,669</u>	<u>(2,306,772)</u>	<u>-</u>
Total segment revenue	<u>5,925,483</u>	<u>4,485,737</u>	<u>1,756,054</u>	<u>4,443,740</u>	<u>(2,306,772)</u>	<u>14,304,242</u>
Segment results (restated)	<u>300,307</u>	<u>340,901</u>	<u>98,862</u>	<u>17,526</u>	<u>-</u>	<u>757,596</u>
Reconciliation:						
Other unallocated head office and corporate expenses						<u>(36,631)</u>
Profit for the year (restated)						<u><u>720,965</u></u>
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 profits and 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	<u>(134,674)</u>	<u>(401)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(135,075)</u>
As at 31 December 2022						
Segment assets (restated)	<u>16,480,031</u>	<u>11,831,102</u>	<u>5,418,427</u>	<u>6,787,526</u>	<u>-</u>	<u>40,517,086</u>
Reconciliation:						
Elimination of intersegment receivables						(6,242,297)
Deferred tax assets (restated)						202,065
Corporate and other unallocated assets						<u>1,160,123</u>
Total assets (restated)						<u><u>35,636,977</u></u>
Segment liabilities (restated)	<u>5,951,364</u>	<u>4,188,718</u>	<u>1,105,203</u>	<u>5,002,874</u>	<u>-</u>	<u>16,248,159</u>
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						<u>997,407</u>
Total liabilities (restated)						<u><u>12,688,862</u></u>

(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.

5. OTHER INCOME

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

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.

6. OTHER GAINS AND LOSSES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Impairment loss recognised in respect of		
– goodwill	–	(35,871)
– right-of-use assets	–	(12,451)
– other intangible assets	–	(1)
– property, plant and equipment	(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)
	<u>4,287</u>	<u>(193,773)</u>

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

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

8. INCOME TAX (CREDIT)/EXPENSE

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

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.

* 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 2.4.

9. PROFIT FOR THE YEAR

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

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

* 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

10. 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.

11. 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 <i>RMB'000</i>	2022 <i>RMB'000</i> (Restated)
Profit attributable to ordinary equity holders of the parent	<u>1,285,200</u>	<u>764,486</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>5,035,801</u>	<u>5,035,801</u>

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.

12. GOODWILL

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

13. TRADE AND OTHER RECEIVABLES

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

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

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

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>9,289,650</u>	<u>7,729,974</u>
Total	<u>9,289,650</u>	<u>7,729,974</u>

14. INVENTORIES

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>5,959,149</u>	<u>6,039,880</u>
Total	<u>5,959,149</u>	<u>6,039,880</u>

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

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

15. TRADE AND OTHER PAYABLES

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>6,049,707</u>	<u>5,232,179</u>
Total	<u>6,049,707</u>	<u>5,232,179</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>2,742,656</u>	<u>1,888,971</u>
Total	<u>2,742,656</u>	<u>1,888,971</u>

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.

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 Hong Kong 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).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “AGM”) will be held at Conference Room, 4th Floor, Winteam Plaza, 6 Kuiqi Second Road, Chancheng District, Foshan City, Guangdong Province, China, on Friday, 14 June 2024 at 2:30 p.m.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 11 June 2024 to Friday, 14 June 2024, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 7 June 2024.

PURCHASE, SALES 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Corporate Governance Code as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year ended 31 December 2023.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry with the Directors, and all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout Reporting Period.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITORS

The figures in respect of the Group's results for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Group's independent auditors to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

AUDIT COMMITTEE

The primary duties of the audit committee (the “Audit Committee”) are to review and supervise the financial reporting process, internal control system and risk management of the Group and to provide advice and comments to the Board. As at the date of this announcement, the Audit Committee comprises four members who are independent non-executive Directors, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong, and Mr. XIE Rong who has appropriate professional qualifications and experience in accounting matters was appointed as the chairman of the Audit Committee. The Audit Committee has met with the Group’s senior management and the auditors to review the Group’s audited annual results and the financial statements for the year ended 31 December 2023.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company’s website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk). The Company’s 2023 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the Company’s website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk).

By order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
CHEN Yinglong
Chairman

Hong Kong, 21 March 2024

As at the date of this announcement, the Board comprises eleven Directors, of which Mr. CHEN Yinglong is executive Director; Mr. CHENG Xueren, Mr. YANG Wenming, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. MENG Qingxin are non-executive Directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive Directors.