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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2019 (the "Reporting Period" or the "Period"):

**RESULTS HIGHLIGHTS**

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| **Revenue** | | | |
| – Concentrated TCM granules | **9,227,314** | 7,136,743 | 29.3% |
| – Finished drugs | **3,504,656** | 2,771,021 | 26.5% |
| – TCM decoction pieces | **1,296,953** | 1,274,829 | 1.7% |
| – TCM healthcare complex | **89,661** | 62,529 | 43.4% |
| – Local TCM integrated operation | **202,365** | 13,819 | 1,364.4% |
| **Total** | **14,320,949** | 11,258,941 | 27.2% |
| Gross profit | **8,575,788** | 6,193,573 | 38.5% |
| **Adjusted EBITDA** | **3,003,332** | 2,649,359 | 13.4% |
| Profit from operations | **2,460,716** | 2,156,025 | 14.1% |
| **Profit for the year** | **1,773,297** | 1,567,028 | 13.2% |
| Profit for the year attributable to owners of the Company | **1,588,114** | 1,439,018 | 10.4% |
| Basic earnings per share (RMB cents) | **31.54** | 29.84 | 5.7% |
| **Proposed dividend per share at the end of the year (HK cents)** | **4.76** | 5.51 | -13.6% |

## CHAIRMAN'S STATEMENT

Dear shareholders,

In 2019, China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") carried out business transformation while maintaining sustainable and high-quality development. With strong support from all shareholders, the Group continued to focus on its five-year strategic plan of "building a leading comprehensive TCM healthcare industrial group", seized TCM development opportunities, made solid progress in various businesses, and steadily improved its industry position. On behalf of the Board of the Company, I would like to express my sincere gratitude to all of you for your dedication and encouragement.

In 2019, we tapped into new development opportunities for the TCM industry. In October, the National Traditional Chinese Medicine Conference was held with a theme of "Inheriting Essence and Keeping Up with Innovation", and the Central Committee of the Communist Party of China and State Council issued the "Opinions on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine", setting a clear direction for TCM industry development. We also witnessed breakthroughs made in the concentrated TCM granule industry. In the spirit of the Traditional Chinese Medicine Conference, the National Medical Products Administration ("NMPA") sought public opinion on the "Technical Requirements for Establishing the Quality Control and Standards of Concentrated Traditional Chinese Medicine Granules (Consultation Draft) (中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿))", and the concentrated TCM granule industry will enter an era of standardisation in the foreseeable future. Under this new situation, with the support of national policy, the Group pushed ahead with organic growth, external expansion and integrated development with the core TCM segment businesses. This main direction of development was in line with the Group's strategic positioning and leveraged the Group's key role as a driving and leading force (as the core platform of China National Pharmaceutical Group Corporation ("CNPGC") for the TCM process segment) for the high-quality development of the TCM industry.

During the Reporting Period, the Company's revenue was approximately RMB14,320,949,000, representing a 27.2% increase from the previous year's approximately RMB11,258,941,000. The Board of the Company recommends the distribution of a final dividend of HK4.76 per share (approximately RMB4.34) for the year ended 31 December 2019 as shareholders' return, with a payout ratio of 30.0% for the full year.

### ADHERING TO STRATEGY AND BUILDING AN INDUSTRY-LEADING TCM COMPANY

The year 2019 was one of transition. The Board of Directors made a series of adjustments to lead the Group toward the forefront of the TCM industry. The Board followed national strategy, formulated development strategies for the Group and improved the whole nationwide TCM healthcare industry chain, thereby achieving full coverage from the cultivation of Chinese medicinal herbs to TCM healthcare value-added services.

During the Reporting Period, the Company's cooperative project with Boston Consulting Group ("BCG") was officially concluded. BCG conducted an in-depth analysis of the Group's strategic goals – ranging from control of Chinese medicinal herb sources to terminal service field – and made feasibility suggestions for the strategy's implementation. The Board will take its recommendations into consideration for improving the scientific basis of decision-making, and will adhere to its strategy of exploring the future development of major business segments on the basis of the Group's needs.

## LAUNCHING THE "DRAGON SEAL SINO-TCM" BRAND AND EXPLORING NEW OPPORTUNITIES WITH NEW CORPORATE IMAGE

In October 2019, the Group implemented the "Dragon Seal Sino-TCM" brand strategy and established its core position of "good TCM products with raw materials source from quality medicinal herbs in authentic medicinal herb production areas". This was achieved by focusing on TCM source quality, as well as stronger management and control of these sources. We officially consolidated businesses including seed breeding, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, and medicine food homology compound products under the "Dragon Seal Sino-TCM" brand to make the whole process traceable from source to end. These measures ensure quality and improve market recognition of the Group's product quality.

As with the "Dragon Seal Sino-TCM" brand strategy, the Group began to integrate its brands to form a strong identity and create a win-win situation for existing brands and those containing "Dragon Seal Sino-TCM" element. This led to a new chapter of development started with a brand-new corporate image.

## UPGRADING THE MANAGEMENT AND CONTROL MODEL TO FACILITATE HIGH-QUALITY DEVELOPMENT

In 2019, the Group optimised and upgraded its management and control model, creating a modern corporate system from top to bottom. It commenced with financial operation, strengthening its subsidiary governance and control, internal policy system improvement, equity optimisation, risk management and control, engineering construction compliance and human resource management. All these measures contributed to an improved standard of governance in line with the size of the enterprise.

To fully understand the post-investment situation in various industry sectors, the Board of the Company arranged six site visits of core subsidiaries during the Reporting Period. Through on-site investigation, the Board reviewed the Company's development deficiencies and difficulties, efficiently produced a summary, and proposed effective solutions, turning the review results into concrete actions to solve the problems.

During the year, the Group focused on the establishment of boards of directors for subsidiaries at all levels in order to implement board responsibilities of subsidiaries, make use of board functions, push the modernisation of corporate governance, improve the effectiveness of the governance system, and stimulate business operations across the Group. The Group also took measures to prevent compliance risks, by incorporating compliance awareness into each business segment, and formulating practical management and control measures, so as to improve the risk management and control capabilities and lead the Group onto a high-quality development track.

## FULFILLING THE RESPONSIBILITIES OF A PHARMACEUTICAL ENTERPRISE AND DELIVERING VALUE BY SERVING THE PUBLIC

During the year, the Company fulfilled its responsibility as a pharmaceutical enterprise to serve society. Notably, the Group continued to explore diverse poverty alleviation models, with main focus on industry and education. Currently, 33 county-level poverty alleviation projects are ongoing, as well as 6 municipal-level projects.

When the COVID-19 outbreak occurred at the beginning of 2020, the Group responded quickly, harnessing its whole industry chain to donate medical supplies. The industry-leading scientific research and high-standard production capabilities of Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical were commissioned to produce "Toujie Quwen Granules" (formerly known as "No. 1 formula for pneumonia"), "Chaigechangyuan mixture" and "Dayuan disinfectant mixture" to fight the outbreak and realize their social value.

The outbreak of the novel coronavirus pneumonia has spotlighted the outstanding contribution of traditional Chinese medicine to epidemic prevention and control. More and more clinical studies have demonstrated the remarkable effects of combined Chinese and Western medical treatment, drawing great attention to the TCM industry. We believe that new investment and sources of consumption growth after the epidemic will bring new development opportunities to the medicine and health industries. As CNPGC's core platform in the TCM industry, the Group will leverage the advantages of the whole TCM healthcare complex industry chain, conduct high quality research and analysis, monitor the speed and quality of development, seize opportunities and further consolidate the Group's dominant position in the TCM industry, creating greater value for our shareholders.

**Wu Xian**
*Chairman*

Hong Kong, 30 March 2020

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

2019 is the second year of the Group's implementation of the strategy of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain", and the geographical coverage of the TCM industry chain has achieved initial success, while its business continued to develop steadily, the Group also focuses on promoting collaborative management and improving quality and efficiency, which lays a solid foundation for sustainable development of the enterprise, and ensuring that the Group is stable and far-reaching in its transition to high-quality development.

During the Reporting Period, the Group's revenue was approximately RMB14,320,949,000, representing an increase of 27.2% over the approximately RMB11,258,941,000 for the same period of last year. This was mainly attributable to the steady growth of concentrated TCM granules and finished drugs business and the external sales of local TCM integrated operation. The concentrated TCM granules business contributed approximately RMB9,227,314,000, or 64.4% of total revenue. Revenue from the finished drugs business was approximately RMB3,504,656,000, representing 24.5% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,296,953,000, representing 9.1% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB89,661,000, representing 0.6% of total revenue. Revenue from the local TCM integrated operation was approximately RMB202,365,000, representing 1.4% of total revenue.

Gross profit was RMB8,575,788,000, representing an increase of 38.5% over the approximately RMB6,193,573,000 for the same period of last year. Gross profit margin was 59.9%, representing an increase of 4.9 percentage points as compared with 55.0% for the same period of last year. This was mainly due to the reduced extraction cost of some concentrated TCM granule varieties, and increased selling price of some products.

### Business Review

In 2019, the Group fully grasped the opportunities of national pharmaceutical industry policy adjustments, closely followed the new trends of industry development, and matched the phased results of enterprise development with overall strategic goals: (1) continued to improve the national planning of the TCM industry chain and strengthen control of all aspects of upstream, midstream, and downstream; (2) focused on the first-mover advantage of scientific research, highlighting the role of scientific research and innovation in supporting business; (3) carried out the "Dragon Seal Sino-TCM" brand strategy and expanded market share through precise market management; and (4) emphasized the reasonable integration of the internal resources, so as to improve the quality and efficiency of the Company's operations.

The following is a review of the highlights of the Group's business in 2019:

**I. Consolidating the overall planning of the industry chain and strengthening the control of each aspect of the industry chain**

***1 Constructing and perfecting GACP cultivation bases to strengthen the source management of raw materials***

Under the development trend of standardization of the TCM industry, quality control and traceability of source of Chinese medicinal herbs will be among the keys to win over other enterprises. Based on the gain experience of the previous work in centralized procurement of upstream Chinese medicinal herbs and tracing of raw materials, and with reference to the "Plan for Constructing Authentic Medicinal Herbs Production Bases Nationwide (2018-2025) (全國道地藥材生產基地建設規劃(2018-2025年))"compiled by the National Administration of Traditional Chinese Medicine in 2018, the Group further extended to the resource and commenced the construction of Good Agriculture and Collection Practices for Medicinal Plants ("GACP") bases for large variety of Chinese medicinal herbs in 2019.

Taking honeysuckle in Pingyi Shandong, pinellia ternata in Xihe Gansu and Chinese rhubarb in Li County Gansu as examples, the Group has reached cooperation with local farmers on development of resources of core varieties of Chinese medicinal herbs, and established the modern Chinese medicinal herbs industry demonstration bases integrating functions of plantation, local initial processing, inspection and testing, storage and logistics, medicinal herbs trading, and data tracing, so as 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, highlighting the Group's overall competitiveness.

During the Reporting Period, GACP TCM bases were constructed or jointly constructed in 7 provinces which covered 10 medicinal varieties, and the planting area spanned over nearly 10,000 mus. Details are as follows:

| **Provinces** | **medicinal herb varieties** |
|---|---|
| Shandong | salvia, honeysuckle |
| Zhejiang | Fritillaria |
| Guizhou | Radix seudostellariae |
| Sichuan | Aconite |
| Gansu | Chinese gancao, pinellia ternata, Chinese rhubarb |
| Hubei | Angelicae Pubescentis Radix |
| Anhui | Radix Paeoniae Alba |

### 2. *Continuously promoting the local TCM integrated operation and completing the coverage across the country*

In order to streamline all aspects of the industry chain, enhance synergy in the industry and break the market barriers led by the local policies of the traditional TCM industry, based on the original business segment of concentrated TCM granules, finished drugs and TCM decoction pieces, the Group has vigorously developed local TCM integrated operation business. After two years of investment and construction, the framework of the local TCM integrated operation business has been initially completed. During the Reporting Period, there were a total of 17 integrated operation companies, of which subsidiaries in Hunan, Chongqing, Yunnan, Sichuan, Heilongjiang, Fujian, and Shandong have obtained production licenses.

According to the announcement of NMPA on matters related to the implementation of the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》) (2019 No. 103), the drug GMP and GSP certifications have been cancelled since 1 December 2019. In order to unify standard, as of the date of results release, the Group's qualifications and provinces covered are as follows:

| Qualification type | Numbers | Provinces covered |
|---|---|---|
| National Pilot License for TCM concentrated granules | 2 | Nationwide |
| Provincial Pilot License for TCM concentrated granules | 10 | Fujian, Guangxi, Guizhou, Heilongjiang, Hubei, Shandong, Shanxi, Shaanxi, Sichuan, Yunnan |
| Production license for decoction pieces | 19 | Anhui, Beijing, Chongqing, Fujian, Gansu, Guangdong, Guizhou, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shanghai, Sichuan (2), Yunnan, Zhejiang |
| Extraction base | 9 | Anhui, Gansu, Guangdong (2), Jiangsu, Shandong, Sichuan (2), Zhejiang |
| Granule production license | 8 | Chongqing, Guangdong, Guizhou, Heilongjiang, Hubei, Jiangsu, Sichuan, Yunnan |
| Finished drugs production license | 11 | Anhui, Beijing, Guangdong (3), Guizhou, Hubei (2), Jilin, Qinghai, Shandong |

In addition, according to the overall production capacity and business demands, the Company continued to promote the implementation of local TCM integrated operation business in the remaining key areas of the planned layout, such as Beijing, Henan, Hebei, and Liaoning, and further improved the implementation of the Group's nationwide planned strategy.

### 3. *Paying attention to terminal value-added services and the healthcare complex segment continues to strengthen its efforts*

While aligning with the upstream and midstream industries, the Group is paying more and more attention to the development of terminal value-added services, so as to achieve complementarity, synergy and resource sharing among the various links in the Group's TCM healthcare complex chain. During the Reporting Period, the project sharing of TCM intelligent distribution centers advanced steadily, fully utilizing the advantages of "internet-plus", and practicing the concept of sharing economy. Currently, there are 12 distribution centers in operation, covering 9 provinces and cities including Shanghai, Beijing, and Guangdong; with the official launch of 3 TCM clinics, there are currently 8 TCM clinics in operation, covering provinces and cities such as Guizhou, Guangdong, Jiangsu, and Chongqing.

## II. Stepping up efforts in scientific research and innovation to highlight its role in supporting business

In 2019, the Group carried out work on strategic deployment of "one core" and "two major categories" of scientific research, vertically developed sophisticated technology, horizontally integrated research and application, and created a comprehensive closed-loop research and development ecosystem. By utilizing the research advantages of the single medicinal herb of concentrated TCM granules and the resources covering the entire TCM industry chain, the Group comprehensively promoted the work of substance standards of classical formulas. At the same time, the Group accelerated the research on national standards of concentrated TCM granules and actively participated in international standard research to promote the internationalization of concentrated TCM granules.

### 1. *Leading research on standards of concentrated TCM granules to embrace the promulgation of national standards*

The Group has been actively participating in the formulation of national standards for concentrated TCM granules. The first batch of national standards were announced by the Chinese Pharmacopoeia Commission on 8 November 2019, which were both encouragement and opportunity, as well as challenge for the Group. On one hand, the Group has accumulated considerable mature technical experience in research in the past and has been recognised by the state. The publication and implementation of national standards was an affirmation of the Group's active participation in the research and development of standards. On the other hand, as the implementation and application of national standards will bring changes to the market access and competition environment of the concentrated TCM granules industry, enterprises need to adapt to the new market environment as soon as possible to maintain their competitive advantages.

For the first batch of 160 concentrated TCM granules quality standards announced for public review by the state, the number of inspection items has increased and the inspection indicators have improved as compared with existing standards. The Group has organised the R&D department and related subsidiaries to carry out testing and trial production to assist the production, procurement, and technical departments in the transition to national standard, so as to fully prepare for the final promulgation and implementation of the national standard for concentrated TCM granules.

### *2. Carrying out in-depth research on TCM classical formula products and promote research progress steadily*

In 2019, each research department and subsidiary smoothly promoted the following work on research of classical formula in accordance with the set goals. In-depth research on 32 classic formulas including "Taohe Chengqi Decoction", "Shaoyao Gancao Decoction" and"Danggui Buxue Decoction" was conducted, and physical corresponding analysis methods for certain classical formulas were developed; the collection of raw materials, processing of TCM decoction pieces and internal control standards of certain classical formulas were unified; and research on small-scale trial production of certain classical formulas was launched. Meanwhile, considering the correlation between the research of standards for concentrated TCM granules and the research and development of classical formulas, we coordinated the research and development of the two parts to improve the efficiency of research and development.

## III. Accurating market management and promoting the "Dragon Seal Sino-TCM" brand strategy

In the past few years, the market environment of the pharmaceutical industry has changed continuously, and it has gradually moved towards standardization and standardized management, which has further increased the requirements for marketing management of enterprises. During the Reporting Period, the Group closely aligned with the main line of "improving product quality, innovating service model and sharing industry chain value" to carry out comprehensive optimization. We implemented diversified marketing plans in each segment of the principal businesses, maintaining excellent market responsiveness and sustainably exploring leading advantages, and focused on key products to optimize internal resources, promoting the professionalization of each terminal.

### *1. Developing market channels through targeted promotion and consolidating the market advantages of concentrated TCM granules*

During the Reporting Period, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Guangdong Yifang, leaders in the concentrated TCM granules industry, continued to develop new promotion models to consolidate their market competitive advantages. While actively exploring new hospital customers, we have strengthened our leading role of academic promotion and held more than 1,400 academic conferences of various types such as "Dayi Jincheng"(「大醫今承」), "Guoyi Dashi"(「國醫大師」), and "Yuejian Bencao"(「閱鑒本草」), attracting over 150,000 participants.

By creating an academic and marketing promotion system for particular department and disease, the terminal recognition of the product was improved; by establishing a distinctive academic brand, the passive promotion was changed to active promotion and the brand influence was strengthened; and by establishing an expert database, a closed-loop academic ecological system was formed, and the market reliability of the Group's concentrated TCM granule products was enhanced.

**2. *By promoting the blockbuster strategy continuously, the finished drug segment actively explored product resources and built competition barriers***

During the Reporting Period, the TCM finished drugs segment carried out a comprehensive review on the Company's existing product lines. By classifying the products as core products, key products and initial products, we continued to explore the advantages of varieties to effectively supplement the current product pool. Based on the evidence system established with previous clinical research data, core products such as Yu Ping Feng Granules (玉屏風顆粒) and Xianling Gubao Capsules (仙靈骨葆膠囊) have been recommended by relevant guidelines or experts in consensus and blockbuster TCM finished drugs of hospital channel carried out clinical application guidelines for dominant indications to improve the clinical value of the products. Meanwhile, Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Nifedipine Sustained-release Tablets (I) (聖通平) and Bi Yan Kang Tablets (鼻炎康片) were confirmed as the core OTC product series, and the product group development was promoted by re-planning the brand communication plan.

**3. *Using premium products as platform to promote the "Dragon Seal Sino-TCM" brand strategy***

During the Reporting Period, the Group proposed a new brand strategy and held a launch conference for the "Dragon Seal Sino-TCM" brand strategy in October 2019. Brand building is vital to the Company's sustainable development and excellent brands must rely on premium products. The Company will use product resources of TCM finished drugs and the premium TCM decoction pieces business to be carried out during promotion to actively promote the "Dragon Seal Sino-TCM" brand strategy.

For the forthcoming premium TCM decoction pieces product series, the Group rationalized more than 400 product specifications including precious and rare medicinal materials, high-end products, and toxic medicinal herbs, and established a standard system and quality traceability system for premium decoction pieces products, gradually promoting upgrade of product line of Chinese medicinal drink.

## IV. Integrating internal resources of the enterprise to improve the quality and efficiency of operation

### *1. Using TCM decoction pieces business as a step-in point and strengthening the Group's internal collaboration and product lines upgrade*

Starting with the Group's overall development plan, the Group implemented the unified planning and management on various aspects of the subsidiary's varieties, production capacity, quality control and process management, etc., and at the same time, the project implementation details should be optimized in line with local circumstances according to the different needs of the TCM decoction pieces business and the concentrated TCM granules business, so as to improve the operating level and synergy of subsidiaries, and pave the way for the rapid development of the future market at the same time.

The Group has 24 manufacturers for TCM decoction pieces, of which Shanghai Tongjitang Pharmaceutical Co., Ltd., Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. are the core companies and have realized production and operation of medical used decoction pieces of all product category. Meanwhile, the Group actively promoted the construction of a coordinated production system for industrial decoction pieces, with the advantages of medicinal herbs resources in various places, the Group reasonably allocated the main decoction pieces species to subsidiaries in various provinces and cities, and implemented the intra-group allocation synergy of decoction products to open up the supply chain channels of industrial decoction pieces, which was conducive to the cost control and quality traceability assurance of downstream concentrated TCM granules extraction and TCM finished drugs production.

For the production of concentrated TCM granules, all subsidiaries allocated resources reasonably and made full use of existing capacity by shared extraction workshops, and therefore reduced or controlled production costs and improved the efficiency of internal source utility.

### *2. Strengthening financial management to ensure healthy funding and operations*

During the Reporting Period, in order to improve the quality of financial management, the Company comprehensively refined its management on the deployment of funds. Through multiple measures such as optimizing the structure of deposits and loans, increasing the concentration of funds and enhancing the ability of bill payments, the Company effectively reduced the cost of funds and improved the utilization efficiency.

By establishing an effective budget management system, the Company strengthened the management of various working capital indicators, including inventory management, accounts receivable management, and cash flow management, all of which achieved an overall improvement. Through efforts on budgeting, the Company had a full picture of the operation of each subsidiary in a timely manner, and mechanism was established for addressing relevant issues so as to effectively improve the quality of operations and reduce operational risks.

### 3. *Carrying out risk management and control work and improve the corporate governance management*

During the Reporting Period, the Company organised various functional centers (departments) and its subsidiaries to conduct major risk investigations in the form of risk self-examination. In response to loopholes in the risk management work and possible deficiencies in the implementation of the system, we filled in the gaps, developed corresponding rectification measures and estimated completion time of the rectification so as to achieve a horizontal and vertical synergistic risk management guarantee system. Based on the results of risk investigation work to prepare the "Internal Control Manual", we sorted out the risk points and control processes, built a risk identification control system, and signed the "Compliance Management Commitment" with each functional center (department) and the subsidiaries to make them take their responsibilities seriously, so as to improve the Group's risk management capability.

During the Reporting Period, the Company actively improved the board management, established the subsidiary level board management system, and set up relevant internal policy. During the Period, all subsidiaries set up board or assigned executive director position, which further improved the operation quality of the subsidiaries.

## INVESTMENT PROJECTS

During the Reporting Period, the Group continued to carry out equity investment work around the nationwide distribution of medicinal materials resources, concentrated TCM granules, TCM decoction pieces, and TCM healthcare complex.

Through the merger and acquisition of Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. and Gansu Longzhong Pharmaceutical Co., Ltd., the Group further strengthened the cooperation with local medical institutions in the field of concentrated TCM granules and TCM decoction pieces; by setting up new companies in Wuzhai Shanxi, Li County and Xihe Gansu, we established a large-scale base of authentic medicinal herbs to strengthen the control of the source of medicinal herbs resources; in order to meet the needs of the subsidiary's construction progress and development funding, and to ensure that the Group's strategy can be effectively implemented, we increased the capital of local integrated TCM operation companies in Hunan, Shaanxi, Guangxi, Yunnan, Jiangxi, and Chongqing; at the same time, with the national layout of local TCM integrated operation companies, we carried out medicinal herbs and TCM decoction pieces trading, and business of sharing of TCM intelligent distribution centers through acquisition or establishment of new pharmaceutical trading companies, and established business cooperation with local medical institutions to implement terminal services across the country, so as to enhance the Group's overall influence.

Except as disclosed above, the Group had no other material acquisitions and disposals for the year ended 31 December 2019.

## ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2019, pursuant to the strategic goal of building a vertically consolidated TCM healthcare industry chain, and amidst changing policies for the concentrated TCM granules industry, the Company began to undertake an expansion of its strategic presence in major authentic medicinal herb producing provinces in the PRC and to establish the "local TCM integrated operation" companies which produce concentrated TCM granules, 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 and reduce the cost of mass production of local products; while stationed locally, the Group can enjoy the preferential policies of the local market, further open up the local market, increase the market share, and form a comprehensive competitive advantage.

From the end of 2017 to 2019, 17 local TCM integrated operation companies were either acquired or self-constructed by Jiangyin Tianjiang and Guangdong Yifang. Currently, it has 13 companies and 4 subsidiaries in a strategic incubation period of preparation or acquisition and consolidation, and each is at different stages of development from the original concentrated TCM granules business. However, the advantages it obtained will be conducive to providing a new growth driver for the future development of the Group.

In order to better present to the readers of this announcement with 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 31 December 2019, the "local TCM integrated operation" comprised 17 companies:

| **Company Name*** | **Proposed Construction Project Investment Amount** *(RMB million)* | **Original Segment** | **Current Segment** |
|---|---|---|---|
| Shaanxi Yifang Pingkang Pharmaceutical Co., Ltd. | 453.88 (Additional investment budget over the interim period) | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Shaanxi Jitaining Pharmaceutical Co., Ltd. | Sales subsidiary under Shaanxi Yifang | Newly added during the Period | Local TCM integrated operation (set up in 2019) |
| Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd. | 214.48 | Concentrated TCM Granules | Local TCM integrated operation (set up in 2018) |

| Company Name* | Proposed Construction Project Investment Amount *(RMB million)* | Original Segment | Current Segment |
|---|---|---|---|
| Hunan Yifang Tianjiang Pharmaceutical Co., Ltd. | 198.90 | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Changde Yifan Pharmaceutical Co., Ltd. | Sales subsidiary under Hunan Yifang | Newly added during the Period | Local TCM integrated operation (set up in 2019) |
| Jiangxi Yifang Tianjiang Pharmaceutical Co., Ltd. | 193.90 | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Jiangxi Fanglian Pharmaceutical Co., Ltd. | Sales subsidiary under Jiangxi Yifang | Newly added during the Period | Local TCM integrated operation (set up in 2019) |
| Chongqing Tianjiang Yifang Pharmaceutical Co., Ltd. | 192.00 | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Yunnan Tiangjiang Yifang Pharmaceutical Co., Ltd. | 273.94 (Additional investment budget over the interim period) | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. | 128.17 | Concentrated TCM Granules | Local TCM integrated operation (acquired in 2018) |
| Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. | Utilized the existing production lines | Concentrated TCM Granules | Local TCM integrated operation (acquired in 2018) |
| Heilongjiang Sino Tianjiang Pharmaceutical Co., Ltd. | 146.00 | Concentrated TCM Granules | Local TCM integrated operation (set up in 2017) |
| Fujian Chengtian Jinling Pharmaceutical Co., Ltd. | 19.60 (Reduction of investment budget over the interim period) | Concentrated TCM Granules | Local TCM integrated operation (acquired in 2018) |
| Fujian Chengtian Jinling Medical Co., Ltd. | Sales subsidiary under Fujian Chengtian | Concentrated TCM Granules | Local TCM integrated operation (acquired in 2018) |
| Liaoning Tianjiang Yifang Pharmaceutical Co., Ltd. | 150.00 | Newly added during the Period | Local TCM integrated operation (set up in 2019) |

| Company Name* | Proposed Construction Project Investment Amount *(RMB million)* | Original Segment | Current Segment |
|---|---|---|---|
| Shandong Zhongping Pharmaceutical Co., Ltd. | 225.50 | Newly added during the Period | Local TCM integrated operation (set up in 2019) |
| Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. | 153.52 | Newly added during the Period | Local TCM integrated operation (acquired in 2019) |

* *The English name is for reference only*

## 1. Concentrated TCM granules

***Key financial indicators for the concentrated TCM granules business***

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | *RMB'000* | *RMB'000* | |
| Revenue | **9,227,314** | 7,136,743 | 29.3% |
| Cost of sales | **3,023,074** | 2,870,427 | 5.3% |
| Gross profit | **6,204,240** | 4,266,316 | 45.4% |
| Gross profit margin | **67.2%** | 59.8% | 7.4ppt |
| Operating profit | **2,077,895** | 1,675,737 | 24.0% |
| Profit for the year | **1,548,868** | 1,286,887 | 20.4% |
| Net profit margin | **16.8%** | 18.0% | -1.2ppt |

During the Reporting Period, the concentrated TCM granules business recorded rapid sales growth and achieved a revenue of approximately RMB9,227,314,000, representing an increase of 29.3% over the previous year, and accounting for 64.4% 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 20.2% of the sales growth was attributed to the old customers; and (2) to conform to the market needs and medical reform policies; the Company strived to explore new clients to further expand its market share. Approximately 9.1% of the sales growth during the Period was contributed by new customers.

Gross profit margin rose by 7.4 percentage points to 67.2% from 59.8% 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; and (2) the decrease in unit production cost as centralized extraction production technology increased the extraction yield output of intermediate products.

During the Reporting Period, the operating profit and profit for the year of concentrated TCM granules segment amounted to approximately RMB2,077,895,000 and RMB1,548,868,000 respectively, representing respective increases of 24.0% and 20.4% year-on-year. Net profit margin decreased by 1.2 percentage points compared to the previous year. This was mainly because: (1) in order to adapt to market changes, investments in new markets were raised to further expand the promotion channels, and to strengthen the marketing research, consulting, services, and promotion, channel services, product influence and brand recognition was improved, and constant growth was ensured. Especially, the improved maintenance model of dispensing machine expanded the market coverage and enhanced the customer service level. The proportion of sales expenses for the Period increased by 6.4 percentage points compared with the previous year, due to the continuous input of marketing, and the concentrated TCM granules kept a rapid growth; (2) the Company continued to increase the investment in the R&D of the national standards of concentrated TCM granules, and carried out research on the classical formulated granules, so that the proportion of R&D expenses to revenue for the Period increased by 0.3 percentage point compared with the previous year; and (3) in 2018, account receivables with carrying amount of RMB107,608,000 were used as non-recourse factoring, and reversed impairment loss of credit was about RMB92.67 million, and in 2019, according to the Group's provision policy of credit impairment loss, the credit impairment loss was about RMB4.17 million, reducing the net profit margin by 1.3 percentage points.

***Revenue analysis by region*** *(RMB million)*

| **Region** | **2019** | **Proportion** | 2018 | Proportion | Growth amount | Growth rate |
|---|---|---|---|---|---|---|
| East China | **2,854.55** | **30.8%** | 2,273.29 | 31.9% | 581.26 | 25.6% |
| South China | **2,104.18** | **22.8%** | 1,518.79 | 21.2% | 585.39 | 38.5% |
| North China | **1,263.81** | **13.7%** | 927.30 | 13.0% | 336.51 | 36.3% |
| Central China | **1.012.86** | **11.0%** | 847.27 | 11.9% | 165.59 | 19.5% |
| Northwest China | **689.71** | **7.5%** | 539.27 | 7.6% | 150.44 | 27.9% |
| Northeast China | **431.04** | **4.7%** | 398.07 | 5.6% | 32.97 | 8.3% |
| Southwest China | **771.12** | **8.4%** | 551.48 | 7.7% | 219.64 | 39.8% |
| Overseas and others | **100.04** | **1.1%** | 81.27 | 1.1% | 18.77 | 23.1% |
| Total | **9,227.31** | **100.0%** | 7,136.74 | 100.0% | 2,090.57 | 29.3% |

During the Reporting Period, sales in east, south, north and central China accounted for 78.3% of total sales, compared with 78.0% for the same period last year. Sales in south, north and southwest China achieved a year-on-year increase of more than 35.0%.

*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***

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **3,504,656** | 2,771,021 | 26.5% |
| Cost of sales | **1,381,053** | 1,068,144 | 29.3% |
| Gross profit | **2,123,603** | 1,702,877 | 24.7% |
| Gross profit margin | **60.6%** | 61.5% | -0.9ppt |
| Operating profit | **416,169** | 454,128 | -8.4% |
| Profit for the year | **253,209** | 257,214 | -1.6% |
| Net profit margin | **7.2%** | 9.3% | -2.1ppt |

***Revenue analysis by product type*** *(RMB million)*

| | Twelve months ended 31 December | | | | |
|---|---|---|---|---|---|
| **Type of product** | **2019** | **Proportion** | 2018 | Proportion | Change |
| Core prescription products | **1,780.57** | **50.8%** | 1,391.42 | 50.2% | 28.0% |
| Core OTC products | **822.43** | **23.5%** | 714.06 | 25.8% | 15.2% |
| Other products | **901.66** | **25.7%** | 665.54 | 24.0% | 35.5% |
| Total | **3,504.66** | **100.0%** | 2,771.02 | 100.0% | 26.5% |

*Note:* Core prescription channel products: 10 products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing 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 channel products: 11 products including 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), Nifedipine Sustained-release Tablets (I) (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 Bolus (安宮牛黃丸) and Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊).

During the Reporting Period, the revenue of the finished drugs segment is approximately RMB3,504,656,000, representing an increase of 26.5%, accounting for 24.5% of total revenue. The prescription and OTC channel core products continued to grow steadily: (1) the achievement on evidence-based research further delivered, and the core products continued to maintain their leading position in their indication fields, which brought up the sales volume; (2) brand building and cooperation with chain pharmacy has been enhanced, and the volume and price of the retail products has increased simultaneously; and (3) the financial statements of Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. ("Zhonglian Pharmaceutical") were consolidated since October 2018, so the annual income has increased by approximately RMB308.11 million compared with the same period last year.

Gross profit margin decreased by 0.9 percentage point to 60.6% from 61.5% for the previous year due to an increase in the purchase price of raw materials for some finished drugs leading an increase in unit costs. Besides, the gross profit margin of Zhonglian Pharmaceutical was lower than that of the original finished drugs enterprise.

During the Reporting Period, operating profit and profit for the year of the finished drugs segment amounted to approximately RMB416,169,000 and approximately RMB253,209,000 respectively, representing respective year-on-year decreases of 8.4% and 1.6%. Excluding the impact of Zhonglian Pharmaceutical, the finished drugs business's net profit margin in 2019 was 9.3%, lower than that for the full year of 2018 (10.5%, excluding Zhonglian Pharmaceutical); the main reasons of which were that: (1) Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Huayi Pharmaceutical Co., Ltd.'s provision for impairment of assets of goodwill were RMB27.59 million during the Period; (2) the Company carried out a complete asset inspection during the Period and recognised asset impairment losses and other losses of approximately RMB68.93 million; and (3) due to housing demolition, the Company realized a disposal gain of RMB32.09 million; excluding the one-off impact above, the net profit margin of the finished drugs business (excluding Zhonglian Pharmaceutical) during the Period remained at the same level as last year.

In 2019, Zhonglian Pharmaceutical reshaped the marketing system; the finished drug marketing center was responsible for the overall sales of finished drugs and established an independent sales team for promotion of Zhonglian Pharmaceutical's main products Jinye Baidu Granules (金葉敗毒顆粒) and Trionycis Bolus (鱉甲煎丸) through the existing nationwide marketing network, and established business relationships with more than 500 medical institutions. At the same time, Zhonglian Pharmaceutical also initiated the re-pricing of key products, and the increase in product prices drove the annual growth of revenue by approximately RMB30.73 million.

## 3. TCM decoction pieces

***Key financial indicators for the TCM decoction pieces business***

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **1,296,953** | 1,274,829 | 1.7% |
| Cost of sales | **1,096,272** | 1,066,843 | 2.8% |
| Gross profit | **200,681** | 207,986 | -3.5% |
| Gross profit margin | **15.5%** | 16.3% | -0.8ppt |
| Operating profit | **21,573** | 73,591 | -70.7% |
| Profit for the year | **24,182** | 71,026 | -66.0% |
| Net profit margin | **1.9%** | 5.6% | -3.7ppt |

During the Reporting Period, revenue from external sales was approximately RMB1,296,953,000, while internal sales of industrial TCM decoction pieces to concentrated TCM granules and TCM finished drugs business was approximately RMB714,942,000, collectively the TCM decoction pieces business achieved 38.7% revenue growth compare to the same period last year.

The reasons for the change of key financial indicators of TCM decoction pieces business:

The existing TCM decoction pieces subsidiaries: (1) business structure was improved, part of the business with low profit was abandoned, and income growth slowed down; (2) some decoction centers just commenced operation and incurred relatively high fixed costs, and the revenue of which could not cover the costs; (3) the costs of raw materials increased, leading to a decrease of gross profit margin; (4) in order to integrate resources, one subsidiary was merged, brought up related one-time expense; and (5) in order to strengthen the internal marketing team and establish the premium decoction pieces department, the selling expense increased. Beijing Huamiao incurred RMB5 million marketing expenses to explore the Tianjin market.

Newly built TCM decoction pieces subsidiaries: (1) the new decoction pieces factories mainly focused on internal supply at present, the revenue increased in the second half of the year while the Group did not achieve full external sales and did not make profit; (2) the newly built factories incurred new fixed assets cost and high depreciation expense; (3) initial operation increased administrative expenses; and (4) there were seven TCM decoction pieces subsidiaries under construction or start-up phase with no revenue but certain fixed cost.

## 4. TCM healthcare complex

***Key financial indicators for the TCM healthcare complex***

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **89,661** | 62,529 | 43.4% |
| Cost of sales | **50,527** | 41,364 | 22.2% |
| Gross profit | **39,134** | 21,165 | 84.9% |
| Gross profit margin | **43.6%** | 33.8% | 9.8ppt |
| Operating profit | **-15,641** | -2,291 | -582.6% |
| Profit for the year | **-16,463** | -3,342 | -392.5% |
| Net profit margin | **-18.4%** | -5.3% | -13.1ppt |

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB89,661,000, representing an increase of 43.4% over the RMB62,529,000 for the previous year, and accounting for 0.6% of total revenue.

The major reason for the increase in revenue was that the TCM clinics commenced operation in the second half of 2018, which contributed revenue of approximately RMB15.61 million. Along with the increased revenue proportion of healthcare service and high gross margin product sales like ginseng pilose antler, the overall gross profit margin of the TCM healthcare complex segment increased by 9.8 percentage points to 43.6% from 33.8% for the same period last year. However, the overall loss increased, which was mainly due to the fact that five TCM clinics just commenced operation or underwent transformation in the second half of 2018; the businesses of which were still under development with higher fixed costs.

## 5. Local TCM integrated operation

***Key financial indicators for the local TCM integrated operation***

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Revenue | **202,365** | 13,819 | 1,364.4% |
| Gross profit margin | **4.0%** | -34.5% | 38.5ppt |
| Other income | **38,253** | 3,033 | 1,161.2% |
| Administrative expenses | **60,294** | 37,840 | 59.3% |
| Operating profit | **-39,280** | -45,140 | 13.0% |
| Profit for the year | **-36,499** | -44,757 | 18.5% |
| Net profit margin | **-18.0%** | -323.9% | 305.9ppt |

During the Reporting Period, the local TCM integrated operation's revenue was approximately RMB202,365,000, representing an increase of 1,364.4% over RMB13,819,000 for the previous year, and accounting for 1.4% 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 sales of approximately RMB36.75 million. These significant increases of revenue and gross profit margin mainly resulted from the successive establishment of certain local TCM integrated operation companies and their commencement of normal external sales, which reversed their negative gross profits recorded from the previous year. Additionally, local TCM integrated operation companies have received a government grant of approximately RMB36,093,000 during the Period, which eliminated the impact of some initial establishment expenses and increased depreciation expenses on net profit.

## PROSPECTS

In 2020, in keeping with its strategic plans and targets, the Group will continue to deepen the network planning for the whole TCM industry chain, focus on the midstream core businesses, consolidate the leading advantages of concentrated TCM granules, vigorously develop the TCM decoction pieces business, invest the specific TCM finished drug categories intensively, and explore medicinal and medicine food homology compound products. Based on the above, the Group will extend and develop the upstream and downstream businesses of the industry chain, and promote the construction of upstream medicinal herb plantation bases and downstream healthcare complex services steadily, to form an integrated network of the whole TCM industry chain, from breeding, medicinal herbs, TCM decoction pieces, concentrated TCM granules, TCM finished drugs to TCM healthcare complex services.

The core tasks of the Group in 2020 include: first, promoting the establishment of a traceability system for Chinese medicinal herbs, establishing an integrated management platform and a quality control system which the entire process of the Chinese herbal medicine production can be traceable; second, accelerating the plan out in provinces not yet covered, accelerating the application for production and operation license for the current local TCM integrated operation projects, and improving the collaborative system of the local TCM integrated operation; third, promoting the implementation of the "Dragon Seal Sino-TCM" brand strategy and actively carrying out the premium TCM decoction pieces business; fourth, focusing on building the new media marketing system, integrating internal and external resources, and establishing a sound company Internet marketing channel and online brand communication platform; fifth, continuing to conduct research on the quality standards of concentrated TCM granules and the TCM classical formula products, and establishing a sound management system for scientific research to improve the quality of research; sixth, further strengthening the risk management and refined management to ensure high quality and sustainable development of the enterprise; and seventh, optimizing human resource management in order to balance the talent strategy and business strategy.

At the same time, considering the outbreak of the COVID-19 infection in 2020, the diagnosis and treatment of TCM has played an important role in the prevention and treatment of this epidemic, the Group will use the concentrated TCM granules as a step-in point to link the sales of TCM decoction pieces, premium decoction pieces, and concentrated TCM granules, and cooperate with the advantages from the national pilots of concentrated TCM granules to consolidate the Group's leading position in the industry of concentrated TCM granules.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2019*

| | *NOTES* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **14,320,949** | 11,258,941 |
| Cost of sales | | **(5,745,161)** | (5,065,368) |
| Gross profit | | **8,575,788** | 6,193,573 |
| Other income | *5* | **225,368** | 144,392 |
| Other gains and losses | *6* | **(63,093)** | 43,440 |
| Impairment losses under expected credit loss model, net of reversal | *7* | **(18,009)** | 90,648 |
| Selling and distribution expenses | | **(5,109,153)** | (3,417,195) |
| Administrative expenses | | **(686,189)** | (552,294) |
| Research and development expenses | | **(463,996)** | (346,539) |
| Profit from operations | | **2,460,716** | 2,156,025 |
| Finance costs | | **(301,047)** | (292,300) |
| Share of results of associates | | **(5,051)** | (7,028) |
| Profit before tax | | **2,154,618** | 1,856,697 |
| Income tax expense | *8* | **(381,321)** | (289,669) |
| **Profit for the year** | *9* | **1,773,297** | 1,567,028 |

| | NOTE | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Other comprehensive (expense) income for the year** | | | |
| *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 | | **(16,609)** | 1,570 |
| – Impairment (reversal of) loss for debt instruments at fair value through other comprehensive income included in profit or loss | | **1,575** | (141) |
| – Income tax relating to items that may be reclassified subsequently | | **2,148** | (176) |
| **Other comprehensive (expense) income for the year, net of income tax** | | **(12,886)** | 1,253 |
| **Total comprehensive income for the year** | | **1,760,411** | 1,568,281 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **1,588,114** | 1,439,018 |
| Non-controlling interests | | **185,183** | 128,010 |
| | | **1,773,297** | 1,567,028 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **1,576,413** | 1,440,296 |
| Non-controlling interests | | **183,998** | 127,985 |
| | | **1,760,411** | 1,568,281 |
| **EARNINGS PER SHARE** | | | |
| Basic (RMB cents) | *11* | **31.54** | 29.84 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31 December 2019*

| | *NOTES* | **2019** | 2018 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **5,370,318** | 4,298,440 |
| Right-of-use assets | | **1,231,228** | – |
| Prepaid lease payments | | **–** | 814,718 |
| Investment properties | | **72,859** | 42,016 |
| Goodwill | *12* | **3,538,800** | 3,568,984 |
| Other intangible assets | | **6,456,090** | 6,612,833 |
| Interests in associates | | **24,359** | 11,788 |
| Deposits and prepayments | | **304,810** | 326,105 |
| Deferred tax assets | | **151,637** | 126,812 |
| | | **17,150,101** | 15,801,696 |
| **CURRENT ASSETS** | | | |
| Inventories | *14* | **4,691,753** | 4,482,732 |
| Trade and other receivables | *13* | **3,457,951** | 3,467,084 |
| Prepaid lease payments | | **–** | 29,461 |
| Financial assets at fair value through profit or loss ("FVTPL") | | **72,800** | 1,076 |
| Debt instruments at fair value through other comprehensive income ("FVTOCI") | | **1,111,319** | 66,819 |
| Pledged bank deposits | | **376,168** | 88,808 |
| Bank balances and cash | | **5,613,633** | 6,349,714 |
| | | **15,323,624** | 14,485,694 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *15* | **5,355,025** | 4,147,800 |
| Lease liabilities | | **12,013** | – |
| Contract liabilities | | **223,106** | 356,956 |
| Bank and other borrowings | | **638,300** | 1,411,569 |
| Unsecured notes-due within one year | | **4,794,343** | 2,497,330 |
| Tax liabilities | | **124,225** | 219,099 |
| | | **11,147,012** | 8,632,754 |
| **NET CURRENT ASSETS** | | **4,176,612** | 5,852,940 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **21,326,713** | 21,654,636 |

| | 2019<br>*RMB'000* | 2018<br>*RMB'000* |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| Deferred government grants | **265,181** | 182,558 |
| Deferred tax liabilities | **1,748,580** | 1,736,898 |
| Unsecured notes-due after one year | **–** | 1,992,735 |
| Bank and other borrowings | **160,122** | 231,874 |
| Lease liabilities | **102,105** | – |
| | **2,275,988** | 4,144,065 |
| **NET ASSETS** | **19,050,725** | 17,510,571 |
| **CAPITAL AND RESERVES** | | |
| Share capital | **11,982,474** | 11,982,474 |
| Reserves | **4,640,941** | 3,568,959 |
| Equity attributable to owners of the Company | **16,623,415** | 15,551,433 |
| Non-controlling interests | **2,427,310** | 1,959,138 |
| **TOTAL EQUITY** | **19,050,725** | 17,510,571 |

## 1. GENERAL

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**New and amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| 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 HKFRS 16 Leases

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

***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 standard 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.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated 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.

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 incremental borrowing rate applied is 4.75%.

| | At 1 January 2019 *RMB'000* |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | **59,523** |
| Lease liabilities discounted at relevant incremental borrowing rates | **49,256** |
| Less: Recognition exemption – short-term leases | **(6,121)** |
| Recognition exemption – low value assets | **(92)** |
| 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 for own use 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 |

(a) Upfront payments for leasehold lands in the PRC for own used properties 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 as other receivables. 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 consolidated statement of financial position at 1 January 2019. However, effective 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.

(d) 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.

The following adjustments were made to the amounts recognised in the 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 year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

**New and amendments to HKFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 17 | Insurance Contracts[1] |
| Amendments to HKFRS 3 | Definition of a Business[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current[5] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[4] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform[4] |

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

**Amendments to HKAS 1 and HKAS 8 Definition of Material**

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards The New Framework:

- readopts the terms stewardship and prudence;

- adopts a new asset definition that particulary focuses on right-of-use assets and a new liability definition which is broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;

- discusses historical cost and current value measures, and provides special guidance on how to select a measurement basis for a particular asset or liability;

- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances of other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and

- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Corresponding amendments have been completed, and, therefore, references in HKFRSs have been updated in the new framework, and some of HKFRSs from previous versions of the framework are still applied. The amendments are effective for annual periods beginning on or after 1 January 2020, and earlier application is allowed. In addition to still referring to specific standards from previous versions of the framework, the Group will rely on the new framework to determine accounting policies at its effective date, especially accounting policies for transactions, events or conditions that are not processed in accordance with accounting standards.

## 3. REVENUE

### (i) Disaggregation of revenue from contracts with customers

| | For the year ended 31 December 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 | 3,453,629 | – | – | – | – | 3,453,629 |
| Sales of concentrated TCM granules | | | | | | |
| Concentrated TCM granules | – | 9,187,798 | – | – | 36,753 | 9,224,551 |
| Sales of TCM decoction pieces | | | | | | |
| Decoction pieces | 24,461 | 37,643 | 1,290,607 | – | 165,516 | 1,518,227 |
| **Services** | | | | | | |
| TCM healthcare complex | | | | | | |
| Healthcare complex | – | – | – | 89,661 | – | 89,661 |
| Others | 26,566 | 1,873 | 6,346 | – | 96 | 34,881 |
| **Total** | 3,504,656 | 9,227,314 | 1,296,953 | 89,661 | 202,365 | 14,320,949 |
| **Geographical markets** | | | | | | |
| Mainland China | 3,503,982 | 9,127,277 | 1,296,953 | 89,661 | 202,365 | 14,220,238 |
| Hong Kong | 674 | 36,806 | – | – | – | 37,480 |
| Overseas and others | – | 63,231 | – | – | – | 63,231 |
| **Total** | 3,504,656 | 9,227,314 | 1,296,953 | 89,661 | 202,365 | 14,320,949 |
| **Timing of revenue recognition** | | | | | | |
| A point in time | 3,504,656 | 9,227,314 | 1,296,953 | 89,661 | 202,365 | 14,320,949 |

| Segments | For the year ended 31 December 2018 (restated) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 2,771,021 | – | – | – | – | 2,771,021 |
| Sales of concentrated TCM granules | | | | | | |
| Concentrated TCM granules | – | 7,136,743 | – | – | – | 7,136,743 |
| Sales of TCM decoction pieces | | | | | | |
| Decoction pieces | – | – | 1,274,829 | – | 13,819 | 1,288,648 |
| **Services** | | | | | | |
| TCM healthcare complex | | | | | | |
| Healthcare complex | – | – | – | 62,529 | – | 62,529 |
| **Total** | 2,771,021 | 7,136,743 | 1,274,829 | 62,529 | 13,819 | 11,258,941 |
| **Geographical markets** | | | | | | |
| Mainland China | 2,770,764 | 7,043,481 | 1,274,829 | 62,529 | 13,819 | 11,165,422 |
| Hong Kong | 257 | 32,022 | – | – | – | 32,279 |
| Overseas and others | – | 61,240 | – | – | – | 61,240 |
| **Total** | 2,771,021 | 7,136,743 | 1,274,829 | 62,529 | 13,819 | 11,258,941 |
| **Timing of revenue recognition** | | | | | | |
| A point in time | 2,771,021 | 7,136,743 | 1,274,829 | 62,529 | 13,819 | 11,258,941 |

**(ii) Performance obligations for contracts with customers**

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

The Group sells pharmaceutical products (finished drugs, concentrated TCM granules, TCM decoction pieces and TCM healthcare complex) to the customers including end customers, distributors, hospitals and primary health care institutions.

For sales of pharmaceutical products to customers, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' designated location (delivery). Following delivery, the customer has the ability to direct the use of the pharmaceutical products and obtain substantial all of the remaining benefits of the products. The normal credit term granted to distributors is within 180 days upon delivery and for hospitals and primary health care institutions, the credit term is within 365 days upon delivery. Payment of the transaction price is due immediately at the point the end customer purchases the pharmaceutical products.

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

The provision for deduction of estimated income is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Providing a discount to pharmaceutical distributors is in accordance with the practice of the pharmaceutical industry. The Group records discount provision for sales at the time of sale based on the agreed rate.

The Group regularly reviews the estimates and accordingly adjusts provisions.

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

The Group provides medical diagnosis and health examination services.

The Group's contractual performance is responsible for the delivery of diagnostic results and reports after the completion of a service contract, which is usually in one day. The Group recognises revenue when the diagnostic results and reports are delivered to the customer, which means that the control of the results is transferred to the customer. The Group normally does not grant credit term to the customers.

## 4. OPERATING SEGMENTS

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

In prior year, 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 year, due to the rapid growing size of local TCM integrated operation, the CODM revised the organisation of the concentrated TCM granules segment that were used to allocate resources and assess performance in previous years, 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 year, 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 year ended 31 December 2018 or as at 31 December 2018 have been restated in order to conform with the presentation adopted in the current year. The changes in the segment information do not have any impact on the Group's 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 CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

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. During the year ended 31 December 2019, CODM has allocated head office and corporate expenses to individual segments with reference to revenues generated by each individual segments in order to allocate resources to segments and to assess their performances in more accurate way.

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. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments. Further details of the adjusted items are set out in note 4(ii).

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, deferred government grants and unsecured notes attributable to individual segments and bank and other borrowings managed directly by the segments, with the exception of tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

In addition to collecting segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, interest income from cash and bank balances and finance costs on borrowings, depreciation and amortisation, which is managed directly by the segments.

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 | 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* |
| ***For the year ended 31 December 2019*** | | | | | | |
| Reportable segment revenue | **3,570,856** | **9,337,614** | **2,011,895** | **89,712** | **312,227** | **15,322,304** |
| Eliminated of inter-segment revenue | **(66,200)** | **(110,300)** | **(714,942)** | **(51)** | **(109,862)** | **(1,001,355)** |
| Revenue from external customers | **3,504,656** | **9,227,314** | **1,296,953** | **89,661** | **202,365** | **14,320,949** |
| Reportable segment profit (loss) (adjusted EBITDA) | **555,678** | **2,384,324** | **77,814** | **(1,011)** | **(13,473)** | **3,003,332** |
| Interest income | **155,038** | **146,696** | **3,190** | **137** | **2,188** | **307,249** |
| Eliminated of inter-segment interest income | **(135,067)** | **(120,137)** | **(742)** | **–** | **(52)** | **(255,998)** |
| Interest income from third parties | **19,971** | **26,559** | **2,448** | **137** | **2,136** | **51,251** |
| Finance costs | **149,460** | **379,891** | **15,956** | **1,999** | **9,739** | **557,045** |
| Eliminated of inter-segment finance costs | **(93,384)** | **(146,882)** | **(7,957)** | **(188)** | **(7,587)** | **(255,998)** |
| Finance costs from third parties | **56,076** | **233,009** | **7,999** | **1,811** | **2,152** | **301,047** |
| Depreciation and amortisation | **159,939** | **326,219** | **62,106** | **14,788** | **27,774** | **590,826** |
| **As at 31 December 2019** | | | | | | |
| Reportable segment assets | **10,487,759** | **21,510,726** | **3,520,895** | **240,220** | **2,482,060** | **38,241,660** |
| Reportable segment liabilities | **5,781,392** | **7,984,077** | **2,352,609** | **56,880** | **915,842** | **17,090,800** |

| | 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 year ended 31 December 2018 (restated)** | | | | | | |
| Reportable segment revenue | 2,822,008 | 7,177,422 | 1,450,339 | 62,529 | 25,151 | 11,537,449 |
| Eliminated of inter-segment revenue | (50,987) | (40,679) | (175,510) | – | (11,332) | (278,508) |
| Revenue from external customers | 2,771,021 | 7,136,743 | 1,274,829 | 62,529 | 13,819 | 11,258,941 |
| Reportable segment profit (loss) (adjusted EBITDA) | 610,035 | 1,935,580 | 128,138 | 5,531 | (29,925) | 2,649,359 |
| Interest income | 123,519 | 127,636 | 2,153 | 38 | 1,007 | 254,353 |
| Eliminated of inter-segment interest income | (102,249) | (108,458) | (400) | – | – | (211,107) |
| Interest income from third parties | 21,270 | 19,178 | 1,753 | 38 | 1,007 | 43,246 |
| Finance costs | 202,399 | 292,573 | 8,032 | 181 | 222 | 503,407 |
| Eliminated of inter-segment finance costs | (99,076) | (109,513) | (2,518) | – | – | (211,107) |
| Finance costs from third parties | 103,323 | 183,060 | 5,514 | 181 | 222 | 292,300 |
| Depreciation and amortisation | 154,717 | 291,074 | 59,407 | 7,859 | 16,115 | 529,172 |
| **As at 31 December 2018 (restated)** | | | | | | |
| 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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Reportable segment profit (adjusted EBITDA) | **3,003,332** | 2,649,359 |
| Depreciation and amortisation | **(590,826)** | (509,662) |
| Release of prepaid lease payments | **–** | (19,510) |
| Interest income | **51,251** | 43,246 |
| Finance costs | **(301,047)** | (292,300) |
| Rental income | **10,159** | 5,593 |
| Fair value changes on financial assets at FVTPL | **4** | 385 |
| Net exchange (loss) gain | **(13,076)** | 9,720 |
| (Loss) gain on disposal of an associate | **(128)** | 6,090 |
| Share of results of associates | **(5,051)** | (7,028) |
| Head office and corporate expenses | **–** | (29,196) |
| Consolidated profit before tax | **2,154,618** | 1,856,697 |

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Reportable segment assets | **38,241,660** | 36,476,862 |
| Elimination of inter-segment receivables | **(6,005,871)** | (6,400,990) |
| | **32,235,789** | 30,075,872 |
| Financial assets at FVTPL | **72,800** | 1,076 |
| Deferred tax assets | **151,637** | 126,812 |
| Unallocated head office and corporate assets | **13,499** | 83,630 |
| Consolidated total assets | **32,473,725** | 30,287,390 |
| **Liabilities** | | |
| Reportable segment liabilities | **17,090,800** | 16,641,840 |
| Elimination of inter-segment payables | **(6,005,871)** | (6,400,990) |
| | **11,084,929** | 10,240,850 |
| Tax liabilities | **124,225** | 219,099 |
| Deferred tax liabilities | **1,748,580** | 1,736,898 |
| Unallocated head office and corporate liabilities | **465,266** | 579,972 |
| Consolidated total liabilities | **13,423,000** | 12,776,819 |

### (iii) Geographical information and information about major customers

Analysis of the Group's revenue and results as well as 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 2019 and 2018.

## 5. OTHER INCOME

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grants | | |
| – Unconditional subsidies *(note)* | **132,807** | 67,044 |
| – Conditional subsidies | **31,151** | 28,509 |
| Interest income on bank deposits | **51,251** | 43,246 |
| Rental income from investment properties | **10,159** | 5,593 |
| | **225,368** | 144,392 |

*Note:* The amount represents subsidy income received from various government authorities as incentives to the group entities to recognise their contribution to the local economy with conditions which have been satisfied.

## 6. OTHER GAINS AND LOSSES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Impairment loss recognised in respect of | | |
| – goodwill *(note 12)* | **(30,184)** | – |
| – other intangible assets | **(1,779)** | – |
| Gain on disposal of right-of-use assets | **32,086** | – |
| Loss on disposal of property, plant and equipment | **(7,386)** | (3,353) |
| Loss (gain) on disposal of an associate | **(128)** | 6,090 |
| Fair value changes on financial assets at FVTPL | **4** | 385 |
| Net foreign exchange (loss) gain | **(13,076)** | 9,720 |
| Others | **(42,630)** | 30,598 |
| | **(63,093)** | 43,440 |

## 7. IMPAIRMENT LOSSES, NET OF REVERSAL

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Impairment losses (recognised) reversed in respect of | | |
| – trade receivables | **(17,424)** | 92,449 |
| – other receivables | **(182)** | (2,911) |
| – bills receivables | **1,172** | 1,251 |
| – debt instruments at FVTOCI | **(1,575)** | (141) |
| | **(18,009)** | 90,648 |

## 8. INCOME TAX EXPENSE

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax: | | |
| PRC Enterprise Income Tax ("EIT") | **381,226** | 317,263 |
| Under (over) provision in prior years | **11,090** | (3,539) |
| | **392,316** | 313,724 |
| Deferred tax credit | **(10,995)** | (24,055) |
| | **381,321** | 289,669 |

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

## 9. PROFIT FOR THE YEAR

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax has been arrived at after charging (crediting): | | |
| Directors' remuneration | **8,273** | 7,074 |
| Other staff costs | | |
| Salaries, wages and other benefits | **1,611,974** | 1,204,983 |
| Contributions to defined contribution retirement plans | **98,185** | 84,972 |
| | **1,710,159** | 1,289,955 |
| Auditor's remuneration | **5,250** | 5,640 |
| Depreciation | | |
| – investment properties | **5,567** | 1,068 |
| – property, plant and equipment | **379,412** | 329,032 |
| – right-of-use assets | **39,929** | – |
| Amortisation of other intangible assets | **165,918** | 179,562 |
| Total depreciation and amortisation | **590,826** | 509,662 |
| Release of prepaid lease payments | **–** | 19,510 |
| Gross rental income from investment properties | **(10,159)** | (5,593) |
| Less: direct operating expenses incurred for investment properties | **1,253** | 398 |
| | **(8,906)** | (5,195) |

## 10. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 2019 Interim – HK5.72 cents (2018: 2018 interim dividend HK6.04 cents) per share | **258,413** | 268,545 |
| 2018 final of HK5.51 cents (2018: 2017 final dividend HK4.96 cents) per share | **244,093** | 206,590 |
| | **502,506** | 475,135 |

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2019 of HK4.76 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$239,704,000, calculated based on the Company's number of shares issued at the date of issuance of these consolidated financial statements, is not recognised as a liability in the consolidated statement of financial position.

## 11. EARNINGS PER SHARE

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

| | 2019 | 2018 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Profit attributable to the owners of the Company | **1,588,114** | 1,439,018 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **5,035,801** | 4,822,229 |

No diluted earnings per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

## 12. GOODWILL

| | *RMB'000* |
|---|---|
| COST | |
| At 1 January 2018 | 3,486,372 |
| Arising on acquisition of subsidiaries | 82,612 |
| At 31 December 2018 and 2019 | 3,568,984 |
| IMPAIRMENT | |
| At 1 January 2018 and 31 December 2018 | – |
| Impairment loss recognised in the year | 30,184 |
| At 31 December 2019 | 30,184 |
| CARRYING VALUES | |
| At 31 December 2019 | 3,538,800 |
| At 31 December 2018 | 3,568,984 |

## 13. TRADE AND OTHER RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **3,001,626** | 2,532,688 |
| Less: allowance for credit losses | **(55,173)** | (49,221) |
| | **2,946,453** | 2,483,467 |
| Bills receivables | **–** | 606,972 |
| Less: allowance for credit losses | **–** | (1,172) |
| | **–** | 605,800 |
| Deposits and prepayments | **155,447** | 111,293 |
| Advance tax payments | **232,016** | 140,884 |
| Other receivables | **152,331** | 156,167 |
| Less: allowance for credit losses | **(28,296)** | (30,527) |
| | **124,035** | 125,640 |
| | **3,457,951** | 3,467,084 |

Rental deposits paid and prepayment for rental were adjusted upon the initial application of HKFRS16. Details of the adjustments are set out in Note 2.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB1,758,258,000.

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:

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-90 days | **2,071,360** | 1,790,175 |
| 91-180 days | **445,385** | 371,157 |
| 181-365 days | **426,727** | 332,017 |
| Over 365 days | **58,154** | 39,339 |
| | **3,001,626** | 2,532,688 |

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-90 days | – | 425,377 |
| 91-180 days | – | 170,604 |
| 181-365 days | – | 10,991 |
| | – | 606,972 |

During the past few years, the Group 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 also discounted these bills receivables to banks for raising of working capital. During the current year, the Group changed its business model in holding these bills receivables that could be sold by way of endorsing or discounting when necessary and accordingly, all the bills receivables have been classified as debt instrument at FVTOCI.

## 14. INVENTORIES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Inventories comprise: | | |
| Raw materials | **1,346,297** | 1,439,768 |
| Work in progress | **1,713,268** | 1,329,852 |
| Finished goods | **1,632,188** | 1,713,112 |
| | **4,691,753** | 4,482,732 |

## 15. TRADE AND OTHER PAYABLES

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **1,684,157** | 1,804,551 |
| Deposits received | **900,153** | 561,995 |
| Advances of government grants *(note a)* | **31,151** | 23,068 |
| Salaries and welfare payables | **321,986** | 226,416 |
| Other tax payables | **189,274** | 132,210 |
| Accruals of operating expenses | **555,241** | 546,526 |
| Bills payables | **802,874** | 84,640 |
| Interest payable | **75,293** | 67,528 |
| Dividend payable | **118,958** | 78,682 |
| Consideration payable for acquisition of subsidiaries | **35,518** | 36,760 |
| Other payables *(note b)* | **640,420** | 585,424 |
| | **5,355,025** | 4,147,800 |

(a) As at 31 December 2019 and 2018, advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the period when the recognition criterion are met in accordance to the Group's accounting policy.

(b) Included in other payables is RMB567,609,000 (2018: RMB373,889,000) which represents the payables arising from settlement of trade receivables under the non-recourse factoring arrangement as the Group is required to repay to the parties that the factoring arrangement the Group has entered with.

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

| | **2019** | 2018 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0-90 days | **2,009,949** | 1,243,657 |
| 91-180 days | **306,583** | 271,002 |
| 181-365 days | **46,069** | 216,598 |
| Over 365 days | **124,430** | 157,934 |
| | **2,487,031** | 1,889,191 |

## FINANCIAL REVIEW

For revenue, cost of sales and gross profit analysis, please refer to section "Analysis of business segments".

### Other income

For the twelve months ended 31 December 2019, the Group's other income was approximately RMB225,368,000, representing an increase of 56.1% from approximately RMB144,392,000 for the previous year. This was mainly because: (1) the Group received revenue in the form of a government grant of approximately RMB163,958,000 during the Period, representing an increase of 71.6% over the previous year; and (2) the Group strengthened centralized fund management and vigorously promoted the payment of bills during the Period, which increased the balance of funds and increased interest income by 18.5% over the previous year.

| | **Twelve months ended 31 December** | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Interest income | **51,251** | 43,246 | 18.5% |
| Government grants | **163,958** | 95,553 | 71.6% |
| Rental income | **10,159** | 5,593 | 81.6% |
| Total | **225,368** | 144,392 | 56.1% |

### Other gains and losses and impairment losses, net of reversal

For the twelve months ended 31 December 2019, the Group's other losses were approximately RMB63,093,000 (twelve months ended 31 December 2018: other gains of approximately RMB43,440,000). During the Reporting Period, the reasons for the change in other gains and other losses are that: (1) there was a one-off exchange gain arising from the increase in share capital for the previous year; the total exchange gain of the Group last year was approximately RMB9,720,000, while the exchange loss during the Period was approximately RMB13,076,000; (2) during the Period, the Company carried out comprehensive works related to asset examination, and the provision made for diminution in value of inventory increased by approximately RMB24,576,000 compared to the previous year; and (3) the provision for impairment loss of goodwill during the Period was approximately RMB30,184,000.

In 2018, receivables with carrying amount of RMB107,608,000 were factoring without recourse, and reversed the credit impairment loss of receivables of approximately RMB92,449,000. In 2019, the Group made provision for the credit impairment loss of receivables of approximately RMB17,424,000 according to the credit impairment loss provision policy.

**Selling and distribution costs**

For the twelve months ended 31 December 2019, the Group's selling and distribution costs were approximately RMB5,109,153,000 (twelve months ended 31 December 2018: RMB3,417,195,000).

| | **Twelve months ended 31 December** | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Advertising, promotion, channel expansion and travel expenses | **3,194,802** | 1,830,850 | 74.5% |
| Salary expenses of sales and marketing staff | **727,410** | 511,289 | 42.3% |
| Distribution costs | **247,935** | 169,191 | 46.5% |
| Other selling and distribution costs | **939,006** | 905,865 | 3.7% |
| Total | **5,109,153** | 3,417,195 | 49.5% |

During the Reporting Period, the Group's selling and distribution costs increased by 49.5% over the previous year and accounted for 35.7% of its revenue, 5.3 percentage points higher than 30.4% recorded for the same period last year. This was mainly because: (1) in order to adapt to market changes in concentrated TCM granules, investments in new markets were raised to further expand the promotion channels, and to strengthen the marketing research, consulting, services, promotion and channel services. Especially, the improved maintenance model of dispensing machine expanded the market coverage and enhanced the customer service level. The proportion of sales expenses for the Period increased by 6.4 percentage points compared with the previous year; (2) the sales expenses margin of Zhonglian Pharmaceutical, which has been consolidated into the Group's finished drugs business since October 2018, was higher than that of the original finished drugs business. (3) The TCM decoction pieces business strengthened the construction of self-built promotion team, and established the premium decoction piece department.

**Administrative expenses**

For the twelve months ended 31 December 2019, the Group's administrative expenses were approximately RMB686,189,000 (twelve months ended 31 December 2018: RMB552,294,000).

| | Twelve months ended 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Change |
| | ***RMB'000*** | *RMB'000* | |
| Salary | **338,647** | 258,435 | 31.0% |
| Depreciation and amortisation | **78,940** | 65,377 | 20.7% |
| Office rental and other expenses | **268,602** | 228,482 | 17.6% |
| Total | **686,189** | 552,294 | 24.2% |

Administrative expenses increased by 24.2% over the same period last year. The change was mainly because: (1) in order to enhance management and implement the strategy, the Group hired intermediaries to carry out relevant management consulting, and at the same time to improve the allocation of management personnel, the management cost of the headquarters increased; (2) after 2018, the number of personnel in the acquisition and newly established enterprises increased, and the salary expenditure increased by about RMB30,000,000. In addition, the depreciation and amortization amount of office buildings and equipment assets for management has also increased since the new plants have been put into operation.

At the same time, the Group has enhanced the budget mangement during the Period, carried out special work to improve quality, reduce costs and increase efficiency, and effectively controled administrative expenses. Administrative expenses accounted for 4.8% of the revenue, decreasing by 0.1 percentage point compared with 4.9% for the same period last year.

**Research and development expenses**

For the twelve months ended 31 December 2019, the Group's research and development expenses amounted to approximately RMB463,996,000, representing an increase of 33.9% over approximately RMB346,539,000 for the previous 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; and (3) improve future efficiency research, focusing on production process improvement and base construction research.

**Profit from operations**

For the twelve months ended 31 December 2019, the Group's profit from operations was approximately RMB2,460,716,000, representing an increase of 14.1% compared to approximately RMB2,156,025,000 for the previous year. The operating profit margin (defined as profit from operations divided by revenue) was 17.2%, a decrease of 1.9 percentage points from 19.1% for the previous year. The decrease in operating profit margin was due to the fact that (1) the local TCM integrated operation and the TCM 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; (2) the Group has increased its investment in selling and distribution costs in order to seize the sales market; (3) investment costs and management costs rose correspondingly because of the rapid mergers and acquisitions and development; and (4) the recognized provision for asset impairment loss (including inventory depreciation loss) for the Period was approximately RMB70.43 million.

**Finance costs**

For the twelve months ended 31 December 2019, the Group's finance costs were approximately RMB301,047,000 (twelve months ended 31 December 2018: RMB292,300,000). The Group lowered the ratio of financial expenses accounted to revenue by adjusting financing products and strengthening the internal fund allocation. During the Reporting Period, capitalised finance costs of the Group were approximately RMB28,736,000. Bank and other loans held by the Group as at 31 December 2019 amounted to approximately RMB798,422,000, and corporate bonds of approximately RMB4,794,343,000 were also held. As compared to 31 December 2018, bank and other loans held by the Group amounted to approximately RMB1,643,443,000, and corporate bonds of approximately RMB4,490,065,000 were held.

During the Reporting Period, the Group's effective loan interest rate was 4.18% (twelve months ended 31 December 2018: 4.35%). The reasons for the decline in the effective interest rate during the Period were: (1) in 2019, the Group adjusted the issuance structure of the Panda bond and issued a Super & Short-term Commercial Paper with an aggregated amount of RMB2.8 billion in replacement of the medium-term notes, so that the financing costs decreased; and (2) the Group replaced some high-interest-rate bank loans. The Group will continue to monitor market interest rates and adjust its borrowing and fundraising mechanism as appropriate. The Group will refinance for its existing loans or secure new bank loans when good bargaining opportunities arise.

**Share of results of associates**

For the twelve months ended 31 December 2019, the Group shared loss attributable to associates of approximately RMB5,051,000, compared to approximately RMB7,028,000 for the previous year.

**Earnings per share**

For the twelve months ended 31 December 2019, earnings per share were RMB31.54 cents, representing an increase of 5.7% over RMB29.84 cents for the previous year. The increase in earnings per share was due to profit attributable to equity holders of the Company during the Reporting Period, which increased by 10.4% to approximately RMB1,588,114,000 (twelve months ended 31 December 2018: RMB1,439,018,000). In May last year, the Group issued 604,296,222 new shares to Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), making the weighted average number of shares of 5,035,801,852 for the Period, compared to approximately 4,822,229,000 for the previous 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 31 December 2019, the Group's current assets amounted to approximately RMB15,323,624,000 (31 December 2018: RMB14,485,694,000), which included cash, cash equivalents and deposits with banks of approximately RMB5,989,801,000 (31 December 2018: RMB6,438,522,000), from which the pledged bank deposits amounted to approximately RMB376,168,000 mainly for bills payable security (31 December 2018: RMB88,808,000). Trade and other receivables amounted to approximately RMB3,457,951,000 (31 December 2018: RMB3,467,084,000). Current liabilities amounted to approximately RMB11,147,012,000 (31 December 2018: RMB8,632,754,000). Net current assets aggregated to approximately RMB4,176,612,000 (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 loans and bonds payable divided by equity attributable to shareholders of the Company) decreased to 33.6% from 39.4% as at 31 December 2018. The decrease in gearing ratio was mainly due to the decrease in bank and other loans.

**Bank and other borrowings and pledge of assets**

As at 31 December 2019, the Group's balance of bank and other borrowings was approximately RMB798,422,000 (31 December 2018: RMB1,643,443,000), of which approximately RMB336,061,000 (31 December 2018: RMB408,074,000) was secured by the Group's assets with a carrying amount of approximately RMB377,768,000 (31 December 2018: RMB135,789,000). Out of the balance of bank and other borrowings, approximately RMB638,300,000 and RMB160,122,000, were repayable within one year and over one year respectively (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. In November 2019, the Group issued a Super & Short-term Commercial Paper with an aggregated amount of RMB2.8 billion to replace the mature three-year medium-term notes of RMB2.5 billion. Apart from that, the Group did not carry out major financing activities. To improve its working capital turnover, the Group increased the percentage of payment with notes in raw materials procurement and project construction during the Reporting Period. As of 31 December 2019, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB4,976,970,0000.

**Capital expenditure**

For the twelve months ended 31 December 2019, the Group's fixed asset investment expenditure was approximately RMB1,864,478,000 (including cash payments of approximately RMB1,173,340,000), compared to approximately RMB1,262,737,000 for the previous year. Capital expenditure during the Period was mainly used for the construction of the production bases for TCM decoction pieces and concentrated TCM granules.

**Financing capacity**

As of 31 December 2019, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,247,850,000 (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 is of the view 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 of 31 December 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 of 31 December 2019, the Group had Hong Kong Dollar bank borrowings of HK$470 million. As of 31 December 2019, the Group had not entered into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

### Employees and remuneration policies

As of 31 December 2019, the Group had a total of 17,796 (31 December 2018: 14,169) employees, including directors of the Company, of which 7,411 were sales staff, 7,074 were manufacturing staff, and 3,311 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Period under review was approximately RMB1,718,432,000 (twelve months ended 31 December 2018: RMB1,297,029,000).

## SUBSEQUENT EVENTS

The pneumonia infected by novel coronavirus spread worldwide from January 2020, having a huge impact on the production and people's living across the world. As a central stated-owned and highly socially responsible pharmaceutical enterprise, the Company actively participated in the fight against the epidemic. As of the date of results announcement, the Company has donated medicines and materials with a total value of approximately RMB32.6206 million to medical institutions, administrative departments and social organizations in major regions of the country and overseas regions.

In the fight against the novel coronavirus epidemic, the concentrated TCM granules overcame the difficulties encountered by traditional TCM decoction pieces in quality stability, storage and application. It has the convenience and flexibility as those of finished drugs and TCM decoction piece syndrome differentiation respectively, and can be dispensed quickly and accurately according to the TCM prescriptions in the treatment scheme of various places. Therefore, many subsidiaries of the Group have undertaken the local task of formulating and producing TCM prescriptions, and supplied TCM products for prevention or treatment to hospitals in various places.

## FINAL DIVIDEND

The Board recommended a final dividend of HK4.76 cents (approximately RMB4.34 cents) per share for the year ended 31 December 2019 (2018: HK5.51 cents (approximately RMB4.71 cents) per share). The final dividend for the year 2019 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 13 July 2020 to the shareholders on the register of members of the Company on 2 July 2020.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held at Conference Room, 2nd Floor, No. 1, Keyuan Heng 4 Road, Gaoli Hi-Tech Park, Ronggui, Shunde District, Foshan City, Guangdong Province, China, on Friday, 19 June 2020 at 2:30 p.m..

## CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, 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, Hong Kong not later than 4:30 p.m. on Monday, 15 June 2020.

To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Saturday, 27 June 2020 to Thursday, 2 July 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final 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, Hong Kong not later than 4:30 p.m. on Friday, 26 June 2020.

## PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the 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 year ended 31 December 2019.

Code Provision A.1.5 of the Corporate Governance 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 an announcement of the Company dated 25 January 2019 and 28 January 2018 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) Rules 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 nonexecutive 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.

## COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the directors, all the directors have complied with the required standard of Model Code throughout Reporting Period.

## AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control system and risk management of the Group and to provide advice and comments to the Board. As at the date of this announcement, the Audit Committee comprises five members who are four independent non-executive directors and one member who are non-executive directors, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong and Mr. YANG Shanhua, and Mr.XIE Rong who has appropriate professional qualifications and experience in accounting matters was appointed as the chairman of the Audit Committee. Audit Committee has met with the Group's senior management and the auditors to review the annual results and the financial statements for the year ended 31 December 2019.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

## PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk). The Company's 2019 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk).

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

Hong Kong, 30 March 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 Lin and Mr. LI Weidong are independent non-executive Directors.*