国药集团
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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors of China Traditional Chinese Medicine Holdings Co. Limited (the "**Company**") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019 as follows:

RESULTS HIGHLIGHTS

	Period ended 30 June		
	2019	2018	Changes
	RMB'000	*RMB'000*	*%*
Revenue			
– Concentrated TCM granules	**4,570,764**	3,487,670	31.1
– Finished drugs	**1,698,480**	1,306,031	30.0
– TCM decoction pieces	**604,911**	639,533	-5.4
– TCM healthcare complex	**35,701**	25,266	41.3
– Local TCM integrated operation	**27,160**	2,924	828.9
Total	**6,937,016**	5,461,424	27.0
Gross profit	**4,187,172**	2,930,733	42.9
Adjusted EBITDA	**1,522,231**	1,343,602	13.3
Profit from operations	**1,253,620**	1,133,266	10.6
Profit for the period	**954,437**	834,453	14.4
Profit attributable to equity holders of the Company	**859,120**	760,312	13.0
Basic earnings per share *(RMB cents)*	**17.06**	16.51	3.3
Proposed interim dividend per share *(HK cents)*	**5.72**	6.04	-5.3

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June **2019** *RMB'000* (Unaudited)	2018 *RMB'000* (Unaudited)
Revenue	3	**6,937,016**	5,461,424
Cost of sales		**(2,749,844)**	(2,530,691)
Gross profit		**4,187,172**	2,930,733
Other income	4	**98,848**	54,445
Other gains and losses	5	**(14,893)**	12,087
Impairment losses under expected credit loss model, net of reversal		**(51,936)**	(4,026)
Selling and distribution expenses		**(2,453,493)**	(1,489,713)
Administrative expenses		**(303,077)**	(221,172)
Research and development expenses		**(209,001)**	(149,088)
Profit from operations		**1,253,620**	1,133,266
Finance costs	6	**(111,505)**	(124,280)
Share of results of associates		**(1,653)**	(6,110)
Profit before tax		**1,140,462**	1,002,876
Income tax expense	7	**(186,025)**	(168,423)
Profit for the period	8	**954,437**	834,453
Other comprehensive income (expense) for the period			
Item that may be reclassified subsequently to profit or loss:			
– Fair value (loss) gain on debt instruments measured at fair value through other comprehensive income		**(10,633)**	1,116
– (Reversal of) impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		**1,079**	(19)
– Income tax relating to items that may be reclassified to profit or loss		**1,536**	(195)
Other comprehensive (expense) income for the period, net of income tax		**(8,018)**	902
Total comprehensive income for the period		**946,419**	835,355

	NOTE	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit for the period attributable to:			
– Owners of the Company		**859,120**	760,312
– Non-controlling interests ("NCI")		**95,317**	74,141
		954,437	834,453
Total comprehensive income for the period attributable to:			
– Owners of the Company		**851,433**	761,202
– Non-controlling interests		**94,986**	74,153
		946,419	835,355
Earnings per share	*10*		
– Basic (RMB cents)		**17.06**	16.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2019

	NOTES	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,749,365**	4,298,440
Right-of-use-assets		**968,692**	–
Prepaid lease payments		–	814,718
Investment properties		**38,202**	42,016
Goodwill		**3,568,984**	3,568,984
Other intangible assets		**6,530,655**	6,612,833
Interests in associates		**10,135**	11,788
Deposits and prepayments		**336,562**	326,105
Deferred tax assets		**144,366**	126,812
		16,346,961	15,801,696
CURRENT ASSETS			
Inventories	*11*	**4,247,735**	4,482,732
Trade and other receivables	*12*	**5,518,660**	3,467,084
Prepaid lease payments		–	29,461
Financial assets at fair value through profit or loss ("FVTPL")	*13*	**150,000**	1,076
Debt instruments at fair value through other comprehensive income ("FVTOCI")		**814,798**	66,819
Pledged bank deposits		**425,993**	88,808
Bank balances and cash		**3,931,469**	6,349,714
		15,088,655	14,485,694
CURRENT LIABILITIES			
Trade and other payables	*14*	**4,685,045**	4,147,800
Lease liabilities		**11,189**	–
Contract liabilities		**87,176**	356,956
Bank and other borrowings		**1,438,836**	1,411,569
Unsecured notes – due within one year		**4,494,377**	2,497,330
Tax liabilities		**193,097**	219,099
		10,909,720	8,632,754
NET CURRENT ASSETS		**4,178,935**	5,852,940
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,525,896**	21,654,636

	NOTE	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		**174,715**	182,558
Deferred tax liabilities		**1,736,955**	1,736,898
Unsecured notes		–	1,992,735
Bank and other borrowings		**186,411**	231,874
Lease liabilities		**99,892**	–
		2,197,973	4,144,065
NET ASSETS		**18,327,923**	17,510,571
CAPITAL AND RESERVES			
Share capital	*15*	**11,982,474**	11,982,474
Reserves		**4,174,374**	3,568,959
Equity attributable to owners of the Company		**16,156,848**	15,551,433
Non-controlling interests		**2,171,075**	1,959,138
TOTAL EQUITY		**18,327,923**	17,510,571

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. COMPANY BACKGROUND AND BASIS OF PREPARATION

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. In the opinion of directors of the Company, 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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6, to the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The functional currency of the Company is "Renminbi" ("RMB"), which is the same as the presentation currency of the condensed consolidated financial statements of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16.

The Group has applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

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

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of motor vehicles, machinery and equipment and dormitories that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straightline basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within investment properties.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the relate lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB43,043,000 and right-of-use assets of RMB47,145,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 4.75%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	59,523
Less: Recognition exemption – short-term leases	(6,121)
Recognition exemption – low value assets	(92)
Effect from discounting at the incremental borrowing rate as of 1 January 2019	(10,267)
Lease liabilities at 1 January 2019 relating to operating leases recognised upon application of HKFRS 16	43,043
Analysed as:	
Current	12,459
Non-current	30,584
	43,043

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets** *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		47,145
Reclassified from prepaid lease payments	*(a)*	844,179
Adjustments on rental deposits at 1 January 2019	*(b)*	94
		891,418
By class:		
Leasehold lands		844,179
Land and buildings		47,239
		891,418

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB29,461,000 and RMB814,718,000 respectively were reclassified to right-of-use assets.

(b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB94,000 was adjusted to refundable rental deposits paid and right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(c) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Prepaid lease payments	814,718	(814,718)	–
Right-of-use assets	–	891,418	891,418
Other receivables			
– Rental deposits	3,530	(94)	3,436
– Prepayment for rental	5,268	(4,102)	1,166
Current assets			
Prepaid lease payments	29,461	(29,461)	–
Current liabilities			
Lease liabilities	–	(12,459)	(12,459)
Non-current liabilities			
Lease liabilities	–	(30,584)	(30,584)

Note:

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE AND SEGMENT INFORMATION

3A. Disaggregation of revenue

	For the six months ended 30 June 2019					
Segments	Finished drugs *RMB'000*	Concentrated TCM granules *RMB'000*	TCM decoction pieces *RMB'000*	TCM healthcare complex *RMB'000*	Local TCM integrated operation *RMB'000*	Total *RMB'000*
Types of goods or services						
Goods						
Sales of finished drugs	**1,688,301**	–	–	–	–	**1,688,301**
Sales of concentrated TCM granules						
Concentrated TCM granules	–	**4,557,370**	–	–	**5,794**	**4,563,164**
Sales of TCM decoction pieces						
Decoction pieces	–	**11,521**	**599,034**	–	**21,366**	**631,921**
Services						
TCM healthcare complex						
Healthcare complex	–	–	–	**35,701**	–	**35,701**
Others	**10,179**	**1,873**	**5,877**	–	–	**17,929**
Total	**1,698,480**	**4,570,764**	**604,911**	**35,701**	**27,160**	**6,937,016**
Geographical markets						
Mainland China	**1,697,806**	**4,517,832**	**604,911**	**35,701**	**27,160**	**6,883,410**
Hong Kong	**674**	**19,130**	–	–	–	**19,804**
Overseas and others	–	**33,802**	–	–	–	**33,802**
Total	**1,698,480**	**4,570,764**	**604,911**	**35,701**	**27,160**	**6,937,016**
Timing of revenue recognition						
A point in time	**1,698,480**	**4,570,764**	**604,911**	**35,701**	**27,160**	**6,937,016**

	For the six months ended 30 June 2018					
Segments	Finished drugs	Concentrated TCM granules	TCM decoction pieces	TCM healthcare complex	Local TCM integrated operation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Types of goods or services						
Goods						
Sales of finished drugs	1,306,031	–	–	–	–	1,306,031
Sales of concentrated TCM granules						
Concentrated TCM granules	–	3,487,670	–	–	–	3,487,670
Sales of TCM decoction pieces						
Decoction pieces	–	–	639,533	–	2,924	642,457
Services						
TCM healthcare complex						
Healthcare complex	–	–	–	25,266	–	25,266
Total	1,306,031	3,487,670	639,533	25,266	2,924	5,461,424
Geographical markets						
Mainland China	1,306,031	3,439,704	639,533	25,266	2,924	5,413,458
Hong Kong	–	16,888	–	–	–	16,888
Overseas and others	–	31,078	–	–	–	31,078
Total	1,306,031	3,487,670	639,533	25,266	2,924	5,461,424
Timing of revenue recognition						
A point in time	1,306,031	3,487,670	639,533	25,266	2,924	5,461,424

3B. Segment reporting

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 maker ("CODM") of the Group, in order to allocate resources to segments and to assess their performances.

In prior period, there were four reportable and operating segments, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

In recent years, the Group began to undertake an expansion of its strategic presence in major authentic medicinal herb producing provinces in the PRC and the establishment of "local TCM integrated operation" companies which produce concentrated TCM granules and decoction pieces and conduct local primary processing and trading of medicinal herbs and decoction. During the current period, owing to the growing size of local TCM integrated operation in 2019, the CODM revised the organisation of the concentrated TCM granules segment that were used to allocate resources and assess performance, and changed its analysis to (i) concentrated TCM granules and (ii) local TCM integrated operation, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. Other than this change, the CODM continues to review the performance of finished drugs, TCM decoction pieces and TCM healthcare complex on a similar basis as prior years.

Accordingly, there are five reportable and operating segments in the current period, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; (iv) TCM healthcare complex, and (v) local TCM integrated operation.

Consequently, the comparative segment information for the six months ended 30 June 2018 or as at 31 December 2018 have been restated in order to conform with the presentation adopted in the current period. The changes in the segment information do not have any impact on the Group's condensed consolidated financial statements.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. Reportable segment profit does not include items not specifically attributed to individual segments, including rental income, share of results of associates, fair value changes on financial assets at FVTPL, net exchange gain or losses.

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at FVTPL, deferred tax assets and unallocated head office and corporate assets. Segment liabilities include trade and other payables, lease liabilities, contract liabilities, bank and other borrowings, deferred government grants and unsecured notes attributable to individual segments and bank borrowings managed directly by the segments, with the exception of tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance is set out below.

	Finished drugs *RMB'000*	Concentrated TCM granules *RMB'000*	TCM decoction pieces *RMB'000*	TCM healthcare complex *RMB'000*	Local TCM integrated operation *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2019 (unaudited)						
Reportable segment revenue	1,722,357	4,612,224	777,834	35,722	34,927	7,183,064
Eliminated of inter-segment revenue	(23,877)	(41,460)	(172,923)	(21)	(7,767)	(246,048)
Revenue from external customers	1,698,480	4,570,764	604,911	35,701	27,160	6,937,016
Reportable segment profit (adjusted EBITDA)	314,574	1,125,113	70,510	1,891	10,143	1,522,231
Interest income	95,991	75,434	1,264	56	420	173,165
Eliminated of Inter-segment Interest income	(87,573)	(59,862)	(162)	–	–	(147,597)
Interest income from third parties	8,418	15,572	1,102	56	420	25,568
Finance costs	115,723	134,400	5,439	811	2,729	259,102
Eliminated of Inter-segment Finance costs	(68,058)	(74,521)	(2,396)	(96)	(2,526)	(147,597)
Finance costs from third parties	47,665	59,879	3,043	715	203	111,505
Depreciation and amortisation	87,335	147,256	39,089	8,611	13,081	295,372
As at 30 June 2019 (unaudited)						
Reportable segment assets	10,992,978	21,779,876	3,042,098	236,003	1,660,266	37,711,221
Reportable segment liabilities	4,783,478	9,920,492	1,955,528	48,111	510,796	17,218,405

	Finished drugs *RMB'000*	Concentrated TCM granules *RMB'000*	TCM decoction pieces *RMB'000*	TCM healthcare complex *RMB'000*	Local TCM integrated operation *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2018 (restated and unaudited)						
Reportable segment revenue	1,322,821	3,499,999	702,663	25,266	2,924	5,553,673
Eliminated of inter-segment revenue	(16,790)	(12,329)	(63,130)	–	–	(92,249)
Revenue from external customers	1,306,031	3,487,670	639,533	25,266	2,924	5,461,424
Reportable segment profit (adjusted EBITDA)	361,377	925,447	65,210	1,655	(10,087)	1,343,602
Interest income	61,814	70,272	1,083	22	410	133,601
Eliminated of Inter-segment Interest income	(57,749)	(55,011)	–	–	–	(112,760)
Interest income from third parties	4,065	15,261	1,083	22	410	20,841
Finance costs	119,451	114,693	2,674	–	222	237,040
Eliminated of Inter-segment Finance costs	(58,804)	(53,956)	–	–	–	(112,760)
Finance costs from third parties	60,647	60,737	2,674	–	222	124,280
Depreciation and amortisation	73,603	143,830	26,463	3,697	2,568	250,161
As at 31 December 2018 (restated and audited)						
Reportable segment assets	11,169,348	21,338,729	2,782,764	208,193	977,828	36,476,862
Reportable segment liabilities	4,663,013	9,772,852	1,888,996	17,126	299,853	16,641,840

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Reportable segment profit (adjusted EBITDA)	**1,522,231**	1,343,602
Depreciation and amortisation	**(295,372)**	(250,161)
Interest income	**25,568**	20,841
Finance costs	**(111,505)**	(124,280)
Rental income	**2,783**	3,086
Fair value changes on financial assets at FVTPL	**4**	144
Net exchange gain	**(1,594)**	21,503
Share of results of associates	**(1,653)**	(6,110)
Head office and corporate expenses	**–**	(5,749)
Consolidated profit before taxation	**1,140,462**	1,002,876

	At	At
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Assets		
Reportable segment assets	**37,711,221**	36,476,862
Elimination of inter-segment receivables	**(6,597,661)**	(6,400,990)
	31,113,560	30,075,872
Financial assets at FVTPL	**150,000**	1,076
Deferred tax assets	**144,366**	126,812
Unallocated head office and corporate assets	**27,690**	83,630
Consolidated total assets	**31,435,616**	30,287,390
Liabilities		
Reportable segment liabilities	**17,218,405**	16,641,840
Elimination of inter-segment payables	**(6,597,661)**	(6,400,990)
	10,620,744	10,240,850
Tax liabilities	**193,097**	219,099
Deferred tax liabilities	**1,736,955**	1,736,898
Unallocated head office and corporate liabilities	**556,897**	579,972
Consolidated total liabilities	**13,107,693**	12,776,819

(iii) Geographical information and information about major customers

Analysis of the Group's results as well as analysis of the amount of segment assets and non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

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 current and prior period.

4. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants		
– Unconditional subsidies	**54,573**	24,768
– Conditional subsidies	**15,924**	5,750
Interest income on bank deposits	**20,830**	19,374
Interest income on financial assets at FVTPL	**4,738**	1,467
Rental income from investment properties	**2,783**	3,086
	98,848	54,445

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**(3,935)**	(502)
Fair value changes on financial assets at FVTPL	**4**	144
Net foreign exchange gain or losses	**(1,594)**	21,503
Others	**(9,368)**	(9,058)
	(14,893)	12,087

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**24,839**	27,395
Interest on lease liabilities	**2,319**	–
Effective interest expense on unsecured notes	**96,612**	96,885
Total borrowing costs	**123,770**	124,280
Less: amounts capitalised in the cost of qualifying assets	**12,265**	–
	111,505	124,280

Borrowing costs capitalised during the current period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.16% per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT")	**199,157**	160,550
Under (over) provision in prior years:		
PRC EIT	**2,857**	(2,156)
	202,014	158,394
Deferred tax (credit) charge	**(15,989)**	10,029
	186,025	168,423

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods while certain PRC subsidiaries are enjoying preferential EIT at a rate of 15% or full EIT exemption as approved by the relevant tax authorities due to their operation in designated areas with preferential EIT policies or being qualified enterprises with operation of medicinal plants primary processing business.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation		
– investment properties	**1,165**	773
– property, plant and equipment	**191,119**	156,183
– right-of-use assets	**19,650**	–
Amortisation of prepaid lease payments	**–**	9,815
Amortisation of other intangible assets	**83,438**	83,390
Total depreciation and amortisation	**295,372**	250,161
Write down of inventories	**18,239**	5,172
Gross rental income from investment properties	**(2,783)**	(1,960)
Less: direct operating expenses incurred for investment properties	**690**	507
	(2,093)	(1,453)

9. DIVIDENDS

During the current interim period, a final dividend of HK5.51 cents per share in respect of the year ended 31 December 2018 (six month ended 30 June 2018: HK4.96 cents per share in respect of the year ended 31 December 2017) was declared and paid to the owners of the Company. The aggregate amount of the 2018 final dividend declared and paid in the current interim period amounted to HK$277,473,000 (approximately RMB244,093,000) (six months ended 30 June 2018: HK$249,776,000, approximately RMB206,590,000). Subsequent to the end of the current interim period, the directors of the Company have resolved that an interim dividend of HK5.72 cents per share, amounting to HK$288,048,000 in aggregate (six months ended 30 June 2018: interim dividend of HK6.04 cents per share, amouting to HK$304,162,000 in aggregate), will be paid to the shareholders of the Company whose name appear in the Registry of Members on 6 September 2019.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company	**859,120**	760,312
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	4,605,115

No diluted earnings per share for both periods were presented as there were no dilutive potential ordinary shares in issue during both periods.

11. INVENTORIES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**1,265,335**	1,439,768
Work in progress	**1,357,812**	1,329,852
Finished goods	**1,624,588**	1,713,112
	4,247,735	4,482,732

12. TRADE AND OTHER RECEIVABLES

The following are the aged analysis of the Group's trade receivables, net of allowance for doubtful debts, based on invoice date at the end of the reporting period and bills receivables, based on issue date at the end of the reporting period, respectively:

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Trade receivables	**5,081,059**	2,532,688
Less: allowance for credit losses	**(99,843)**	(49,221)
	4,981,216	2,483,467
Bills receivables	**–**	606,972
Less: allowance for credit losses	**–**	(1,172)
	–	605,800
Deposits and prepayments	**143,841**	111,293
Advance tax payments	**207,921**	140,884
Other receivables	**216,823**	156,167
Less: allowance for credit losses	**(31,141)**	(30,527)
	185,682	125,640
	5,518,660	3,467,084

The Group allows a credit period within 365 days to certain trade customers.

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

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
0-90 days	**3,192,925**	1,775,485
91-180 days	**1,263,594**	368,205
181-365 days	**490,851**	329,033
Over 365 days	**33,846**	10,744
	4,981,216	2,483,467

The aged analysis of the Group's bills receivables based on issue date at the end of each reporting period is as follows:

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
0-90 days	–	424,556
91-180 days	–	170,275
181-365 days	–	10,969
	–	605,800

In prior period, the Group (i) endorsed certain bills receivables issued and guaranteed by the reputable PRC banks with high credit rating for the settlement of trade and other payables; and (ii) discounted these bills receivables to banks for raising of cash. During the current period, the Group have a policy in place that all bills receivables could be endorsed or discounted by the Group when necessary. Since then, all the bills receivables have been classified as debt instrument at FVTOCI.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	At 30 June 2019 RMB'000 (Unaudited)	At 31 December 2018 RMB'000 (Audited)
Structured bank deposits (note)	**150,000**	–
Equity investments	–	1,076
	150,000	1,076

Note:

Structured bank deposits represented the short-term and principal protected investments issued by China CITIC Bank Corporation Limited. The expected rate of return is 3.63% or 4.13% per annum for the six months ended 30 June 2019 which was determined by reference to the 3-Month USD Libor rate.

14. TRADE AND OTHER PAYABLES

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
Trade payables	**1,225,681**	1,804,551
Bills payable	**645,030**	84,640
Deposits received	**830,177**	561,995
Advances of government grants *(note)*	**67,676**	23,068
Salary and welfare payables	**165,865**	226,416
Other tax payables	**130,036**	132,210
Accrual of operating expenses	**538,369**	546,526
Interest payables	**59,672**	67,528
Dividend payable	**129,868**	78,682
Consideration payable for acquisitions of subsidiaries	**35,518**	36,760
Other payables	**857,153**	585,424
	4,685,045	4,147,800

Note:

As at 30 June 2019 and 31 December 2018, advances of government grants to the Group mainly included various conditional government grants for research and development projects for new or existing pharmaceutical products. Such government grants will become unconditional and be recognised as income when government inspection of relevant research and development projects has been completed.

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

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
0-90 days	**771,392**	1,159,017
91-180 days	**152,047**	271,002
181-365 days	**187,959**	216,598
Over 365 days	**114,283**	157,934
	1,225,681	1,804,551

15. SHARE CAPITAL

	Number of shares For the six months ended		Share capital For the six months ended	
	2019	2018	**2019**	2018
	'000	*'000*	***RMB'000***	*RMB'000*
Issued and fully paid:				
At beginning of the period	**5,035,801**	4,431,505	**11,982,474**	9,809,935
New shares issued	**–**	604,296	**–**	2,172,539
At end of the period	**5,035,801**	5,035,801	**11,982,474**	11,982,474

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

This year is the second year of the Group's five-year strategy of "building a leading comprehensive TCM healthcare industrial group", and its business has been progressing steadily according to the plan. According to authoritative statistics, the Group is ranked fifth in the "2018 China pharmaceutical industry top 100 – Chinese traditional medicine enterprises" by the National Medical Products Administration Southern Medicine Economic Research Institute. The Group's influence in the TCM industry has been steadily improved, forming a good situation with a clearer long-term development pattern, a more solid foundation, and a broader platform.

Compared to the period of rapid external expansion, which has been emphasized in the past, this year, the Company has entered the stage of maintaining long-term sustainable organic development and strengthening its foundation, its strategic deployment is focused on the optimization of management and control model. The Group focused on promoting innovation management and quality improvement to ensure the Group's stable and sustainable development in its production and operation. Taking full advantage of opportunities brought by the adjustment in national healthcare industry policy, the Group closely followed the new trend in the industry development and steadily improved its original business during the operation upgrade, and the Group's overall revenue and profit were further improved.

During the Reporting Period, the Group's revenue was approximately RMB6,937,016,000, representing an increase of 27.0% as compared with approximately RMB5,461,424,000 for the same period of last year. This was mainly attributable to the continuous rapid and stable growth of the concentrated TCM granules business and the development of the finished drugs in the OTC channel. The concentrated TCM granules business contributed approximately RMB4,570,764,000, or 65.9% of total revenue. Revenue from the finished drugs business was approximately RMB1,698,480,000, representing 24.5% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB604,911,000, or 8.7% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB35,701,000, representing 0.5% of total revenue. Revenue from the local TCM integrated operation (including some former "industrial park" companies; for the definition and reclassification of "local TCM integrated operation", see "ANALYSIS OF BUSINESS SEGMENTS") was approximately RMB27,160,000, representing 0.4% of total revenue. Gross profit was RMB4,187,172,000, representing an increase of 42.9% as compared with approximately RMB2,930,733,000 for the same period of last year. Gross profit margin was 60.4%, representing an increase of 6.7 percentage points as compared with 53.7% for the same period of last year. This was mainly due to the decrease in the extraction cost of some species for concentrated TCM granules and the price increase of some products.

BUSINESS REVIEW

During the Reporting Period, the Group adopted various measures to deepen the national local TCM industrial layout, and maintained the momentum of the Company's growth: 1. Insisted on promoting the local TCM integrated operation business, adjusted the business strategies of enterprises in various producing areas based on experiences, and certain local TCM integrated operation businesses have been gradually commenced; 2. Maintained the steady and rapid growth of the original granules business, further expanded the nationwide sales scale; 3. Continued to implement the concentrated TCM strategy of nurturing blockbuster finished drugs, and developed the key OTC core products, so as to maintain steady growth; 4. Adjusted the development strategy of decoction pieces business, gradually established synergies among each local TCM integrated operation project and the three original decoction pieces subsidiaries, and radiated across the country; 5. The TCM healthcare complex segment continued to expand steadily, improving the operational efficiency of each TCM clinic. Under the background of the global economic slowdown and the further reform of the domestic pharmaceutical industry, the Company has entered a new stage after the revenue scale of RMB10 billion. Opportunities and challenges coexist; in the long run, the Company's prospects are bright and comprehensive competitive advantages are gradually emerging.

With the gradual development of national layout, the Company's development calls for matching corporate management. The Group has also made a new upgrade to the management and control model according to the needs of the corporate transformation. Leveraging on the advanced experiences in corporate management and control of Boston Consulting Group ("BCG"), the Group has turned the five functional sectors named technology research and development, TCM resources, safety and environmental protection, marketing planning and production coordination into planned by headquarters, and implemented by subsidiaries. Jiangyin Tianjiang Pharmaceutical Co., Ltd ("Jiangyin Tianjiang"), Guangdong Yifang Pharmaceutical Co., Ltd ("Guangdong Yifang") strengthened the downward investment operation management and coordinated with each "local TCM integrated operation business" to enhance the advantages of large-scale production combined with regional independence and flexibility, forming synergy and ultimately achieving cost reduction and efficiency improvement.

The following are the highlights of the Group's business in the first half of 2019:

I. Strategically leading the national layout to steadily advance

2019 is a year for maintaining strategic focus and enhancing capacity. In the first half of the year, the Group further extended to the resource to improve the overall layout of the industrial chain. This measure is not only in line with the characteristics of authentic materials of TCM and the national regulatory requirement on quality traceability of TCM decoction pieces and concentrated TCM granules, but also conforms to the localization sales strategy of TCM decoction pieces and concentrated TCM granules in production and marketing places. As of now, the Group's national layout has tended to be complete.

- *Continued to promote the local TCM integrated operation, and flexibly adjusted the implementation strategy*

  From the end of 2017 to 2018, the Group started to make strategic layouts in the major provinces of authentic medicinal herbs. Through investment in and establishment of holding subsidiaries or acquisition of local qualified enterprises, the Company established local TCM integrated operation businesses in accordance with the standard model. As an important strategy for the sustainable development of the Company while the Group is undergoing transformation, the "local TCM integrated operation" is an important step taken by the Group to complete the industry chain integration, and become a leader of the TCM industry in China. The business model of two engines of concentrated TCM granules and decoction pieces requires the Group to have good control over the resources of TCM in upstream; Longer production and cash flow cycle requires the Group to reduce the cost of the supply chain of the industry and improve the efficiency of the product cycle; The trend of medical expenditure control is becoming obvious, the progressive launch of concentrated TCM granules in various provinces and cities requires the Company's business model to adapt to different policies and to have a high policy risk resistibility. The local TCM integrated operation can meet above three requirements in one go.

  The local TCM integrated operation, has got through the links of planting, procurement, concentrated TCM granules manufacture, TCM decoction pieces processing, decocting and distributing TCM service, and broken the market barriers led by the local policies of the traditional TCM industry, thereby effectively enhancing the Group's business coverage across the country, and at the same time ensuring the high quality and stable supply of raw materials, resulting the ultimate integration and standardization of raw materials, and maintaining strong competitiveness under standardization and normalization. The "local TCM integrated operation" model also presents challenges to the Company's operation and management, which requires the Group to adapt to local conditions, and make dynamic adjustment timely. After a preliminary exploration in 2018, 2019 is a crucial year of the establishment of the "local TCM integrated operation" pattern.

During the Reporting Period, the Group promoted the local TCM integrated operation project according to the plan. Of the newly-added GMP bases for decoction pieces production under the plan, four bases have been completed, including self-construction projects in Hunan, Yunnan, Chongqing and Jiangxi, and new construction projects in Shaanxi are still underway; Of the newly-added GMP bases for Chinese medicinal herb extraction under the plan, new projects in three provinces including Yunnan, Jiangxi and Shaanxi are underway. There are six newly-added GMP bases for concentrated TCM granule preparation under the plan, they are in Fujian, Yunnan, Chongqing, Hunan, Jiangxi and Shaanxi respectively, and all are under construction. The current investment progress of local TCM integrated operation is in line with the Group's overall plan. In order to reduce the pressure on the Company's funds during the process and ensure the normal operation of the project, in accordance with the policies at the location of each "local TCM integrated operation" project, companies operating "local TCM integrated operation" mainly engaged in medicinal herb trading and decoction pieces process temporarily, except for Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. and Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.; which initially engaged in production and sales of concentrated TCM granules.

- *Strengthen the management and control of the source of medicinal herbs resources, hold stronger bargaining power in the upstream*

Leveraging on the research findings of China National Traditional Chinese Medicine Co., Ltd., the parent company, in the traceability of quality and the medicinal herbs breeding, the Group has gradually enhanced its control on the source of Chinese medicinal herbs, forming certain influence and impetus in the industry. In addition to continuing to build a cooperative base for the home-grown variety of Chinese medicinal herbs as planned, since this year, in order to build a long-term medicinal herbs supply channel with stable quality and controllable cost, and realize the development needs of TCM products such as authenticity and traceability, the Group has carried out in-depth research in areas where the resource of medicinal herbs is concentrated and the demand for supply is large, and take "deepening cultivation base construction" and "grasping the control power of core varieties of raw materials" as the focus of Chinese medicinal herbs resources.

In the first half of the year, the Group has completed a feasibility analysis of the new model of the development of large variety of Chinese medicinal herbs resources of honeysuckle in Pingyi Shandong, Xihebanxia in Gansu, Dahuang in li County Gansu, and established project joint ventures in Pingyi Shandong, Li County and Xihe County Gansu respectively. By establishing joint ventures with local governments and growers on development of resources of large variety of Chinese medicinal herbs, the Group will realize the modern Chinese medicinal herbs industry demonstration base integrating the functions of plantation, local initial processing, inspection and testing, storage and logistics, medicinal herbs trading, and data tracing, so as to promote the improvement of the quality of key Chinese medicinal herbs.

- *The construction of TCM procurement trading depository logistics center has made progress*

  The construction of standardized and large-scale warehouses for TCM, the widespread application of new conservation technologies for TCM, the improvement of mechanization and information level of TCM logistics, and the full play of circulation traceability system are of great significance to the quality and safety of TCM. On 20 January 2019, the Group entered into a TCM Raw Materials Storage and Logistics Center Cooperation Strategic Framework Agreement with Shenzhen Pingan Real Estate Industrial Logistics Company Limited ("Pingan Industrial Logistics"), a subsidiary of Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), in Shanghai, to reach a strategic development consensus over issues of overcoming the problems of "small, scattered and disorderly" in the current TCM storage market, promoting the development of TCM industry, building a modern logistics system, guaranting the quality of high-quality medicinal materials, improving the current storage and circulation conditions of the Group, and meeting the development needs.

  In the first half of 2019, Bozhou, Anhui and longxi, Gansu have completed the companies registration and land purchase for the project, and the relevant construction is expected to be completed in 2020. After the complete of TCM procurement, trading, warehousing and logistics centers, it will further improve the Group control of procurement costs, alleviating the effects of TCM raw material price fluctuations resulting from short-term climate factors and an inflow of hot money, further strengthen the integration ability of the Group in the field of medicinal herbs, and improve business development space and economic benefits.

II. Focuse on research and development, striving to establish the whole industry chain standards

The high quality development of TCM industry must take quality as the core and construct the standardization system of TCM products. The Group focuses on new technologies, new forms of business and new drivers in the development process, modifies and improves various production regulations and standards, and promotes "planting, producing and making good drugs" in the TCM industry. In the first half of 2019, baishu and other 14 species of TCM decoction pieces standardized projects, which were undertaken by Beijing Huamiao Pharmaceutical Co., Limited ("Huamiao Pharmaceutical"), and completed with the assistance of Chinese medicine research institute of China National Traditional Chinese Medicine Co., Ltd., the parent company, passed the acceptance with the first place. The national TCM standardization projects "Research on Entire Process Control and Standardization of Yu Ping Feng Granules (玉屏風顆粒)" and "Standardization Construction of Xianling Gubao Capsules (仙靈骨葆膠囊)" led by our R&D Center and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. have completed the project tasks and passed acceptance test. Establishing the relevant standards for seed, seedling, medicinal herbs, decoction pieces and finished drugs from the origin of Chinese medicinal herbs, the projects constructed a quality control and information tracing system for the whole industry chain, providing a solid research foundation for improving the quality and driving sales of Yu Ping Feng Granules (玉屏風顆粒) and Xianling Gubao Capsules (仙靈骨葆膠囊). The TCM standardization is of great significance in establishing the Group's academic position in the TCM industry, and plays an active role in promoting the development of Chinese TCM business.

- *Leading concentrated granules national standards system, reshaping the industry threshold*

  The development in standardization and normalization of TCM products has always been an important proposition in the development of TCM industry in new era. The Group has been focused on core concepts of "TCM standardization" and "quality first", strengthens its own enterprise standards and promotes the development of national quality standards of concentrated TCM granules, so as to improve the industrial value and win more leading time. In the first half of 2019, Jiangyin Tianjiang and Guangdong Yifang reviewed the validation over the cooperation with remaining four concentrated granules pilot enterprises on national plan of the first batch concentrated granules national standard varieties, and supplied data for the new national standard and carried out study on production process adaptability etc., to prepare for the official announcement of 170 varieties (including others) preliminary approved by the Pharmacopoeia Committee in 2018.

  During the Reporting Period, the Group has conducted research on more than 230 varieties of national standards for concentrated granules; 180 varieties were submitted to the Pharmacopoeia Committee for review, and 90 of them passed the preliminary examination (48 from Guangdong Yifang and 42 from Jiangyin Tianjiang); 40 standard review items have been entrusted to third-party inspection institute.

- *Exploring TCM classical formula and entering the fast track of R&D*

  In the first half of 2019, the Group carried out research on 30 TCM classical formula and compound preparation, such as Peony and Gancao Decoction, Angelica and Jianzhong Decoction, Angelica blood-enriching Decoction, Taohong Siwu Decoction, etc., initially established corresponding physical analysis methods, carried out amplification research, and preliminarily determined preparation technology.

  According to the research work of classical formula, the pre-experimental research scheme of classical formula is put forward, and the principle of "three-step research on classical formula" is brought forward. The Group made full use of the advantages in preliminary research of TCM resources and concentrated granules to promote the research and development of classical formula into a high quality fast track.

- *Adhered to evidence-based medical research, providing the best scientific evidence for finished drugs products*

  Based on clinical research based evidence system, in the first half of 2019, dominant indication of 6 core products including Xianling Gubao Capsules (仙靈骨葆膠囊), Jingshu Granules (頸舒顆粒), Fengshi Gutong Capsules (風濕骨痛膠囊), Yu Ping Feng Granules (玉屏風顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Zaoren Anshen Capsules (棗仁安神膠囊) and Trionycis Bolus (鱉甲煎丸) have been agreed by expert consensus or included in clinical guidance, based on the market development strategy. At the same time, the newly merged Sinopharm Wuhan Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical") has also actively carried out evidence-based clinical research on two exclusive drugs in the essential drug list.

The project progress of each product is as follow:

Product	Large scale and multi-centered clinical research projects	Progress
Xianling Gubao Capsules (仙靈骨葆膠囊)	Post-market safety evaluation on Xianling Gubao Capsules (10,000 participants)	Initiated 57 centers and expected to be completed in 2020;
	Research on Xianling Gubao Capsules for preventing bone mass loss caused by aromatase inhibitor for treating post-menopause breast cancer	Initiated in September 2018, entered the statistical blinding stage, partial recruitment completed; expected to be completed in 2021;
Jingshu Granules (頸舒顆粒)	Multi-centered, randomized, double-blinded and placebo-controlled clinical research on the effectiveness, safety and economic effects of Jingshu Granules for treating nerve root type cervical spondylosis (神經根型頸椎病)	Completed; initiated in April 2015, completed in April 2018; fundamental research published, clinical article is being written;
Fengshi Gutong Capsules (風濕骨痛膠囊)	Randomized, double-blinded, double-stimulation and multi-centered clinical research on Fengshi Gutong Capsules treating ankylosing spondylitis	Initiated in March 2015, completed in June 2019; result announced on 27 June 2019; article is being written;
Yu Ping Feng Granules (玉屏風顆粒)	Randomized, double-blinded, 3-arm and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treating repeated respiratory tract infection in children (小兒反復呼吸道感染)	Completed; initiated in 2014, completed in January 2018; article submitted in June 2019;
Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	Multi-centered, randomized, double-blinded and placebo parallel controlled clinical research on Moisturizing and Anti-Itching Capsules for treating chronic eczema	Completed; initiated in June 2015, completed in March 2018; Article published on *Journal of Dermatological Treatment* in June 2019;
	Post-market safety clinical registration research of Moisturizing and Anti-Itching Capsules (3,000 participants)	Initiated in September 2017, 1,600 participants completed, expected to be completed by the end of 2020;

Product	Large scale and multi-centered clinical research projects	Progress
Zaoren Anshen Capsules (棗仁安神膠囊)	Randomized, double-blinded, double-stimulation and multicentered parallel controlled clinical research on the efficacy and safety of Zaoren Anshen Capsules for treating insomnia combined with Zolpidem Tartrate	Initiated in 2015; currently at the data statistics stage, expected to be completed in August 2019;
Trionycis Bolus (鱉甲煎丸)	Clinical study on treatment of hepatitis B cirrhosis with classic prescription Trionycis Bolus	Completed all patients recruitment in June 2019, expected to be completed in 2021;
	Clinical study on prevention and treatment of massive nodular cirrhosis (precancerous lesions) with classic prescription trionycis bolus	The centers have initiated successively; expected to be completed by the end of 2022;
	Clinical study on the treatment of breast hyperplasia with Trionycis Bolus (single center)	Completed, currently at the statistical analysis stage.

III. The entire industry chain synergy to implement a comprehensive diversified marketing strategy

In 2019, the Group closely aligned with the main line of "improving product quality, innovative service model and sharing industry chain value" to carry out comprehensive optimization, implement diversified marketing plans in each segment of its principal businesses to fully demonstrate the real needs of the market, emphasized end-to-end quality management, and increased efforts to make academic promotion in the market. While further expanding the established markets, the Group had leveraged on the policy advantages to seize the market early to complete its sales channel layout.

- *The production size of concentrated TCM granules increased rapidly, and the market reach has continued to expand*

  In the first half of 2019, Jiangyin Tianjiang and Guangdong Yifang, as the main forces of the Group in the concentrated TCM granules business, maintained their existing high growth momentum in business expansion. By establishing the expert pool, promoting the "Duoli Plan" (多利計劃) project, organizing academic activities such as "Yuejian Bencao" (閱鑒本草) and "Dayi Jincheng" (大醫今承), and increasing input and value-added services such as smart dispensing machines, the Group increased the marketing promotion, and also publicized the Company's image of high-quality product, and achieved satisfactory results and thus consolidated a leading position of the Group in the industry.

As for the overseas market expansion, after successfully entering into the Hong Kong market last year, in the first half of 2019, Jiangyin Tianjiang and Hong Kong Zheng Cao Tang (香港正草堂) were granted the "Single Concentrated TCM Granules" supply contract from School of Traditional Medicine of Hong Kong Baptist University, involving a total of 226 varieties of concentrated TCM granules. Guangdong Yifang newly entered into the Russian market, where the agent registration of 350 varieties was completed, and the dispensing machine and herbal pasting machine were sent to the Korean market. During the Reporting Period, the overseas markets for concentrated TCM granules included North America (USA, Canada), Australia and Asia (Singapore, Malaysia, Hong Kong, Japan, Korea). The next step for overseas business is to focus on developing the Vietnamese and Russian markets.

- *Intensive management of TCM decoction pieces to enhance the precise positioning of decoction pieces*

  Taking Beijing Huamiao Pharmaceutical Co., Limited, Shanghai Tongjitang Pharmaceutical Co., Ltd. and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. as its core, the Group fully leveraged on the layout of the "local TCM integrated operation" to produce the TCM decoction pieces at the place of origin by local initial processing. Through the rational allocation of its companies with Good Supply Practice ("GSP") certification, the Group realized the production and operation of all species and fully radiated to various regions nationwide.

  As of the first half of 2019, the GSP drugs wholesale companies of the Group had successfully expanded to 14 companies, of which 10 companies were established and received the GSP licenses, which are located in Guangdong, Sichuan, Gansu, Hunan, Fujian, Jiangsu, Heilongjiang, Zhejiang and Shandong, respectively; 4 companies are under preparation for establishment, which are located in Jilin, Guizhou, Shaanxi and Jiangxi, respectively. Through the allocation of production areas and the unification of brands, processes and standards, and then redeploying to its GSP companies in various places, the Group can successfully carry out the sales model of "dispersion (production) – concentration (packaging) – dispersion (sales)", laying a solid foundation for the Group's future national sales network.

- *Systematically formulated a marketing plan for finished drugs to achieve continuous expansion*

  In the first half of 2019, the Group established a special promotion service company as the main body of its sales team, and systematically formulated a marketing plan for finished drugs, with taking the "focusing on direct sales, segmenting products (market)" as the guiding ideology, and with the "dual driving of academic activities and customer relationship" in the prescription drug market and the "developing core products to drive development of product portfolios" in OTC drug market as the implementation path, the Group has smoothly achieved the continuous expansion of its finished drugs segment.

  For brand promotion, we continued to promote products and corporate brands of the Company to chain pharmacies and terminals at various influential industry conferences and at the same time explore media advertisements under new media industry. For marketing, based on existing product resources for finished drugs owned by the Company, we have identified the superior product lines including "respiratory line", "orthopaedic line", "dermatology line", "heart, brain and kidney lines", "gynecological line" and "oncology line" to make the target-orientated promotion. We applied various and innovative promotion activities to deepen the understanding of doctors and patients on blockbuster finished drugs of the Group and further enhance the market influence of its key products.

- *Healthcare complex segment developed steadily with innovative business model and core business*

  In the first half of 2019, three new TCM clinics were put into operation, namely "Fengliaoxing Chengnan TCM Clinic", "Tongjitang Bijie TCM Clinic" and "Tongjitang Zunyi TCM Clinic", which means that eight TCM clinics in operation during the Reporting Period. In addition, the Foshan Headquarters TCM Clinic and the Foshan Liangyuan TCM Clinic Branch commenced the preparation work. Market research and project preparation work were conducted in Guangzhou, Shenzhen, Wuxi and Shanghai. The project development has continuously summed up the experience and the quality of the consolidation has been steadily improved. The overall layout of the newly opened TCM clinics is more pleasant, the space design is more reasonable, the functional movements are smoother, and the expected output rate per unit area is higher.

  After more than 4 years of development, the Company's TCM clinics have formed a four-in-one integrated health service model of "medicine, drug, wellness and diet", cultivating a number of special treatment and professional rehabilitation projects, technical standards and exclusive products to enhance business profitability. The Company is also actively exploring various modes to develop TCM clinics in order to aggregate the resources of the TCM medical treatment industry, manage and control risks, and develop steadily.

- *Formulate the dragon seal "Sino-TCM" brand strategy to vigorously display the overall image of our corporate brand*

  To build a unified brand in the terminal market and consumer cognition, highlight the concept of the Group always adhering to take the quality of Chinese medicinal herbs as the core and expand the market influence of the Group in the TCM industry, the Group has developed the dragon seal "Sino-TCM" brand strategy, which is applied in the products of the Group for Chinese medicinal herbs as raw materials, and can effectively cover all the business segments of the Group.

  As approved by CNPGC, the Group has obtained the license to use the dragon seal "Sino-TCM" brand at no consideration. At present, the brand strategy research project has been completed. In order to further promote implementation of brand building, the Company has established a working group for dragon seal "Sino-TCM" brand to carry out the work related to brand image design with a professional design team. After completion of building of the brand identification system, the Group will carry out comprehensive promotion for the brand.

IV. Optimize the management and control model to ensure high quality development of the Company

The changes in the development model of the Group bring about higher requirements on the management of the Company. With the opinions and advice made by BCG as a professional corporate consulting institution on the future development of the Group, the functional departments of the Group carried out a number of management and control upgrading work during the Reporting Period.

- *Corporate governance management to improve compliance and reduce governance risk*

  During the Reporting Period, the Company set up the office of the Board to enhance the compliance management and improve risk control level. On the management of subsidiary, general manager of each subsidiary signed a responsibility statement with the Company to bear the overall responsibility on sales, procurement and other key matters. At the same time, in order to implement its national layout plan, the Company invested in construction of a number of local TCM integrated operation projects, involving engineering construction, fund management, talents arrangement and other corporate governance aspects. Such project had long investment cycle and huge capital investment, and it is a challenge for the Company in its operation and management capabilities. During the Reporting Period, at different stages of project planning, design and implementation, the construction of all projects was made based on actual conditions in accordance with local policies, and after fully communicated with relevant government departments, the Group rationally optimized the basic design to ensure the smooth progress of the projects.

- *Quality management to ensure stable and controllable product quality*

  Following by the guiding ideology of the State's high-quality development of the Chinese traditional medicine industry, the Company has focused on the standardization of product manufacturing processes to ensure the stable and controllable quality of various products. During the Reporting Period, the Production, Safety and Environmental Protection Center of the Company selected 127 key species of decoction pieces, defined the processing technology and key quality indicators, unified the procurement, acceptance and inspection standards of the medicinal herbs for each subsidiary. The information center of the Company independently developed its internal traceability system for Chinese medicinal herbs, and accessed the existing traceability system of its parent company to realize the traceability of the quality along the TCM entire industry chain between the Group and upstream enterprises, and improve the standardized management level of raw materials.

- *Financial management to integrate the Company's resources to reduce costs and increase efficiency*

  The business scale of the Company has expanded rapidly in recent years. As of 30 June 2019, the Group has consolidated a total of 84 subsidiaries. To ensure the smooth operation of the Group and high operational efficiency, intensive management needs are urgent. Especially for fund management, how to improve the efficiency of capital use and reduce the cost of capital has become one of the key tasks of our management. During the Reporting Period, the Group carried out special actions for clearing assets and checking capital to consolidate the quality of assets of the Company and enhance the Company's overall profitability. The Company strengthened the financial management of infrastructure and investment projects; took advantage of various financial instruments to strengthen the centralized management level of funds, reduce external financing and improve the efficiency of capital use; vigorously promoted the payment of bills to further reduce the cost of capital use and improve the Company's cash flow.

- *Human Resources management, build a talent echelon to facilitate continuous success of the Company*

  Talent is a key element to enhance development quality of the Company. With the full upgrading of its business operation, the Company's needs for personnel management and talent introduction is gradually growing. During the Reporting Period, the Company further improved the training system for the talent echelon to well prepare for talent reserve. Based on the layout of TCM decoction pieces, the healthcare complex and other business, the Company have formulated an introduction plan for external high-end talents and regularly updated external talent pools. At the same time, the Company reviewed the existing incentive mechanism, defined the assessment and performance management methods, and continued to improve the remuneration system for senior management and staff at all levels.

Investment Project

The Group had no significant investments in the first half of 2019. As of the date of this announcement, the Group had no plan for material investment or acquisition of capital assets.

ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2018, pursuant to its strategic objective of realizing an annual revenue of RMB30 billion, and amidst changing policies for the concentrated TCM granule industry, the Company began to undertook an expansion of its strategic presence in major authentic medicinal herb producing provinces in the PRC the establishment of "local TCM integrated operation" companies which produce concentrated TCM granules and decoction pieces and conduct local primary processing and trading of medicinal herbs and decoction. The establishment of such companies can provide the Group with authentic local medicinal herbs materials, as well as reduce the cost of mass production of local products while stationed locally, and enjoy the preferential policies of the local market, to further open up the local market, increase the market share, and form a comprehensive competitive advantage.

From the end of 2017 to 2019, 16 local TCM integrated operation companies were either acquired or self-constructed by Jiangyin Tianjiang and Guangdong Yifang. Currently, it has 12 companies and four subsidiaries in a strategic incubation period of preparation or acquisition and consolidation, and each are at different stages of development from the original concentrated TCM granules business. However, the advantages it obtained will be conducive to provide a new growth driver for the future development of the Group.

In order to better present to the reader of this report of the original concentrated TCM granules enterprises (Jiangyin Tianjiang and Guangdong Yifang and their subordinate production companies) and the newly added local TCM integrated operation business, during the Reporting Period, the Company rearranged its previous four business segments (consisting of concentrated TCM granules, finished drugs, TCM decoction pieces and TCM healthcare complex) into five, and divided local TCM integrated operation segment from the concentrated TCM granules segment, and comparative figures from the same period last year were restated.

As of 30 June 2019, the "local TCM integrated operation" comprised 16 companies:

Company Name*	**Proposed Investment Amount** *(RMB million)*	**Original Segment**	**Current Segment**
Shaanxi Yifang Pingkang Pharmaceutical Co., Ltd.	307.85	Concentrated TCM Granules	Local TCM integrated operation
Shaanxi Jitaining Pharmaceutical Co., Ltd	Sales subsidiary under Shaanxi Yifang	Newly added during the Period	Local TCM integrated operation
Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd.	214.48	Concentrated TCM Granules	Local TCM integrated operation
Hunan Yifang Tianjiang Pharmaceutical Co., Ltd	198.90	Concentrated TCM Granules	Local TCM integrated operation
Changde Yifan Pharmaceutical Co., Ltd	Sales subsidiary under Hunan Yifang	Newly added during the Period	Local TCM integrated operation
Jiangxi Yifang Tianjiang Pharmaceutical Co., Ltd.	193.90	Concentrated TCM Granules	Local TCM integrated operation
Jiangxi Fanglian Pharmaceutical Co., Ltd.	Sales subsidiary under Jiangxi Yifang	Newly added during the Period	Local TCM integrated operation
Chongqing Tianjiang Yifang Pharmaceutical Co., Ltd.	192.00	Concentrated TCM Granules	Local TCM integrated operation
Yunnan Tiangjiang Yifang Pharmaceutical Co., Ltd	230.98	Concentrated TCM Granules	Local TCM integrated operation

Company Name*	**Proposed Investment Amount** *(RMB million)*	**Original Segment**	**Current Segment**
Sichuan Sino Tianjiang Pharmaceutical Co., Ltd.	128.17	Concentrated TCM Granules	Local TCM integrated operation
Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd.	Utilized the existing production lines	Concentrated TCM Granules	Local TCM integrated operation
Heilongjiang Sino Tianjiang Pharmaceutical Co., Ltd.	146.00	Concentrated TCM Granules	Local TCM integrated operation
Fujian Chengtian Jinling Pharmaceutical Co., Ltd.	113.27	Concentrated TCM Granules	Local TCM integrated operation
Fujiang Chengtian Jinling Medical Co., Ltd	Sales subsidiary under Fujian Chengtian	Concentrated TCM Granules	Local TCM integrated operation
Liaoning Tianjiang Yifang Pharmaceutical Co., Ltd	150.00	Newly added during the Period	Local TCM integrated operation
Shandong Zhongping Pharmaceutical Co., Ltd.	225.50	Newly added during the Period	Local TCM integrated operation

* *The English name is for reference only.*

1. Concentrated TCM granules

Key financial indicators for the concentrated TCM granules business

	Unaudited Six months ended 30 June		
	2019	2018	
	RMB'000	*RMB'000*	Change
Revenue	**4,570,764**	3,487,670	31.1%
Cost of sales	**1,545,382**	1,445,102	6.9%
Gross profit	**3,025,382**	2,042,568	48.1%
Gross profit margin	**66.2%**	58.6%	7.6ppt
Operating profit	**984,482**	812,220	21.2%
Profit for the period	**787,445**	639,699	23.1%
Net profit margin	**17.2%**	18.3%	-1.1ppt

During the Reporting Period, the business of concentrated TCM granules recorded rapid sales growth and achieved a revenue of approximately RMB4,570,764,000, representing an increase of 31.1% over the same period last year, and accounting for 65.9% of total revenue.

The rapid growth in sales revenue was mainly due to: (1) the distinct advantages in quality control and convenience of concentrated TCM granules, as well as effective academic promotion and gradual improvement in market recognition. About 18.2% of the sales growth was attributed to customers covered before the Reporting Period; (2) in line with the market needs and medical reform policies, the Company strived to explore new clients to further expand its market share. Approximately 12.9% of the sales growth during the Reporting Period was contributed by new customers.

Gross profit margin rose by 7.6 percentage points to 66.2% from 58.6% for the same period last year, mainly due to (1) the price adjustment to some products in line with the market and sales channel promotion; (2) the decrease in unit production cost as centralized extraction production technology increased the paste extraction yield output of intermediate products.

During the Reporting Period, the operating profit and profit for the period of concentrated TCM granules segment amounted to approximately RMB984,482,000 and RMB787,445,000 respectively, representing respective increases of 21.2% and 23.1% over the same period last year. Net profit margin decreased by 1.1 percentage points compared to the same period last year. This was mainly due to (1) In order to adapt to market changes, investments in new markets were raised to further expand the promotion channels. The continuous high growth source of concentrated TCM granules resulted in continuous investment in construction of market channels, and the proportion of sales expenses for the period increased by 7.8 percentage points compared with the same period of last year. The sales business for concentrated TCM granules was continued to penetrate into the primary medical institutions, and those TCM hospitals, western medicine hospitals and specialist hospitals in the second-and third-tier cities. The professional service teams were engaged to continue to strengthen market research, consulting, services and promotion, improve channel service capabilities, product influence, brand awareness, expand market share, and maintain sustained growth. In particular, the maintenance work method for the dispensing machine has been improved, and the efforts in market development and the customer service level have been enhanced. (2) Continued to increase the investment in the research and development of the national standards of concentrated TCM granules, and carried out research on the classical formula and compound granules, so that the proportion of R&D expenses to revenue for the period increased by 0.3 percentage point compared with the same period last year. (3) Increases in the overall balance of trade receivables and the provision for credit impairment loss of approximately RMB42 million as of 30 June 2019, as sales growth and collection were mainly concentrated in the second half of the year, resulting in a decrease in net profit margin of 0.9 percentage point.

Revenue analysis by region *(RMB million)*

Region	First half of 2019	Proportion	First half of 2018	Proportion	Growth amount	Growth rate
East China	**1,463**	**32.0%**	1,225	35.2%	238	19.4%
South China	**1,028**	**22.5%**	664	19.0%	364	54.8%
North China	**621**	**13.6%**	422	12.1%	199	47.2%
Central China	**466**	**10.2%**	342	9.8%	124	36.3%
Northwest China	**348**	**7.6%**	275	7.9%	73	26.5%
Northeast China	**229**	**5.0%**	241	6.9%	-12	-5.0%
Southwest China	**363**	**7.9%**	265	7.6%	98	37.0%
Overseas and others	**53**	**1.2%**	53	1.5%	0	0.0%
Total	**4,571**	**100.0%**	3,487	100.0%	1,084	31.1%

During the Reporting Period, sales in east, south, north and central China accounted for 78.3% of total sales, compared with 76.1% for the same period last year. South, north, central and southwest China achieved a year-on-year increase of more than 35.0%, while south China was the most prominent area of sales growth with a year-on-year increase of more than 50.0%.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong)

South China (including Guangdong, Guangxi and Hainan)

North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia)

Central China (including Henan, Hubei and Hunan)

Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang)

Northeast China (including Heilongjiang, Jilin and Liaoning)

Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet)

2. Finished drugs

Key financial indicators for the finished drugs business

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**1,698,480**	1,306,031	30.0%
Cost of sales	**660,603**	519,606	27.1%
Gross profit	**1,037,877**	786,425	32.0%
Gross profit margin	**61.1%**	60.2%	0.9ppt
Operating profit	**248,663**	291,228	-14.6%
Profit for the period	**147,655**	171,201	-13.8%
Net profit margin	**8.7%**	13.1%	-4.4ppt

Revenue analysis by product type *(RMB million)*

	Six months ended 30 June				
Type of product	**2019**	**Proportion**	2018	Proportion	Change
Core prescription products	**833.17**	**49.0%**	708.26	54.2%	17.6%
Core OTC products	**418.83**	**24.7%**	332.67	25.5%	25.9%
Other products	**446.48**	**26.3%**	265.10	20.3%	68.4%
Total	**1,698.48**	**100.0%**	1,306.03	100.0%	30.0%

Notes:

Core prescription products comprise Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturising and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Qili Capsules (七厘膠囊), Waimaining Capsules (威麥寧膠囊), Trionycis Bolus (鱉甲煎丸) and Jinye Baidu Granules (金葉敗毒顆粒).

Core OTC products comprise Bi Yan Kang Tablets (鼻炎康片), Feng Liao Xing Dieda Medicinal Wine (馮了性風濕跌打藥酒), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Sheng Tong Ping (聖通平), Vitamin C Yinqiao Tablets (維C銀翹片), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Tongluo Guzhining Paste (通絡骨質寧膏), Angong Niuhuang Pills (安宮牛黃丸) and Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊).

During the Reporting Period, the finished drugs segment's prescription and OTC channel core products continued to grow steadily: (1) The core products of prescription channels: through building of competitive barrier, being evidence-based clinical research on strategic blockbuster medicine, improve clinical value of Xianling Gubao Capsules (仙靈骨葆膠囊), Jingshu Granules (頸舒顆粒), Fengshi Gutong Capsules (風濕骨痛膠囊), Yu Ping Feng Granules (玉屏風顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊) and Zaoren Anshen Capsules (棗仁安神膠囊), main products had been included in the relevant guidelines and expert consensus recommendations, and continued to maintain and occupy the market leading position; (2) The core products of OTC channel: determined Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Sheng Tong Ping (聖通平) and Bi Yan Kang Tablets (鼻炎康片) as the core class I products, the on-site promotion team increased efforts in terminal marketing through segment operation of product line.

Gross profit margin increased by 0.9 percentage point to 61.1% from 60.2% for the same period last year due to the impact of price increases on some OTC products. During the Reporting Period, operating profit and profit for the period of the finished drugs segment amounted to approximately RMB248,663,000 and RMB147,655,000 respectively, representing respective decreases of 14.6% and 13.8% compared to the same period last year. Net profit margin decreased by 4.4 percentage points, mainly due to: (1) Zhonglian Pharmaceutical, a company which was acquired in the second half of 2018, suffered a loss of RMB16,793,000 in the first half of 2019, as the consolidation of its finished drugs business was still in progress and its new business was still under development; (2) excluding the impact of Zhonglian Pharmaceutical, the finished drugs business's net profit margin in the first half of 2019 was 11.0%, higher than that for the full year of 2018 (10.5%, excluding Zhonglian Pharmaceutical); (3) in the first half of 2019, Zhonglian Pharmaceutical initiated the re-pricing of key products, and the increase in product prices drove the growth of revenue by approximately RMB18.5 million. The Company is fully committed to promoting the construction of TCM decoction pieces and concentrated TCM granules projects. It is expected that the operation will improve continuously.

3. TCM decoction pieces

Key financial indicators for the TCM decoction pieces business

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**604,911**	639,533	-5.4%
Cost of sales	**496,384**	545,887	-9.1%
Gross profit	**108,527**	93,646	15.9%
Gross profit margin	**17.9%**	14.6%	3.3ppt
Operating profit	**32,519**	43,881	-25.9%
Profit for the period	**30,911**	37,361	-17.3%
Net profit margin	**5.1%**	5.8%	-0.7ppt

During the Reporting Period, revenue from the TCM decoction pieces business was approximately RMB604,911,000, representing a decrease of 5.4% compared to RMB639,533,000 for the same period last year, and accounting for 8.7% of total revenue. Gross profit margin increased by 3.3 percentage points from 14.6% for the same period last year to 17.9%. The decrease in revenue was mainly due to: The Company optimized its business structure, abandoned some of its traditional low-margin businesses, and began to increase the sales of its featured products and high-margin products. Initially the new plants mainly provided internal supply to gradually get into smooth operation, laying the foundation for the next step of expanding external sales. At the same time, the expansion of high-margin products also increased the overall gross profit margin.

During the Reporting Period, the TCM decoction pieces segment's operating profit and profit for the period were approximately RMB32,519,000 and RMB30,911,000 respectively, representing respective decreases of 25.9% and 17.3% compared to the same period last year. Net profit margin declined by 0.7 percentage point, mainly because: (1) In 2018, the depreciation amount of the fair value assessment of the identifiable net assets of the subsidiary acquired increased year-on-year. At the same time, for the integration of resources, one subsidiary were deconsolidated, and related one-time expenses increased; (2) The Company strengthened the construction of self-built teams and the promotion team, and established the premium decoction piece division, resulting in an increase in sales expenses; (3) The new-built plants turning into fixed assets and the adjustment of staff remuneration, leading to an increase in management costs; (4) Certain decoction centers were still in the trial operation stage without any profit.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**35,701**	25,266	41.3%
Cost of sales	**21,198**	16,966	24.9%
Gross profit	**14,503**	8,300	74.7%
Gross profit margin	**40.6%**	32.9%	7.7ppt
Operating profit	**-6,983**	-1,933	-261.2%
Profit for the period	**-7,537**	-1,456	-417.5%
Net profit margin	**-21.1%**	-5.8%	-15.3ppt

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB35,701,000, representing an increase of 41.3% over the RMB25,266,000 for the same period last year, and accounting for 0.5% of total revenue. The major reason for the increase in revenue was that Nanhai TCM Clinic, Fengliaoxing Chengnan TCM Clinic, Tongjitang Zunyi TCM Clinic and Tongjitang Bijie TCM Clinic have been opened in the second half of 2018. Foshan Fengliaoxing TCM Clinic has launched a famous doctor studio project, resulting in an increase in revenue. At the same time, due to the adjustment of business types of Jiangyin TCM Clinic, the sales of decoction pieces, physiotherapy, finished drugs and ginseng and antlers and other premium TCM materials were increased, driving an increase in revenue and the overall gross profit margin of the TCM healthcare complex segment by 7.7 percentage points to 40.6% from 32.9% for the same period last year. However, since four TCM clinics have been in operation since the second half of 2018, the business was still under development with higher fixed costs, which made the overall loss increase.

5. Local TCM integrated operation

Key financial indicators for the local TCM integrated operation

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Revenue	**27,160**	2,924	828.9%
Gross profit margin	**3.3%**	-7.0%	10.3ppt
Other income	**27,997**	458	6,012.9%
Administrative expenses	**27,258**	11,260	142.1%
Operating profit	**-5,061**	-12,130	58.3%
Profit for the period	**-4,037**	-12,352	67.3%
Net profit margin	**-14.9%**	-422.4%	407.5ppt

During the Reporting Period, the local TCM integrated operation's revenue was approximately RMB27,160,000, representing an increase of 828.9% over RMB2,924,000 for the same period last year, and accounting for 0.4% of total revenue. Among which, Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. and Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. have commenced sales of concentrated TCM granules and recorded a sales of approximately RMB5,794,000. These significant increases mainly resulted from the successful establishment of certain local TCM integrated operation companies and their commencement of normal external sales, which reversed their negative gross profits recorded for the same period last year. Additionally, revenue in the form of a government grant of approximately RMB27,575,000 was received by local TCM integrated operation companies during the period, which eliminated the impact of some initial establishment expenses on net profit.

PROSPECTS

In the future, after completing the basic layout of the TCM industrial chain, the Group will make efforts on further development of this segment horizontally and vertically, and it will concentrate on the improvement of quality and brand.

In the second half of the year, the Group's work focuses on the following five aspects: First, the Group shall pay close attention to the quality of medicinal herbs, and closely manage traditional Chinese medicinal herbs bases for blockbuster finished drugs, so that it can have a real control and bargaining power on a finished drug product when developing the product; secondly, under the premise of collaborating the steady growth of the businesses of four segments, the Group will continue to promote the local TCM integrated operation business, improve the national industrial layout plan to realize the official launch of the relevant TCM decoction piece business as soon as possible; thirdly, based on completed research work, the Group will continue to carry out research on national standards for concentrated TCM granules and research of classical formula, and strengthen the application of new technologies in the research process to continuously improve the level of process and quality control, and at the same time enhance the patent protection and set technical barriers, so as to maintain its leading position in technology in the industry; fourthly, the Company launched the dragon seal "Sino-TCM" brand, and fully established the cognitive system for the Group's products which "raw materials source from quality medicinal herbs in the medicinal herbs production areas", and implemented precise and differentiated marketing strategies for each business segment; fifthly, the Group will leverage on the existing key products of traditional Chinese medicinal herbs and TCM decoction pieces, follow the ancient method with integrating modern technology process, highlight the characteristics of origin attribute, quality and safety, and introduce the premium decoction pieces series with best grade specifications and traceable quality assurance so as to open and gradually expand the consumer market for high-end TCM decoction pieces consumer market.

Meanwhile, we will continue to closely monitor changes to national industrial policies and collect information on national and provincial pharmaceutical industry policies in order to analyse their impacts, and identify policy development trends in relation to the market information and progress in key projects in the Company's business segments. For the Company, the ultimate purpose is to align with national requirements for transformation and upgrading, realise intensive and standardized development, improve system construction, convert temporary policy pressure into long-term policy benefits, and maintain a commanding position in the new pharmaceutical environment.

FINANCIAL REVIEW

Other income

For the six months ended 30 June 2019, the Group's other income was approximately RMB98,848,000, representing an increase of 81.6% from approximately RMB54,445,000 for the same period last year. This was mainly due to recorded income from a government grant of approximately RMB70,497,000 during the Reporting Period, representing an increase of 131.0% over the same period last year.

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Interest income	**25,568**	20,841	22.7%
Government grants	**70,497**	30,518	131.0%
Rental income	**2,783**	3,086	-9.8%
Total	**98,848**	54,445	81.6%

Other gains and losses and impairment losses, net of reversal

For the six months ended 30 June 2019, the Group's other losses were approximately RMB14,893,000 (six months ended 30 June 2018: other gains of approximately RMB12,087,000). During the Reporting Period, the reason for the change in other gains and losses: the exchange loss of approximately RMB1,594,000 for the period as compared to the one-off exchange gain of approximately RMB21,503,000 arising from the increase in share capital for the same period last year. As sales growth and collection were mainly concentrated in the second half of the year, increases in the overall balance of trade receivables as of 30 June 2019 led to a provision for credit impairment loss for trade and other receivables of approximately RMB51,936,000 for the period.

Selling and distribution costs

For the six months ended 30 June 2019, the Group's selling and distribution costs were approximately RMB2,453,493,000 (six months ended 30 June 2018: RMB1,489,713,000).

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Advertising, promotion, channel expansion and travel expenses	**1,499,876**	783,174	91.5%
Salary expenses of sales and marketing staff	**306,519**	217,984	40.6%
Distribution costs	**121,469**	84,769	43.3%
Other selling and distribution costs	**525,629**	403,786	30.2%
Total	**2,453,493**	1,489,713	64.7%

During the period under review, the Group's selling and distribution costs increased by 64.7% over the same period last year and accounted for 35.4% of its revenue, 8.1 percentage points higher than 27.3% recorded for the same period last year. This was mainly because: (1) the concentrated TCM granule business's sales expenses margin increased by 7.8 percentage points over the same period last year. (2) The sales expenses margin of Zhonglian Pharmaceutical, which has been consolidated into the Group's finished drugs business since the second half of 2018, was higher than that of the finished drugs business. For details, please refer to "ANALYSIS OF BUSINESS SEGMENTS".

Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses were approximately RMB303,077,000 (six months ended 30 June 2018: RMB221,172,000).

	Six months ended 30 June		
	2019	2018	Change
	RMB'000	*RMB'000*	
Salary	**153,630**	103,534	48.4%
Depreciation and amortisation	**44,232**	28,701	54.1%
Office rental and other expenses	**105,215**	88,937	18.3%
Total	**303,077**	221,172	37.0%

Administrative expenses increased by 37.0% over the same period last year, and the percentage of administrative expenses to revenue increased by 0.4 percentage point to 4.4%, up from 4.0% for the same period last year. The increase was mainly because: (1) there were 20 companies which were new and still in preparation, or had just commenced operation in the second half of 2018. These companies required expenses for operation but had yet to generate income; (2) during the Reporting Period, the Group shifted from extensive development to organic growth and attached greater importance to internal management by engaging consulting companies to improve industrial planning to accelerate the integration of its businesses and improve the staffing of the headquarters. As a result, administrative expenses at headquarters increased; (3) for the existing business, volume grew and a new industrial complex was put into operation, the number of employees increased, resulting in rising salary expenses, asset depreciation and amortisation.

Research and development expenses

For the six months ended 30 June 2019, the Group's research and development expenses amounted to approximately RMB209,001,000, representing an increase of 40.2% over approximately RMB149,088,000 for the same period last year. Research and development expenses are mainly used to (1) improve quality standards research, focusing on concentrated TCM granules standards; (2) improve future benefit research, focusing on research and development of new drugs and classical formula; (3) improve future efficiency research, focusing on production process improvement and base construction research.

Profit from operations

For the six months ended 30 June 2019, the Group's profit from operations was approximately RMB1,253,620,000, representing an increase of 10.6% compared to approximately RMB1,133,266,000 for the same period last year. The operating profit margin (defined as profit from operations divided by revenue) was 18.1%, a decrease of 2.7 percentage points from 20.8% for the same period last year. The decrease in operating profit margin was due to the fact that the local TCM integrated operation and the healthcare complex segment were still in the preparation period or incubation period, the improvement in profitability has not yet been reflected, and the TCM decoction pieces business has been transformed and upgraded. The Group has increased its investment in selling and distribution costs in order to seize the sales market. At the same time, due to the rapid mergers and acquisitions and development, corresponding increase in investment costs and management costs also arose.

Finance costs

For the six months ended 30 June 2019, the Group's finance costs were approximately RMB111,505,000 (six months ended 30 June 2018: RMB124,280,000). As the Group strengthened internal fund allocation by expanding financing channels, the proportion of finance costs decreased year-on-year. During the Reporting Period, capitalised finance costs of the Group were approximately RMB12,265,000. During the Reporting Period, the Group's effective loan interest rate was 4.2% (six months ended 30 June 2018: 4.2%). The Group will continue to monitor market interest rates and adjust its borrowing and fundraising mechanism as appropriate. The Group will refinance its existing loans or secure new bank loans when good bargaining opportunities arise.

Income from investment in associates

For the six months ended 30 June 2019, the Group shared loss attributable to associates of approximately RMB1,653,000, compared to approximately RMB6,110,000 for the same period last year.

Earnings per share

For the six months ended 30 June 2019, earnings per share were RMB17.06 cents, representing an increase of 3.3% over RMB16.51 cents for the same period last year. The increase in earnings per share was due to profit attributable to equity holders of the Company during the period under review, which increased by 13.0% to approximately RMB859,120,000 (six months ended 30 June 2018: RMB760,312,000). In May 2018, the Group issued 604,296,222 new shares to Ping An Life Insurance, making the weighted average number of shares of approximately 5,035,801,852 for the period, compared to approximately 4,605,115,000 for the same period last year. As such, the increase in earnings per share was lower than the increase in profit attributable to equity holders of the Company.

Liquidity and financial resources

As at 30 June 2019, the Group's current assets were approximately RMB15,088,655,000 (31 December 2018: RMB14,485,694,000), which included cash, cash equivalents and deposits with banks of approximately RMB4,357,462,000 (31 December 2018: RMB6,438,522,000), of which pledged bank deposits amounted to approximately RMB425,993,000 (31 December 2018: RMB88,808,000). Trade and other receivables were approximately RMB5,518,660,000 (31 December 2018: RMB3,467,084,000). Current liabilities amounted to approximately RMB10,909,720,000 (31 December 2018: RMB8,632,754,000). Net current assets totalled approximately RMB4,178,935,000 (31 December 2018: RMB5,852,940,000). The Group's current ratio was 1.4 (31 December 2018: 1.7). The gearing ratio (defined as bank and other borrowings and bonds payable divided by equity attributable to equity holders of the Company) decreased from 39.4% as at 31 December 2018 to 37.9%. The decrease in gearing ratio was mainly due to the increase in equity attributable to equity holders of the Company.

Bank and other borrowings and pledge of assets

As at 30 June 2019, the Group's balance of bank and other borrowings was approximately RMB1,625,247,000 (31 December 2018: RMB1,643,443,000), of which approximately RMB1,058,788,000 (31 December 2018: RMB408,074,000) was secured by the Group's assets with a carrying amount of approximately RMB543,506,000 (31 December 2018: RMB135,789,000). Out of the balance of bank and other borrowings, approximately RMB1,438,836,000 and RMB186,411,000, respectively, were repayable within one year and over one year (31 December 2018: approximately RMB1,411,569,000 and RMB231,874,000, respectively).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. During the Reporting Period, the Group did not carry out major financing activities as it had sufficient capital. To improve its working capital turnover, the Group increased the percentage of payment with notes in raw materials procurement and project construction. As at 30 June 2019, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB4,208,884,000.

Capital expenditure

During the six months ended 30 June 2019, cash paid by the Group for the purchase of equipment, construction of plants, purchase of land use rights and intangible assets amounted to approximately RMB539,706,000, representing an expenditure increase of 38.6% as compared to approximately RMB389,381,000 for the same period last year. The increase was mainly due to the Group's continued promotion of development plans for TCM decoction pieces and concentrated TCM granules. The Group was still preparing production bases in various provinces and cities for local TCM integrated operation and concentrated TCM granules during the Reporting Period.

Financing capacity

As at 30 June 2019, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,022,405,000 (31 December 2018: approximately RMB1,324,662,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group believes that with available cash balances, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and its support from major financial institutions, it 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 30 June 2019 (31 December 2018: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 30 June 2019, the Group had Hong Kong Dollar bank borrowings of HK$470 million. As at 30 June 2019, the Group had not entered into any 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 30 June 2019, the Group had a total of 15,614 (31 December 2018: 14,169) employees, including directors of the Company, of which 6,254 were sales staff, 6,261 manufacturing staff, and 3,099 engaged in R&D, administration and senior management. Remuneration packages mainly comprised of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the period under review was approximately RMB751,828,000 (six months ended 30 June 2018: RMB498,794,000).

INTERIM DIVIDEND

The Board recommended an interim dividend of HK5.72 cents (approximately RMB5.12 cents) per share for the six months ended 30 June 2019 (six months ended 30 June 2018: HK6.04 cents (approximately RMB5.28 cents) per share). The interim dividend will be payable on 16 October 2019 to the shareholders on the register of members of the Company on 6 September 2019.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Wednesday, 4 September 2019 to Friday, 6 September 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Tuesday, 3 September 2019.

CORPORATE GOVERNANCE

Corporate Governance Code

The Company is committed to maintaining high standard of corporate governance. Save as disclosed below, the Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the six months ended 30 June 2019.

Code Provision A.1.5 of the Corporate Governance Code (the "Code") stipulates that, among other things, the draft and final versions of minutes of board meetings should be sent to all directors for their comments and record respectively. For the board meetings held during the year ended 31 December 2018, the Company had recorded the whole process of each meeting in digital format, arranged for the Directors to sign summary of board resolutions, and prepared board minutes which were signed off by the chairperson of the meeting (the "Practice"). Given that a complete record of the board meetings in digital format would be maintained under the Practice, the Company did not consider there was a need to send the draft and final versions of the minutes to the directors for comments and record. While the Practice, in a technical and strict manner, had constituted a deviation from the language of Code Provision A.1.5, the Board believes that the purpose of the code provision is to ensure that the board minutes of a listed issuer shall at all times reflect accurately in all material aspects the discussions and views made by its directors at board meetings and that each director's views and concerns could be correctly recorded in the listed issuer's records (the "Purpose"), and that the Practice could serve the Purpose better and are in compliance with the spirit of Code Provision A.1.5 and in no circumstances had the interests of the Directors and the shareholders of the Company been impaired nor compromised.

In order to ensure strict adherence to the language of Code Provision A.1.5, the Board has, since its meeting on 18 February 2019 and going forward, adopted and will adopt an additional step in its standard procedures for board meetings in that draft and final versions of the board minutes would be provided to the Directors for their comments and record.

During the period from 25 January 2019 to 17 February 2019, the cessation of office of Mr. LO Wing Yat and Mr. ZHOU Bajun as disclosed in announcements of the Company dated 25 January 2019 and 28 January 2019 respectively, the Company was not in compliance with (i) Rule 3.10 of the Listing Rules, which stipulates that the board of directors of the issuer must include at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; (ii) Rule 3.10A of the Listing Rules, which stipulates that the number of independent non-executive directors shall represent at least one-third of the Board; (iii) Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee members shall comprise a majority of independent non-executive directors; and (iv) Code Provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which stipulates that the nomination committee members shall comprise a majority of independent non-executive directors.

In compliance with the requirements of the Listing Rules, the Board appointed Mr. QIN Ling as an independent non-executive director, chairman of the Remuneration Committee, a member of the Audit Committee, a member of the Nomination Committee and a member of the Strategic Committee of the Company, all with effect from 18 February 2019. The Board also appointed Mr. LI Weidong as an independent non-executive director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company, all with effect from 18 February 2019.

The Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiry has been made with all directors and the directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Reporting Period. Furthermore, senior management who are likely to be in possession of inside information have been required to comply with the provisions of the Model Code.

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “Audit Committee”) has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2019 including the accounting principles, treatments and practices adopted by the Group. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
WU Xian
Chairman

Hong Kong, 19 August 2019

As at the date of this announcement, the Board comprises twelve directors, of which Mr. WU Xian, Mr. WANG Xiaochun and Mr. YANG Wenming are executive directors; Mr. YANG Shanhua, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. KUI Kaipin 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.