国药集团
SINOPHARM

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

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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020 (the "Reporting Period" or the "Period"):

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue			
– Concentrated TCM granules	**10,012,956**	9,227,314	8.5%
– Finished drugs	**3,066,883**	3,504,656	-12.5%
– TCM decoction pieces	**1,237,402**	1,296,953	-4.6%
– TCM healthcare complex	**106,055**	89,661	18.3%
– Local TCM integrated operation	**382,872**	202,365	89.2%
Total	**14,806,168**	14,320,949	3.4%
Gross profit	**9,126,075**	8,575,788	6.4%
Adjusted EBITDA	**3,118,005**	3,003,332	3.8%
Profit from operations	**2,490,631**	2,460,716	1.2%
Profit for the year	**1,860,644**	1,773,297	4.9%
Profit attributable to the owners of the Company	**1,663,255**	1,588,114	4.7%
Earnings per share (RMB cents)	**33.03**	31.54	4.7%

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2020, the impact of the Coronavirus Disease 2019 ("COVID-19") pandemic (the "pandemic") was both unprecedented and far-reaching, affecting all walks of life around the world. As of today, its effects are bringing strong element of uncertainty to predictions about the economy and society. The pandemic has aligned the whole healthcare industry with a mission of emergency support, and has revealed new development opportunities. Looking ahead, it is certain that the digital economy, intelligent manufacturing and healthcare industries will be among the industries forming new growth points and poles.

The year 2020 was also notable in the development of traditional Chinese medicine ("TCM") in China. This year, China has taken a solid step forward in the inheritance, innovation and development of TCM, and the wisdom and strength of TCM has contributed to the pandemic prevention and control, building of a healthy China and economic and social development, and has been highly recognized by the whole country and the world at large. The pandemic inspired the TCM industry to explore new development idea and promote a high-end, centralized and intelligent upgrading, and provide new driving force and support for economic development.

We believe, it is precisely because of the Group's strength in product variety, upstream resources, midstream production capacity, downstream channels and other aspects of its industry chain that the Group has a competitive advantage. It has been rewarded in collaborative developments, its success in resisting external impacts, and in winning industry-leading development opportunities.

BUSINESS PERFORMANCE

The Group's industry chain of TCM healthcare showed great resilience to the challenges of 2020, and contributed to China's "double victory" of pandemic prevention and control and high-quality development. For the year ended 31 December 2020, the Group's revenue was RMB14.806 billion, an increase of 3.4% compared with that of 2019, and the profit attributable to owners increased by 4.7% to RMB1.663 billion, with both figures representing record highs and the increase in profit attributable to owners exceeds the increase in revenue.

STRATEGIC PROGRESS

In 2020, the Group achieved the strategic goals set five years ago under the 13th Five-Year Plan, despite the challenges of the pandemic. Pursuant to its industrial development rule, the Group has further implemented the overall strategy of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry". It has formed an ecosystem with TCM manufacturing as the core, and medicinal herbs resources and value-added healthcare service sectors booming.

In terms of marketing, the Group acquired rich industry experience and a good market reputation, first-mover advantage in many channels and room to expand. The Group has fruitful achievements in the field of TCM scientific research. In addition to taking the lead in formulating standards for concentrated TCM granules, the Group has made every effort to bring progress to the transformation of major scientific and technological achievements, participates in the formulation of national standards for the processing of TCM decoction pieces, and accelerate R&D of homologous healthcare products, enjoying the driving force to promote the inheritance, innovation and development of the TCM industry. We also fulfill the main responsibility and related obligations of the whole life cycle of TCM products, and has consolidated the core for the high-quality development of the TCM industry with modern production systems and strict quality control. To improve its corporate governance, the Group has refined its enterprise management and continuously optimizes its internal control operation mechanism according to changes of risk status and the control environment. The overall planning function of the headquarter is emphasized in the top management, and the Group has been acting to strengthen unified management and control, optimized its organizational structure, improved the business collaboration process, and built an efficient and collaborative development landscape. The Group also grants management power with scope of responsibilities to subsidiaries so that they may take the initiative to develop, specialize and operate their main businesses independently, forming a strong joint force within the Group and maximizing its overall value.

At the beginning of 2021, the Announcement on Ending the Pilot Scheme of Concentrated TCM Granules (the "Announcement"), which has made a splash in the market, was officially issued. Looking back, according to the requirements of the Announcement, with the support of the pilot policy in the past 20 years, the Group has become a demonstration leader from a "pioneering and pilot" company, and takes a lead in innovation from the exploration of innovation. Looking forward, the end of the pilot work will have a profound influence on the development of the Group and the whole industry. Leveraging on the forward-looking business layout in recent years, the Group has formed a system integrated with modern industry production scale and national supply chain, enabling it to respond adroitly to policy changes.

CORPORATE RESPONSIBILITY

As the core platform of the modern TCM industry under China National Pharmaceutical Group Corporation ("CNPGC"), the Group consistently fulfills its responsibility and mission as a central stated-owned enterprise to respond to the public need for sustainable high-quality TCM. The pandemic deepened the Group's understanding of the true meaning of "caring for life and health". During the pandemic, the Group takes full advantage of its national network within the TCM healthcare industry chain to ensure the drug supply, restore the economy, and contribute to the fight against the pandemic, and therefore, has been widely recognized.

Thanks to the high attention paid by the central government to the inheritance, innovation and development of the TCM industry, and the prosperous development of the society and the economy, the Group shares the same fate with the development of the TCM industry and even the society and the economy. We are committed to becoming a responsible TCM industry leader, emphasising contribution made by Chinese TCM to the society, and regards it as the key part of the Group's business, strategy and future development. Details will be set out in our Environmental, Social and Governance Report 2020.

PROSPECTS

The year 2021 will be devoted to the initiation of projects under the 14th Five-Year Plan, the normalization of pandemic prevention and control, and implementation of new policies for concentrated TCM granules. A new competitive order in the TCM industry is taking shape quickly, with high-quality development being comprehensively implemented. The Group will therefore not only respond to sudden external changes in the short term, and maintain normal operations, so as to mitigate the business impact of the pandemic, but also optimize business planning and operational deployment according to medium- to long-term strategic objectives and development opportunities. By doing so, the Group will seek high-quality business development from a broader scope and an extended industry life cycle.

Looking forward, we hope that the Group will not only maintain its leadership in the concentrated TCM granules sector during the next five years, but also maintain the main line of inheriting of the essence and innovating while keeping the origin, follow the development rule of TCM, keep pace with changes in policy and market demand, and uphold its responsibility and mission as a central state-owned enterprise in the recognition of the Chinese culture, revitalize and lead the development of the TCM industry in China.

WU XIAN
Chairman
Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2020, the pandemic raged around the globe. After suffering its effects during the first quarter of the year, China's economy and the normal life of its people recovered due to stringent and effective pandemic prevention and control measures. TCM played an important role in the overall process of treating COVID-19, proving its usefulness as a "heavy weapon" for pandemic prevention and control.

During the Reporting Period, the Group fulfilled its social responsibilities as a central stated-owned enterprise. It made every effort to resume work and production as soon as possible to ensure the drug supply and support pandemic prevention and control. Simultaneously, the Group seized on development opportunities for TCM, take pandemic prevention and control and economic development both into account, completed key tasks and targets, and achieved positive growth in its annual business performance.

During the Reporting Period, the Group's revenue was approximately RMB14,806,168,000, representing a 3.4% increase from the approximately RMB14,320,949,000 for the same period of the last year. This was mainly due to a slowed-down business growth being impacted by COVID-19 during the first half of the year. The concentrated TCM granules business contributed approximately RMB10,012,956,000 or 67.6% of total revenue. Revenue from the finished drugs business was approximately RMB3,066,883,000, representing 20.7% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,237,402,000, or 8.4% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB106,055,000, representing 0.7% of total revenue. Revenue from the local TCM integrated operation was approximately RMB382,872,000, representing 2.6% of total revenue.

Business Review

In 2020, while participating in the fight against COVID-19 pandemic, the Group also focused on the strategic goal of "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain". The Group improved quality control of Chinese medicinal herb sources, and contributed greatly to the construction of Good Agriculture and Collection Practices for Medicinal Plants ("GACP") bases. The Group continued to improve its overall planning to consolidate its leading position in the manufacture of TCM, established a product quality control system to improve the source traceability of Chinese medicinal herbs, enhanced the recognition of the "Dragon Seal Sino-TCM" brand and explored development of a diversified marketing model, leveraged scientific research to enhance its core competitiveness, and intensified system management to improve its corporate governance. These efforts led the Group to achieve a satisfactory ending to the 13th Five-Year Plan and lay a solid foundation for the start of the 14th Five-Year Plan. The following are the Group's business highlights of 2020:

I. Fulfilling social responsibility as a central stated-owned enterprise to support pandemic prevention and control

During the first half of 2020 when China was experiencing the worst of the pandemic, TCM was unprecedentedly widely employed in both diagnosis and treatment. As General Secretary Xi Jinping observed, "A combination of traditional Chinese and Western medicine is a major feature of the pandemic prevention and control. It is also a good demonstration of the TCM industry inheriting of the essence and innovating while keeping the origin". According to the *Fighting Covid-19: China in Action* white paper, "TCM were administered to 92 percent of all confirmed cases. In Hubei Province, more than 90 percent of confirmed cases received TCM treatment that proved effective". Soon after the outbreak began, the Group, as the core platform of modern TCM industry under CNPGC, leveraged the whole industry chain to undertake its social responsibility as a central stated-owned enterprise to participate in the fight against the pandemic. It urgently allocated and transported concentrated TCM granules, finished drugs, TCM decoction pieces and other drugs to quickly establish a TCM supply platform, and provided TCM healthcare complex services to assist TCM playing unique advantage in treating diseases and containing the pandemic.

The Group demonstrated its strong capabilities in TCM manufacturing and R&D during the pandemic. Guangdong Yifang Pharmaceutical Co, Ltd ("Guangdong Yifang") assisted the 8th People's Hospital of Guangzhou in the emergency approval and filing of "Toujie Quwen Granules" (透解祛瘟顆粒) (formerly known as "No. 1 formula for pneumonia") for medical institutions, and was commissioned to produce and distribute the preparations. Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co, Ltd was commissioned to produce "Chaigechangyuan mixture" (柴葛暢原合劑) and "Dayuan disinfectant mixture" (達原消毒合劑), independently developed by the Second Affiliated Hospital of Guizhou University of Traditional Chinese Medicine for medical institutions. Huayi Pharmaceutical Co, Ltd ("Huayi Pharmaceutical") assisted the Chinese Academy of Chinese Medical Sciences ("CACMS") to prepare "Huashi Baidu Granules" (化濕敗毒顆粒) for the clinical trial use in Wuhan Jinyintan Hospital.

In 2020, the Group donated medicines and materials with a total value of over RMB30 million to all sectors of the community and various organizations. The Group provided more than 95 million doses of concentrated TCM granules domestically, and supplied concentrated TCM granules to 63 overseas countries and regions.

II. Strengthening the quality control of Chinese medicinal herb sources, and contributing greatly to the construction of GACP bases

Since 12 government departments jointly issued the "Plan for the Protection and Development of Traditional Chinese Medicine (2015-2020)" in April 2015, more than 10 relevant policies and regulatory documents have been published at the national level to establish a long-term plan for the cultivation and standardized management of Chinese medicinal herbs. The core purpose of this series of policies is to promote the traceability of the whole TCM industry chain, solve difficulties in regulating the Chinese medicinal herbs industry, and require that TCM enterprises give priority to herbs from plantation bases that meet production quality management standards.

Relying on its existing nationwide industrial layout, the Group accelerated the establishment of GACP bases for a variety of widely used Chinese medicinal herbs. This is in line with the policy development direction and explore solutions for: **1) non-standardized planting:** blind introduction of a variety from the authentic medicinal herb production base to the non-authentic medicinal herb production bases, and abuse of chemical fertilizers and pesticides, resulting in a decline of potency; **2) non-standardized distribution:** representing non-medicinal parts as medicinal parts, and adulterating; **3) severe market fluctuation:** complicated distribution processes, opaque prices and susceptibility to market manipulation. The medicinal herbs from GACP bases will be supplied directly for production after unified classification.

During the Reporting Period, as coordinated by the Company, a total of 165 bases with a planted area of over 90,000 mus cultivating 69 medicinal herb varieties were jointly established by subsidiaries. The planting varieties and geographical distribution are as follows:

Province	**Medicinal herb variety**
Anhui	Radix Paeoniae Alba, Cortex Moutan, Gastrodiae Rhizoma
Chongqing	Cyathulae Radix, Angelicae Pubescentis Radix, Polygonati Rhizoma, Coptidis Rhizoma
Gansu	Pinellia Ternata, Chinese Rhubarb, Angelica Sinensis, Radix Codonopsis, Chinese Gancao, Radix Astragali
Guangdong	Morindae Officinalis Radix, Cmnamomi Mmulus, Cinnamomi Cortex
Guangxi	Curcumae Rhizoma, Cinnamomi Cortex, Curcumae Radix
Guizhou	Uncariae Ramulus Cum Uncis, Radix Cynanchi Bungei, Radix Seudostellariae, Epimedii Folium
Hebei	Rhizoma Atractylodis, Saposhnikoviae Radix, Armeniacae Semen Amarum
Henan	Prunellae Spica
Heilongjiang	Aconiti Kusnezoffii Radix, Great Burdock Achene
Hubei	Chinese Rhubarb, Angelicae Pubescentis Radix, Coptidis Rhizoma, Scrophulariae Radix
Hunan	Lilii Bulbus, Nelumbinis Semen, Polygonati Odorati Rhizoma, Aurantii FructusImmaturus, AurantiiFructus
Jilin	Isatidis Radix, Balloon Flower, Schisandrae Chinensis Fructus

Jiangsu	Chrysanthemi Flos, Hirudo, Fritillariae Thunbergii Bulbus
Jiangxi	Stephaniae Tetrandrae Radix, Polygonati Rhizoma, Rosae Laevigatae Frucyus, Euryales Semen, Acori Tatarinowii Rhizoma, Euodiae Fructus, AurantiiFructus, Gardeniae Fructus
Inner Mongolia	Aconiti Kusnezoffii Radix, Ephedrae Herba
Ningxia	Lycii Fructus
Shandong	Honeysuckle, Scutellariae Radix, Crataegi Fructus
Shanxi	Radix Bupleuri, Fructus Cannabis, Sophorae Flavescentis Radix, Forsythiae Fructus, Polygala Tenuifolia Willd
Shaanxi	Gastrodiae Rhizoma, Corydalis Rhizoma, Polyporus
Sichuan	Chuanxiong Rhizoma, Aconiti Lateralis Radix Praeparata, Bombyx Batryticatus, Mori Fructus, Rhizoma Alismatis
Yunnan	Paridis Rhizoma, Poria, Aucklandiae Radix, Notoginseng Radix Et Rhizoma, Amomi Fructus
Zhejiang	Rubi Fructus, Fritillariae Thunbergii Bulbus

III. Continuing to improve overall industrial planning to consolidate the Group's leading position in TCM manufacturing

The Group carefully considered integrated optimization and centralized allocation of internal resources, and made a forward-looking business plan based on the planning and development needs of concentrated TCM granules and TCM decoction pieces. Since 2017, the Group has promoted its national industrial coverage under the local TCM integrated operation business model to guarantee full life-cycle management and control of the standardized development of a modern TCM manufacturing platform.

During the Reporting Period, in terms of concentrated TCM granules, the newly established local TCM integrated business enterprises made progress in the expansion of production capacity, resulting in a significant increase in production licenses for concentrated TCM granules extraction and preparation compared to the same period of the previous year. Some original finished drugs enterprises completed the expansion and technical upgrading of the industrial parks, obtaining the production capacity of concentrated TCM granules. In terms of finished drugs, the Group coordinated and adjusted production arrangements for TCM finished drugs and expedited the production of pandemic-related products to meet delivery demands. Additionally, the Group reduced its inventory of products affected by the pandemic, utilized production and marketing synergies, and ensured a reasonable balance of production, marketing and inventory of finished drugs. In terms of TCM decoction pieces, the Group adhered to its core positioning of "high quality TCM with raw materials from the major production areas of Chinese medicinal herbs", and leveraged the advantages of resources from authentic medicinal herb production bases to coordinate the production of processed decoction, medical decoction and premium decoction pieces scientifically, and improve the industrial synergy and performance of the TCM decoction pieces business.

Production licenses obtained by the Group were as follows:

Type of production license	Quantity	Provinces covered
Extraction of concentrated TCM granules	20	Anhui(2), Beijing, Gansu, Guangdong(2), Guangxi, Guizhou, Hubei, Jilin, Jiangsu, Jiangxi, Qinghai, Shandong, Shanxi, Shaanxi, Sichuan(2), Yunnan, Zhejiang
Preparation of concentrated TCM granules	17	Chongqing, Fujian, Guangdong, Guangxi, Guizhou, Heilongjiang, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shaanxi, Sichuan, Yunnan, Zhejiang
Decoction piece processing	21	Anhui, Chongqing, Beijing, Gansu(2), Guangdong, Guangxi, Guizhou, Hubei, Hunan, Jilin, Jiangsu, Jiangxi, Shandong, Shanxi, Shaanxi, Shanghai, Sichuan(2), Yunnan, Zhejiang
Finished drugs	11	Anhui, Beijing, Guangdong(3), Guizhou, Hubei(2), Jilin, Qinghai, Shandong

IV. Establishing a product quality control system to improve the source traceability of TCM

To integrate and link up the entire industry chain of intelligent manufacturing of TCM and improve industry chain traceability, the Company, together with Ping An International Smart City Technology Co, Ltd ("Ping An Smart City") of Ping An insurance (Group) Co, Ltd, jointly created an integrated management platform with quality control and traceability for TCM. The platform combines Ping An Smart City's core technologies in artificial intelligence, blockchain and cloud computing, with the Group's technologies for quality management of medicinal herbs and the control of heavy metals and pesticide residues in the planting process, as well as its resources in seed cultivation. By doing so, a management platform and quality control system of "traceable sources, traceable directions, processes controllable and responsibility acountable" for TCM products can be established.

In the first phase of a 2020-2021 pilot demonstration of authentic medicinal herb production bases, a total of 10 large varieties of Chinese medicinal herbs were selected. The traceability goal with deep trace with GACP planting as the core and the simple trace in compliance with GMP and GSP standards as the auxiliary means can be realized.

Province	**First batch of base-traceable varieties**
Anhui	Radix Paeoniae Alba
Gansu	Pinellia Ternata, Chinese Rhubarb, Chinese gancao
Guizhou	Radix Seudostellariae
Hubei	Angelicae Pubescentis Radix
Jiangxi	Polygonati Rhizoma
Shandong	Honeysuckle
Sichuan	Aconiti Lateralis Radix Praeparata
Zhejiang	Fritillariae Thunbergii Bulbus

V. Enhancing recognition of the "Dragon Seal Sino-TCM" brand to explore development of a diversified marketing model

The Group's customers are mainly medical institutions. As these medical institutions affected greatly by outbreaks of pandemic, in order to protect the safety of the high-risk population, even the outbreak was of a small and local magnitude, they responded in a short time, resulting in major disruptions to traditional drug marketing model.

During the Reporting Period, all business segments of the Group explored diversified marketing models and sought breakthroughs in adapting their marketing "new normal" under the pandemic. In the concentrated TCM granules segment, the Group persisted in academic promotion, established an expert support system, implemented marketing activities targeted at special diseases, explored online channels, and further expanded its sales channels through collaboration with an internet diagnosis and treatment platform. In the TCM decoction pieces segment, the Group continued to expand its sales channel covering under the "sharing of TCM intelligent distribution center" model, with 14 centers established covering nine provinces and cities, including Beijing, Shanghai and Guangdong. In the finished drugs segment, while seriously impacted by the pandemic during the first half of the year, the Group actively explore the online salse channels, attempted to undertake online academic activities, and explored cooperation with internet hospitals and drug sales platforms. In the TCM healthcare complex segment, the Group put more efforts in product development, launched TCM preventive drugs in response to market demand during the pandemic, and successfully used internet channels for online diagnosis and treatment services and various marketing activities.

In terms of brand promotion, during the Reporting Period, the Group continued to strengthen the marketing policy for the "Dragon Seal Sino-TCM" brand on the basis of its positioning as "high quality TCM with raw materials from the major production areas of Chinese medicinal herbs". In regards to high-quality products such as finished drugs and premium decoction pieces, the Group stepped efforts to publicize and shape brands in a range of media. The Company also established an internet marketing business department to explore the online consumer goods market, tap the online development potential of homologous healthcare complex products, and further raise the profile of the "Dragon Seal Sino-TCM" brand among end consumer groups.

VI. Leveraging first-mover advantage in scientific research to enhance core competitiveness

The Group's leadership in the concentrated TCM granules business has created a high technical barrier in the industry, providing a strong motive for the Group to strategically upgrade and develop the segment. During the Reporting Period, the Group continued to promote research on national standards for concentrated TCM granules, and submitted 34 standards for new concentrated TCM granule varieties to the Chinese Pharmacopoeia Commission. In total, the Group has submitted 300 standards for concentrated TCM granule varieties. To better adapt to industry policies and the national standards for concentrated TCM granules, the Group continued to promote research on the production adaptability of national standards for concentrated TCM granules, the implementation of national standards, and took advantages of internal collaboration to gradually realize high production standards for all concentrated TCM granules varieties. Meanwhile, having considered that provincial standards for concentrated TCM granules varieties without national standards must be established before they can be sold on the market, the Group is promoting and supplementing the formulation and filing of provincial standards for concentrated TCM granules through its local subsidiaries.

According to the "Requirements for Registration, Classification and Application of Traditional Chinese Medicine" issued by the National Medical Products Administration ("NMPA") on 27 September 2020, the ancient classical prescriptions for TCM compound preparation ("classical formulae") have been clearly established as a product category of new TCM drugs. The regulatory requirements for classical formulae products are being gradually clarified, and it is also one of the representative products to promote the innovative TCM drugs R&D and industrial development. Therefore, the Group has been insisting in launching the research on classical formulae. During the Reporting Period, the Group actively established a R&D system of "concentrated TCM granules + classical formulae". It accelerated research on 35 classical formulae by utilizing the advantages of the single medicinal herb of concentrated TCM granules and its TCM industry chain resources. The Group has established research methods for 20 classical formulae, basically completed substance benchmark research for seven classical formulae, updated the *Trilogy of the General Research Idea of Classical Formulae* to the fourth edition, and formulated the supporting specific operating procedures.

During the Reporting Period, the Group and the CACMS jointly promoted the industrial transformation of major scientific research achievements for the pandemic. Guangdong Yifang was responsible for research on processes and quality standards for Huashi Baidu Granules, and introduced advanced manufacturing technology, strict quality standards and complete production process management to facilitate the transformation of scientific achievement of the innovative TCM drug. On 2 March 2021, Huashi Baidu Granules were approved by NMPA for marketing.

VII. Enhancing systematic management thinking to improve corporate governance

During the Reporting Period, the Group continued to strengthen its management systems and management capacity, improving both its efficiency and its performance. The special work on quality and efficiency improvement was carried out comprehensively, involving 11 headquarter departments and 75 subsidiaries, with over 500 projects covering nine major categories such as industry regulations, sales and management, laying foundation for the annual net profit growth exceeding the revenue growth. Through projects such as pull production, micro-innovation and quality control circles, we explore and implement lean management ideas and methods to improve quality and increase efficiency, enhancing corporate value and promoting sustainable high-quality corporate development.

In terms of improving the operation management supervision and early warning mechanism, we have built an information-based approval process framework to comprehensively cover the decision-making process of subsidiaries at all levels and strengthen the risk early warning and tracking management of the operation decision-making process, so as to effectively enhance the rigour of the decision-making process, standardise and improve the quality of decision-making.

The Group continued to optimise our human resources management system, focusing on the assessment and cultivation of professional talents in key areas, and scientifically launched the construction of our core mid-level professionals. 969 personnel were assessed and certified during the Reporting Period, including 485 management talents and 484 professional and technical talents. At the same time, we launched a management capability development project for senior management of our subsidiaries to improve the overall quality of our senior management.

In terms of safety, energy saving and quality management, the Group actively implemented its production safety objectives and carried out various on-site inspections and special rectification work at 34 subsidiaries to eliminate safety hazards. Meanwhile, during the Reporting Period, the Group invested more than RMB40 million in energy saving and environmental protection projects, and reasonably controlled the overall energy consumption to achieve environmental protection and energy saving requirements.

By taking different measures and comprehensively optimizing its enterprise management and its level of corporate governance, we strengthened the foundation of the Company's long-term development.

POLICY UPDATES

The development of TCM has been made a matter of great importance by the state, and in recent years a number of relevant documents have been published. Following the "Opinion on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine" issued by the Central Committee of the Communist Party of China and the State Council in 2019, the general office of the State Council issued "Several Policies and Measures to Accelerate the Development of Traditional Chinese Medicine" on 9 February 2021. These put forward specific and practical opinions on the development of TCM from seven aspects, giving a better perspective on the characteristics and comparative advantages of these medicines and encouraging the complementary and coordinated development of traditional Chinese and Western medicine.

On 10 February 2021, NMPA, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement. As a milestone policy for the industry, the document clearly stipulates regulatory principles of concentrated TCM granules, qualification of production enterprises, management requirements for the use of Chinese medicinal herbs, product processing technology and quality standards, sales scope, medical insurance policy and other aspects. It will strengthen the management of concentrated TCM granules, standardise the production, and guide the development of a healthy industry. The Announcement will be officially implemented on 1 November 2021, and it will have a profound impact on the Group's concentrated TCM granules business. First, the Announcement calls for the management of concentrated TCM granules as TCM decoction pieces. Second, the application of national and provincial standards for concentrated TCM granules will test the strength of the Company's scientific research and the accumulation of government communication results. However, in general the Announcement's implementation will be conducive to the industry's standardisation and development. It not only represents new opportunity for the Group's concentrated TCM granules business, but also presents higher requirements for the Group's industrial collaboration and costs and quality control.

Reviewing the Group's business planning and scientific research investment in the past few years, the Group basically meets the requirements of the Announcement and has made full preparations in advance. The Group's current plan which matches the requirements of the Announcement, is as follows:

Regulatory content	Regulatory requirements	Current related progress of the Group
Qualification of production enterprise	The enterprises producing concentrated TCM granules shall have the production scope for TCM decoction pieces as well as for granules, and have the complete production capacity to process, extract, separate, concentrate, drying and granulation of traditional Chinese medicine. The production enterprises shall prepare TCM decoction pieces for the production of concentrated TCM granules by themselves.	During the year, 17 enterprises of the Group met the requirements of the Announcement for the qualification of production enterprises. At the same time, the Group's national industrial coverage will better meet future production capacity and developmental needs through industrial collaboration and capacity sharing among comprehensive enterprises in different regions.

Regulatory content	Regulatory requirements	Current related progress of the Group
Management requirements on Chinese medicinal herbs	Traditional Chinese medicinal herbs planted at the Good Agricultural Practice bases should be given priority over artificially cultivated varieties, and the use of authentic medicinal herbs should be advocated.	The Group contributes greatly to the construction of GACP bases, and strictly controls the quality of Chinese medicinal herbs.
Standards for concentrated TCM granules	Concentrated TCM granules shall meet the national drug standards, and those not specified in the national drug standards shall meet the standards formulated by the provincial drug regulatory department.	The Group invests in R&D on concentrated TCM granules every year, and now has the production capacity for granule varieties under national standards. According to the "Technical Requirements for Quality Control and Standard Formulation of Concentrated TCM Granules", the Group promotes the imposition of provincial standards in all provinces, which will help to break communication barriers, form a unified standard within the Group, reduce costs, and consolidate the Group's market position.
Concentrated TCM granules sales channels	Concentrated TCM granules shall not be sold outside medical institutions.	Before the market liberalization, the Group had a market share of over 50%. After an expansion of sales channels, the Group's scale and cost advantages will contribute to expanding its channel coverage.
Medical insurance management of concentrated TCM granules	For those TCM decoction pieces that have been included in the scope of payment for medical insurance, the provincial health insurance departments may, after taking into account factors such as clinical needs, the fund's affordability and prices, include the concentrated TCM granules corresponding to TCM decoction pieces in the scope of payment after expert evaluation, and manage them with reference to category B.	The Group has the capacity to produce concentrated TCM granules in over 20 provinces across the country and is currently strengthening its communication with the relevant local medical insurance departments to strive for inclusion in the reimbursement coverage of medical insurance.

INVESTMENT PROJECTS

The Group had no significant investments in 2020. As of the date of this announcement, the Group had no plans for material investments or acquisitions of capital assets.

ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2020, pursuant to the strategic goal of building a whole 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 herbs 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.

In order to better present to the readers of this report with the original concentrated TCM granules companies (Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Guangdong Yifang and their subordinate production companies) and the newly added local TCM integrated operation business, starting from the 2019 interim report, the Company rearranged its business segments into five segments: concentrated TCM granules, finished drugs, TCM decoction pieces, TCM healthcare complex and local TCM integrated operation, which has formed a stable business operation structure upon the Reporting Period.

During the Reporting Period, the Company added five new subsidiaries and deregistered one subsidiary. Among them, Shandong Yifang Pharmaceutical Co., Ltd. was newly established for the concentrated TCM granules segment; for the finished drugs segment, Hubei Sinopharm Zhonglian Pharmaceutical Co., Ltd. (湖北國藥中聯醫藥有限公司) was newly acquired and Qinghai Pulante Chinese and Tibetan Medicine R&D Co., Ltd. was deregistered; for the TCM decoction pieces segment, Gansu Longzhong Pharmaceutical Co., Ltd. (甘肅隴中藥業有限公司) ("Gansu Longzhong") was newly acquired; for the local TCM integrated operation segment, Guangxi Fangning Pharmaceutical Co., Ltd. was established; for the TCM healthcare complex segment, Guangdong Qifeng Health Industry Co., Ltd. (廣東旗峰健康產業有限公司) was established.

Segment	**Number of Companies as at the End of 2020**	Number of Companies as at the End of 2019	Year-on-year Change (number)
Holding company	**10**	10	–
Concentrated TCM granules	**13**	12	+1
Finished drugs	**20**	20	–
TCM decoction pieces	**20**	19	+1
TCM healthcare complex	**11**	10	+1
Local TCM integrated operation	**18**	17	+1
Total	**92**	88	+4

Key enterprises of concentrated TCM granules: Guangdong Yifang, Longxi Yifang Pharmaceutical Co., Ltd., Jiangyin Tianjiang and Anhui Tianxiang Pharmaceutical Co., Ltd.

Key enterprises of finished drugs: Sinopharm Group Guangdong Medi-World Pharmaceutical Company Limited, Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd., Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd., Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Sinopharm Group Zhonglian Pharmaceutical Co., Ltd.

Key enterprises of TCM decoction pieces: Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd., Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") and Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao")

Key enterprises of TCM healthcare complex: Sinopharm Group Foshan Feng Liao Xing Healthcare Complex Co., Ltd. and Guizhou Tongjitang Pharmacy Chain Co., Ltd.

Key enterprises of local TCM integrated operation: Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. ("Shuanglanxing Pharmaceutical"), Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. ("Sichuan Sino") and Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd. ("Yunnan Tianjiang").

1. Concentrated TCM granules

Key financial indicators for the concentrated TCM granules business

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**10,012,956**	9,227,314	8.5%
Cost of sales	**2,953,773**	3,023,074	-2.3%
Gross profit	**7,059,183**	6,204,240	13.8%
Gross profit margin	**70.5%**	67.2%	3.3ppt
Operating profit	**2,218,729**	2,077,895	6.8%
Profit for the year	**1,743,271**	1,548,868	12.6%
Net profit margin	**17.4%**	16.8%	0.6ppt

During the Reporting Period, the revenue of the concentrated TCM granules business was approximately RMB10,012,956,000, representing an increase of 8.5% over last year, representing 67.6% of the total revenue, due to the impact of COVID-19 pandemic.

The Company actively responded to the pandemic: (1) proactively leveraging on the obvious advantages of TCM granules in terms of controllability, convenience and efficacy during the pandemic, with sales growth in the relevant pandemic prevention varieties; (2) increasing investment in dispensing machines and increasing customer stickiness; (3) continuously increasing the development of medical customers in recent years, especially for primary medical institutions, with significant increase in revenue from relevant customers during the year. Revenue from the concentrated TCM granules business in the second half of the year increased by 16.9% as compared to the same period last year and by 19.1% compared to the first half of the year.

Gross profit margin increased by 3.3 percentage points to 70.5% from 67.2% last year, mainly due to the extension of some product price adjustment factors in 2019 to 2020 in order to meet market demand and adapt channel promotion; the increase in the sales volume of some high-margin products during the Period; the obvious advantages of production with large-scale and intensification, and the Group's efforts to implement lean management to further reduce unit production costs.

During the Reporting Period, the Company continued to expand its market development externally while coped with the pandemic and took various measures internally to reduce costs and increase efficiency, resulting in a profit of approximately RMB1,743,271,000 for the concentrated TCM granules business for the year, representing an increase of 12.6% as compared with the same period of last year and net profit margin increasing by 0.6 percentage point over last year.

The main reasons of changes in indicators were: (1) gross profit margin increased by 3.3 percentage points as compared with last year; (2) through a series of management measures such as cost reduction and efficiency enhancement, the impact of the pandemic on profit was effectively offset, including a year-on-year decrease of 0.3 percentage point in administrative expenses ratio and a year-on-year decrease of 0.9 percentage point in finance costs ratio; (3) due to the impact of the pandemic, revenue growth slowed down, the proportion of fixed expenses in sales management and transportation costs increased. However, in order to further expand the market, related selling expenses increased and the selling expense ratio for the Period increased by 2.9 percentage points as compared to last year; (4) continued to increase investment in research and development of the national standard for concentrated TCM granules and commenced research on No. 1 formula for pneumonia, resulting in an increase of 0.3 percentage point in the ratio of research and development expenses to revenue for the Period as compared to last year.

Revenue analysis by region *(RMB million)*

Region	**2020**	**Proportion**	2019	Proportion	Growth amount	Growth rate
East China	**2,978.88**	**29.7%**	2,854.55	30.8%	124.33	4.4%
South China	**2,352.90**	**23.5%**	2,104.18	22.8%	248.72	11.8%
North China	**1,417.27**	**14.1%**	1,263.81	13.7%	153.46	12.1%
Central China	**1,086.94**	**10.9%**	1,012.86	11.0%	74.08	7.3%
Northwest China	**867.61**	**8.7%**	689.71	7.5%	177.90	25.8%
Northeast China	**376.93**	**3.8%**	431.04	4.7%	-54.11	-12.6%
Southwest China	**845.72**	**8.4%**	771.12	8.4%	74.60	9.7%
Overseas and others	**86.71**	**0.9%**	100.04	1.1%	-13.33	-13.3%
Total	**10,012.96**	**100.0%**	9,227.31	100.0%	785.65	8.5%

During the Reporting Period, sales in east, south, north and central China accounted for 78.2% of total sales, compared with 78.3% for the same period last year. Sales in south, north and northwest China achieved a year-on-year increase of more than 10.0%.

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		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**3,066,883**	3,504,656	-12.5%
Cost of sales	**1,313,997**	1,381,053	-4.9%
Gross profit	**1,752,886**	2,123,603	-17.5%
Gross profit margin	**57.2%**	60.6%	-3.4ppt
Operating profit	**359,174**	416,169	-13.7%
Profit for the year	**220,566**	253,209	-12.9%
Net profit margin	**7.2%**	7.2%	0.0ppt

Revenue analysis by product type *(RMB million)*

	Twelve months ended 31 December				
Type of product	**2020**	**Proportion**	2019	Proportion	Change
Prescription products specification	**2,106.20**	**68.7%**	2,284.36	65.2%	-7.8%
OTC products specification	**960.68**	**31.3%**	1,220.30	34.8%	-21.3%
Total	**3,066.88**	**100.0%**	3,504.66	100.0%	-12.5%

Note: Prescription products specification: products specification that are primarily sold at the hospital end of the market.

OTC products specification: products specification that are mainly sold at the OTC end.

During the Reporting Period, revenue of the finished drugs business decreased as compared to the same period last year due to the impact of the pandemic, amounting to approximately RMB3,066,883,000, representing a decrease of 12.5% as compared to last year and representing 20.7% of the total revenue. The decline in revenue in the second half of the year was mitigated by the Company's enhanced marketing and other measures. Revenue for the second half of the year decreased by 2.4% as compared to the same period last year and increased by 35.1% as compared to the first half of the year.

Major reasons for the decline in sales: (1) for prescription products specification, during the pandemic, outpatients at all levels of medical institutions substantially decreased in phases, and sales fell sharply; at the same time, the product structure changed, and non-respiratory products including Xianling Gubao Capsules and Moisturizing and Anti-Itching Capsules were greatly affected. Through the adjustment to sales strategies for the second half of the year, the revenue of a number of products increased, and the revenue growth rate of Jingshu Granules and Trionycis Bolus turned from negative to positive. Yu Ping Feng Granules and Jinye Baidu Granules recorded a significant increase in revenue as they were included in the COVID-19 prevention scheme, diagnosis and treatment plans of various provinces; and (2) for OTC products specification, during the pandemic, pharmaceutical retailers implemented real-name registration of customers who purchased medicines to relieve fever and cough, together with a reduction in the flow of pharmacies, which has affected the sales of products to relieve cough and sputum and fever-relieving products.

During the Reporting Period, under the severe impact of the pandemic, the Company increased expense control, reduced costs and increased efficiency, basically maintaining the net profit margin at the same level as last year. The profit of the finished drugs segment for the year was approximately RMB220,566,000, representing a decrease of 12.9% as compared with the same period of last year. The changes in indicators were mainly due to: (1) the decrease in gross profit margin by 3.4 percentage points to 57.2% from 60.6% last year, as a result of the significant decline in sales of non-epidemic-prevention medicines with higher gross profit margin, such as Xianling Gubao Capsules, Bi Yan Kang Tablets and Feng Liao Xing Rheumatism Medicinal Wine, resulting in a decline in production. Also, some products were affected by rising raw material prices, resulting in the increase in unit production costs; (2) a decrease of 1.2 percentage points in sales expense ratio through reasonable control of marketing expenses of the Company; and (3) relevant asset losses decreased year-on-year.

3. TCM decoction pieces

Key financial indicators for the TCM decoction pieces business

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**1,237,402**	1,296,953	-4.6%
Cost of sales	**1,049,405**	1,096,272	-4.3%
Gross profit	**187,997**	200,681	-6.3%
Gross profit margin	**15.2%**	15.5%	-0.3ppt
Operating profit	**-33,213**	21,573	-254.0%
Profit for the year	**-36,490**	24,182	-250.9%
Net profit margin	**-2.9%**	1.9%	-4.8ppt

During the Reporting Period, revenue of the TCM decoction pieces business was approximately RMB1,237,402,000, representing a decrease of 4.6% as compared to approximately RMB1,296,953,000 for the last year and accounting for 8.4% of the total revenue. Revenue for the second half of the year decreased by 3.1% as compared with the same period of last year and increased by 18.2% as compared with the first half of the year.

The decline in revenue of the TCM decoction pieces business was mainly attributable to: (1) the severe situation of prevention and control in hospital during the pandemic, which resulted in a significant reduction in customer flow to hospitals and pharmacies and the adoption of appointment restrictions at all levels of medical institutions, resulting in a contraction in demand for decoction pieces in the medical market; and (2) the significant drop in external customer demand for industrial decoction pieces, due to the impact of the pandemic.

The loss incurred by the TCM decoction pieces business during the Reporting Period was mainly attributable to: (1) the relatively low overall net profit margin of the TCM decoction pieces business and the decline in sales volume with the impact of the pandemic, it was difficult to offset the fixed cost expenses; (2) due to the impact of the serious pandemic in Beijing, the sales of Beijing Huamiao dropped significantly and the cost of pandemic prevention increased, resulting in an impairment loss of goodwill of approximately RMB11,447,000 for the Period; and (3) Six TCM decoction pieces companies under construction have not yet commenced sales and there are certain expenses for start-up costs, and the newly acquired enterprise, Gansu Longzhong, is still in the process of transferring its business, making it difficult for revenue to cover costs.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**106,055**	89,661	18.3%
Cost of sales	**58,863**	50,527	16.5%
Gross profit	**47,192**	39,134	20.6%
Gross profit margin	**44.5%**	43.6%	0.9ppt
Operating profit	**-4,524**	-15,641	71.1%
Profit for the year	**-8,151**	-16,463	50.5%
Net profit margin	**-7.7%**	-18.4%	10.7ppt

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB106,055,000, representing an increase of 18.3% from approximately RMB89,661,000 for the last year, and accounting for 0.7% of total revenue. By carrying out online dispensing business, selling pandemic prevention prescriptions and strengthening promotion activities during festivals, TCM clinics were able to alleviate the impacts of the pandemic. Following the market cultivation for a certain period, the flow of customers of Nanhai TCM Clinic, Chengnan TCM Clinic, Tongkang TCM Hospital, Zunyi TCM Hospital and Jiangyin TCM Clinic, which were successively opened in the second half of 2018, has gradually increased with increasing income as compared with last year. With a higher increase in revenue than in expenses and a decrease in expense ratio, the loss was lower than that of last year.

5. Local TCM integrated operation

Key financial indicators for the local TCM integrated operation

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Revenue	**382,872**	202,365	89.2%
Gross profit margin	**20.6%**	4.0%	16.6ppt
Other income	**57,769**	38,253	51.0%
Administrative expenses	**100,615**	60,294	66.9%
Operating profit	**-49,535**	-39,280	-26.1%
Profit for the year	**-58,552**	-36,499	-60.4%
Net profit margin	**-15.3%**	-18.0%	2.7ppt

During the Reporting Period, the revenue of the local TCM integrated operation segment amounted to approximately RMB382,872,000, representing an increase of 89.2% compared with the revenue of RMB202,365,000 for the last year, and accounting for 2.6% of total revenue. The increase in the revenue of the local TCM integrated operation segment was mainly because: (1) Sichuan Sino, Yunnan Tianjiang and Shuanglanxing Pharmaceutical had commenced concentrated TCM granules sales business. Following one-year market cultivation, sales increased significantly. The sales of concentrated TCM granules were approximately RMB117,518,000, compared to approximately RMB36,753,000 for the previous year; (2) Shandong Zhongping Pharmaceutical Co., Ltd. ("Shandong Zhongping"), located in Pingyi, Shandong, the hometown of honeysuckle, has developed honeysuckle-based sales business of authentic medicinal herbs, increasing its external turnover by approximately RMB65,175,000 year on year. At the same time, other local TCM integrated operation companies also generally launched production and sales of TCM decoction pieces and TCM medicinal herbs trading.

During the Reporting Period, the sales of the concentrated TCM granules and TCM decoction pieces increased and the gross profit margin gradually improved as the infrastructure projects of the local TCM integrated operation business were gradually consolidated during the year. However, with the exception of Shandong Zhongping which has a stable business in honeysuckle, and Sichuan Sino which has relatively large sales size of concentrated TCM granules, other companies in this segment are still in the early stage of operation and have not yet made a profit due to the investment in market development, depreciation of fixed assets and more staff costs. However, with the gradual release of the production capacity of the concentrated TCM granules and TCM decoction pieces, its profitability will be enhanced sooner.

PROSPECTS

With the publish of the Announcement, the pilot management for concentrated TCM granules, ongoing for more than 20 years, will officially cease on 1 November 2021. Therefore, in 2021, the Group will accelerate the business planning for concentrated TCM granules across the nation and prepare for the implementation of the new policy. We will also actively coordinate with other business segments to work in tandem to further improve the details of the integration of the industry chain and promote the synergistic development of each segment. At the same time, the Group will respond to the call of the government and actively participate in the development of the Guangdong-Hong Kong-Macau Greater Bay Area by promoting the Macau Chinese Medicine (Hengqin) Industrial Park project, so as to promote the internationalisation of TCM by leveraging Macau's role as a window and connector.

The specific key tasks include: 1. accelerate the establishment of GACP bases, build a modernized GACP base integrated with the cultivation of medicinal herbs, initial processing of production sites, inspection and testing, warehousing and logistics, trade of medicinal herbs and data traceability with the support of various local integrated TCM operation companies, and meet the requirements of product lifecycle management; 2. accelerate the coordinated development of TCM decoction pieces and concentrated TCM granules business, promote the transformation of the preliminary industrial layout into production cost and sales advantages, and strive to consolidate the industry position and increase market share after the market is liberalized; 3. accelerate R&D on standards for concentrated TCM granules, strive to complete R&D on provincial standards for all varieties before official implementation of the policy, and finish the application of provincial standards, so as to seize market opportunities and form technical barriers; 4. unify publicity for Group brands, expand the internet marketing business, and enhance awareness of the "Dragon Seal Sino-TCM" brand; 5. adjust and optimize the finished drugs and TCM decoction pieces segments by clarifying sales and operation plans according to the market characteristics of both segments and enterprise conditions, so as to improve performance.

By comprehensively improving the operational performance of each segment, the Company will improve the quality of its development, consolidate its industry position, and usher into a new stage of development after the official implementation of the concentrated TCM granules policy.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*3*	**14,806,168**	14,320,949
Cost of sales		**(5,680,093)**	(5,745,161)
Gross profit		**9,126,075**	8,575,788
Other income	*5*	**254,556**	225,368
Other gains and losses	*6*	**8,212**	(63,093)
Impairment losses under expected credit loss model, net of reversal	*7*	**(53,725)**	(18,009)
Selling and distribution expenses		**(5,586,737)**	(5,109,153)
Administrative expenses		**(707,278)**	(686,189)
Research and development expenses		**(550,472)**	(463,996)
Profit from operations		**2,490,631**	2,460,716
Finance costs		**(244,666)**	(301,047)
Share of results of associates		**(15,874)**	(5,051)
Profit before tax		**2,230,091**	2,154,618
Income tax expense	*8*	**(369,447)**	(381,321)
Profit for the year	*9*	**1,860,644**	1,773,297
Other comprehensive (expense) income for the year			
Item that may be reclassified subsequently to profit or loss:			
– Fair value loss on debt instruments measured at fair value through other comprehensive income		**(3,266)**	(16,609)
– Revised of impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		**405**	1,575
– Income tax relating to items that may be reclassified subsequently		**(380)**	2,148
Other comprehensive expense for the year, net of income tax		**(3,241)**	(12,886)
Total comprehensive income for the year		**1,857,403**	1,760,411

	NOTE	**2020**	2019
		RMB'000	*RMB'000*
Profit for the year attributable to:			
Owners of the Company		**1,663,255**	1,588,114
Non-controlling interests		**197,389**	185,183
		1,860,644	1,773,297
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,660,000**	1,576,413
Non-controlling interests		**197,403**	183,998
		1,857,403	1,760,411
EARNINGS PER SHARE			
Basic (RMB cents)	*11*	**33.03**	31.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	NOTES	**2020**	2019
		RMB'000	*RMB'000*
			(Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**6,226,767**	5,370,318
Right-of-use assets		**1,242,788**	1,231,228
Investment properties		**299,191**	72,859
Goodwill	*12*	**3,521,963**	3,538,800
Other intangible assets		**6,365,640**	6,456,090
Interests in associates		**22,161**	24,359
Deposits and prepayments		**108,027**	304,810
Deferred tax assets		**170,307**	151,637
		17,956,844	17,150,101
CURRENT ASSETS			
Inventories	*14*	**4,908,485**	4,691,753
Trade and other receivables	*13*	**5,033,004**	3,457,951
Financial assets at fair value through profit or loss ("FVTPL")		**–**	72,800
Debt instruments at fair value through other comprehensive income ("FVTOCI")		**1,383,732**	1,111,319
Time deposits		**203,000**	–
Pledged bank deposits		**163,078**	376,168
Bank balances and cash		**3,440,240**	5,613,633
		15,131,539	15,323,624
CURRENT LIABILITIES			
Trade and other payables	*15*	**4,412,628**	5,279,732
Lease liabilities		**13,994**	12,013
Contract liabilities		**292,331**	223,106
Bank and other borrowings		**1,658,026**	639,212
Unsecured notes – due within one year		**1,006,793**	4,868,724
Tax liabilities		**150,828**	124,225
		7,534,600	11,147,012
NET CURRENT ASSETS		**7,596,939**	4,176,612
TOTAL ASSETS LESS CURRENT LIABILITIES		**25,553,783**	21,326,713

	2020	2019
	RMB'000	*RMB'000*
		(Restated)
NON-CURRENT LIABILITIES		
Deferred government grants	**405,092**	265,181
Deferred tax liabilities	**1,710,376**	1,748,580
Unsecured notes – due after one year	**2,230,523**	–
Bank and other borrowings	**221,410**	160,122
Lease liabilities	**89,961**	102,105
	4,657,362	2,275,988
NET ASSETS	**20,896,421**	19,050,725
CAPITAL AND RESERVES		
Share capital	**11,982,474**	11,982,474
Reserves	**6,081,612**	4,640,941
Equity attributable to owners of the Company	**18,064,086**	16,623,415
Non-controlling interests	**2,832,335**	2,427,310
TOTAL EQUITY	**20,896,421**	19,050,725

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. 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 "Covid-19-Related Rent Concessions".

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

Impacts and accounting policies on early application of Amendment to HKFRS 16 "Covid-19-Related Rent Concessions"

The Group has applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a Covid-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening accumulated profits in equity movement at 1 January 2020. The Group has benefited from a few months waiver of lease payments on several leases in several leased properities. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of RMB781,000, which has been recognised as variable lease payments in profit or loss for the current year.

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 and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7,HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
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 and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2022.
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 2021.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs in issue but not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2020					
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						
Finished drugs	**3,015,016**	**–**	**–**	**–**	**–**	**3,015,016**
Concentrated TCM granules	**3,642**	**9,932,773**	**–**	**–**	**117,518**	**10,053,933**
TCM decoction pieces	**36,345**	**74,415**	**1,228,483**	**–**	**264,052**	**1,603,295**
Services						
TCM healthcare complex	**–**	**–**	**–**	**106,055**	**–**	**106,055**
Others	**11,880**	**5,768**	**8,919**	**–**	**1,302**	**27,869**
Total	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**
Geographical markets						
Mainland China	**3,066,292**	**9,926,246**	**1,237,402**	**106,055**	**382,872**	**14,718,867**
Hong Kong	**591**	**19,427**	**–**	**–**	**–**	**20,018**
Overseas and others	**–**	**67,283**	**–**	**–**	**–**	**67,283**
Total	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**
Timing of revenue recognition						
A point in time	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**

	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						
Finished drugs	3,453,629	–	–	–	–	3,453,629
Concentrated TCM granules	–	9,187,798	–	–	36,753	9,224,551
TCM decoction pieces	24,461	37,643	1,290,607	–	165,516	1,518,227
Services						
TCM 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

(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) 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.

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.

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.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation". 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 and finance costs, 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 *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 2020						
Reportable segment revenue	**3,148,913**	**10,247,408**	**2,136,657**	**107,908**	**677,983**	**16,318,869**
Eliminated of inter-segment revenue	**(82,030)**	**(234,452)**	**(899,255)**	**(1,853)**	**(295,111)**	**(1,512,701)**
Revenue from external customers	**3,066,883**	**10,012,956**	**1,237,402**	**106,055**	**382,872**	**14,806,168**
Reportable segment profit (adjusted EBITDA)	**525,502**	**2,526,261**	**46,118**	**12,639**	**7,485**	**3,118,005**
Interest income	**83,854**	**192,324**	**8,518**	**104**	**4,055**	**288,855**
Eliminated of inter-segment interest income	**(65,841)**	**(167,969)**	**(6,199)**	**–**	**(1,246)**	**(241,255)**
Interest income from third parties	**18,013**	**24,355**	**2,319**	**104**	**2,809**	**47,600**
Finance costs	**140,007**	**313,996**	**18,066**	**2,182**	**11,670**	**485,921**
Eliminated of inter-segment finance costs	**(78,638)**	**(149,826)**	**(7,877)**	**(444)**	**(4,470)**	**(241,255)**
Finance costs from third parties	**61,369**	**164,170**	**10,189**	**1,738**	**7,200**	**244,666**
Depreciation and amortisation	**186,751**	**331,855**	**87,761**	**17,389**	**60,323**	**684,079**
As at 31 December 2020						
Reportable segment assets	**6,355,934**	**22,331,527**	**4,229,574**	**289,822**	**3,206,802**	**36,413,659**
Reportable segment liabilities	**2,154,857**	**7,051,430**	**2,720,889**	**91,128**	**1,509,813**	**13,528,117**

	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 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**

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

	2020 *RMB'000*	2019 *RMB'000*
Reportable segment profit (adjusted EBITDA)	**3,118,005**	3,003,332
Depreciation and amortisation	**(684,079)**	(590,826)
Interest income	**47,600**	51,251
Finance costs	**(244,666)**	(301,047)
Rental income	**9,889**	10,159
Fair value changes on financial assets at FVTPL	**553**	4
Net exchange loss	**(1,337)**	(13,076)
Loss on disposal of an associate	**–**	(128)
Share of results of associates	**(15,874)**	(5,051)
Consolidated profit before tax	**2,230,091**	2,154,618

	2020 *RMB'000*	2019 *RMB'000*
Assets		
Reportable segment assets	**36,413,659**	38,241,660
Elimination of inter-segment receivables	**(3,515,057)**	(6,005,871)
	32,898,602	32,235,789
Financial assets at FVTPL	**–**	72,800
Deferred tax assets	**170,307**	151,637
Unallocated head office and corporate assets	**19,474**	13,499
Consolidated total assets	**33,088,383**	32,473,725
Liabilities		
Reportable segment liabilities	**13,528,117**	17,090,800
Elimination of inter-segment payables	**(3,515,057)**	(6,005,871)
	10,013,060	11,084,929
Tax liabilities	**150,828**	124,225
Deferred tax liabilities	**1,710,376**	1,748,580
Unallocated head office and corporate liabilities	**317,698**	465,266
Consolidated total liabilities	**12,191,962**	13,423,000

(iii) Geographical information and information about major customers

Analysis of the Group's non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in 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 2020 and 2019.

5. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Government grants		
– Unconditional subsidies (note i)	**151,724**	132,807
– Conditional subsidies (note ii)	**45,343**	31,151
Interest income on bank deposits	**47,600**	51,251
Rental income from investment properties	**9,889**	10,159
	254,556	225,368

Notes:

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

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

6. OTHER GAINS AND LOSSES

	2020	2019
	RMB'000	*RMB'000*
Impairment loss recognised in respect of		
– goodwill *(note 12)*	**(16,837)**	(30,184)
– other intangible assets	**–**	(1,779)
Gain on disposal of right-of-use assets	**–**	32,086
Gain (loss) on disposal of property, plant and equipment	**318**	(7,386)
Loss on disposal of other intangible assets	**(233)**	–
Loss on disposal of an associate	**–**	(128)
Fair value changes on financial assets at FVTPL	**553**	4
Net foreign exchange loss	**(1,337)**	(13,076)
Others	**25,748**	(42,630)
	8,212	(63,093)

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

	2020 *RMB'000*	2019 *RMB'000*
Impairment losses (recognised) reversed in respect of		
– trade receivables	**(40,458)**	(17,424)
– other receivables	**(12,862)**	(182)
– bills receivables	**–**	1,172
– debt instruments at FVTOCI	**(405)**	(1,575)
	(53,725)	(18,009)

8. INCOME TAX EXPENSE

	2020 *RMB'000*	2019 *RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**400,933**	381,226
Underprovision in prior years	**21,783**	11,090
	422,716	392,316
Deferred tax credit	**(53,269)**	(10,995)
	369,447	381,321

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

	2020	2019
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**8,515**	8,273
Other staff costs		
Salaries, wages and other benefits	**1,730,998**	1,611,974
Contributions to defined contribution retirement benefits	**29,396**	98,185
	1,760,394	1,710,159
Auditor's remuneration	**5,780**	5,250
Depreciation		
– investment properties	**7,709**	5,567
– property, plant and equipment	**472,848**	379,412
– right-of-use assets	**39,296**	39,929
Amortisation of other intangible assets	**164,226**	165,918
Total depreciation and amortisation	**684,079**	590,826
Less: capitalised in inventories	**(472,312)**	(420,557)
	211,767	170,269
Covid-19-related rent concessions	**(781)**	–
Write down for inventories	**15,333**	38,861
Gross rental income from investment properties	**(9,889)**	(10,159)
Less: direct operating expenses incurred for investment properties	**1,126**	1,253
	(8,763)	(8,906)

10. DIVIDENDS

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

	2020	2019
	RMB'000	*RMB'000*
Nil for 2020 Interim (2019: 2019 Interim of HK5.72 cents) per share	**–**	258,413
2019 final of HK4.76 cents (2019: 2018 final of HK5.51 cents) per share	**219,329**	244,093
	219,329	502,506

The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2020 (2019: HK4.76 cents per share).

11. EARNINGS PER SHARE

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

	2020	2019
	RMB'000	*RMB'000*
Profit attributable to the owners of the Company	**1,663,255**	1,588,114
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	5,035,801

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential ordinary shares in issue for both 2020 and 2019.

12. GOODWILL

	RMB'000
COST	
At 31 December 2019 and 2020	3,568,984
IMPAIRMENT	
At 1 January 2019	–
Impairment loss recognised in the year	30,184
At 31 December 2019	30,184
Impairment loss recognised in the year	16,837
At 31 December 2020	47,021
CARRYING VALUES	
At 31 December 2020	3,521,963
At 31 December 2019	3,538,800

13. TRADE AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**4,640,875**	3,001,626
Less: allowance for credit losses	**(88,138)**	(55,173)
	4,552,737	2,946,453
Deposits and prepayments	**102,503**	155,447
Advance tax payments	**275,051**	232,016
Other receivables	**137,286**	152,331
Less: allowance for credit losses	**(34,573)**	(28,296)
	102,713	124,035
	5,033,004	3,457,951

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB2,532,688,000.

The Group allows a credit period ranging from 180 to 365 days to trade customers including distributors, hospitals and primary health care institutions.

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

	2020	2019
	RMB'000	*RMB'000*
0 – 90 days	**2,803,581**	2,071,360
91 – 180 days	**1,097,214**	445,385
181 – 365 days	**653,072**	426,727
Over 365 days	**87,008**	58,154
	4,640,875	3,001,626

Included in trade and other receivables are RMB7,774,000 (2019: RMB16,128,000) and RMB12,926,000 (2019: RMB11,092,000), which are denominated in HK$ and US$ respectively, the currencies other than functional currency of the relevant group entities.

14. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**1,380,460**	1,346,297
Work in progress	**1,614,392**	1,713,268
Finished goods	**1,913,633**	1,632,188
	4,908,485	4,691,753

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

	2020	2019
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**5,664,760**	5,706,300
Write down of inventories	**15,333**	38,861
	5,680,093	5,745,161

15. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
		(Restated)
Trade payables	**1,393,043**	1,684,157
Deposits received	**796,679**	900,153
Salaries and welfare payables	**348,414**	321,986
Other tax payables	**182,859**	189,274
Accruals of operating expenses	**562,254**	555,241
Bills payables	**571,108**	802,874
Dividend payable	**65,615**	118,958
Consideration payable for acquisition of subsidiaries	**19,548**	35,518
Collection of accounts receivables on behalf of financial institutions that entered the non-recourse factoring arrangement with the Group	**254,613**	567,609
Other payables	**218,495**	103,962
	4,412,628	5,279,732

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:

	2020	2019
	RMB'000	*RMB'000*
0 – 90 days	**1,437,683**	2,009,949
91 – 180 days	**257,608**	306,583
181 – 365 days	**184,849**	46,069
Over 365 days	**84,011**	124,430
	1,964,151	2,487,031

Included in trade and other payables is RMB1,306,000 (2019: RMB2,338,000), which is denominated in HK$, the currency other than functional currency of the relevant group entities.

FINANCIAL REVIEW

Other income

For the twelve months ended 31 December 2020, the Group's other income was approximately RMB254,556,000, representing an increase of 13.0% from approximately RMB225,368,000 for the previous year. This was mainly because: the Group received government subsidy income grant of approximately RMB197,067,000 during the Period, representing an increase of 20.2% over the previous year. For details, please refer to Note 5 to "Notes to the Consolidated Financial Statements".

Other gains and losses

For the twelve months ended 31 December 2020, the Group's other gains were approximately RMB8,212,000 (twelve months ended 31 December 2019: other losses of approximately RMB63,093,000). During the Reporting Period, the reasons for the change in other gains and other losses are that: exchange losses for the Period were decreased by approximately RMB11,739,000; the provision made for goodwill impairment decreased by approximately RMB13,347,000; the Company continued to carry out inspection of assets and liabilities and recorded non-operating income of approximately RMB37,304,000.

Impairment losses under expected credit loss model, net of reversal

Due to the COVID-19 pandemic, the balance of accounts receivable increased as at 31 December 2020. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss was approximately RMB53,725,000 for the Period, compared to approximately RMB18,009,000 for last year.

Selling and distribution costs

For the twelve months ended 31 December 2020, the Group's selling and distribution costs were approximately RMB5,586,737,000 (twelve months ended 31 December 2019: RMB5,109,153,000).

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Advertising, promotion, channel expansion and travel expenses	**3,820,407**	3,194,802	19.6%
Salary expenses of sales and marketing staff	**787,694**	727,410	8.3%
Transportation and storage expenses *(Note)*	**337,336**	247,935	36.1%
Other selling and distribution costs	**641,300**	939,006	-31.7%
Total	**5,586,737**	5,109,153	9.3%

Note: In order to better understand the related expenses of "distribution costs" in the past reports, "distribution costs" was renamed as "transportation and storage expenses" in this report, while the data coverage remained the same.

During the Reporting Period, the Group's selling and distributions costs increased by 9.3% over the previous year and accounted for 37.7% of revenue, 2.0 percentage points higher than 35.7% for the previous year, mainly due to: (1) the concentrated TCM granules business was affected by the pandemic and revenue growth slowed down. The proportion of fixed expenses in sales management increased and transportation costs increased, however, in order to further expand the market, the related selling expenses increased and the selling expense ratio for the Period increased by 2.9 percentage points as compared to last year; (2) with the gradual commencement of the local TCM integrated operation business which was in the market cultivation stage, the greatly expanded sales scale has resulted in a significant increase in the corresponding sales expenses over the previous year; and (3) the TCM decoction pieces business strengthened the self-built promotion team, and established the premium decoction piece department, activated the promotion work of the "Dragon Seal Sino-TCM" brand.

Administrative expenses

For the twelve months ended 31 December 2020, the Group's administrative expenses were approximately RMB707,278,000 (twelve months ended 31 December 2019: RMB686,189,000).

	Twelve months ended 31 December		
	2020	2019	Change
	RMB'000	*RMB'000*	
Salary	**355,957**	338,647	5.1%
Depreciation and amortisation	**83,746**	78,940	6.1%
Office rental and other expenses	**267,575**	268,602	-0.4%
Total	**707,278**	686,189	3.1%

During the Reporting Period, administrative expenses increased by 3.1% over the previous year, which was lower than revenue growth. Major reasons for this are: (1) the increase in the management office buildings and equipment asset depreciation and amortization, salary expenses and office expense of management staff, with the completion of establishment and commencing production of companies in the local TCM integrated operation segment; (2) the increased expenses for pandemic prevention and control of the Company during the pandemic; and (3) the active implementation of cost reduction and efficiency improvement projects of the Company during the Period, which effectively controlled administrative expenses.

Research and development expenses

For the twelve months ended 31 December 2020, the Group's research and development expenses amounted to approximately RMB550,472,000, representing an increase of 18.6% over approximately RMB463,996,000 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; (3) improve future efficiency research, focusing on production process improvement and base construction research; and (4) support special R&D expenditure for pandemic prevention products.

Profit from operations

For the twelve months ended 31 December 2020, the Group's profit from operations was approximately RMB2,490,631,000, representing an increase of 1.2% compared to approximately RMB2,460,716,000 for the previous year. The operating profit margin (defined as profit from operations divided by revenue) was 16.8%, representing a decrease of 0.4 percentage points from 17.2% for the previous year. The decrease in operating profit margin was mainly because under the impact of COVID-19 pandemic, although the operational profit of the concentrated TCM granules business increased as compared with the same period of last year, the finished drugs and TCM decoction pieces businesses were more affected by the pandemic and the profitability of the local TCM integrated operation business was delayed. Therefore, the overall operational profit decreased.

Finance costs

For the twelve months ended 31 December 2020, the Group's finance costs were approximately RMB244,666,000 (twelve months ended 31 December 2019: RMB301,047,000). The Group lowered the ratio of financial expenses accounted to revenue by reducing the size of factoring, adjusting financing products and strengthening the internal fund allocation. During the Reporting Period, capitalised finance costs of the Group were RMB8,625,000. Bank and other loans held by the Group as at 31 December 2020 amounted to approximately RMB1,879,436,000, and corporate bonds of approximately RMB3,237,316,000 were also held (as at 31 December 2019: bank and other loans held by the Group amounted to approximately RMB799,334,000; and corporate bonds of approximately RMB4,868,724,000 were held).

During the Reporting Period, the Group's effective loan interest rate was 3.34% (twelve months ended 31 December 2019: 4.18%). The reasons for the decline in the effective interest rate during the Period were: (1) certain subsidiaries obtained policy loans for pandemic prevention at preferential interest rates; (2) the borrowing interest rates of the three-year medium-term notes and the Super & Short-term Commercial Paper issued in 2020 decreased year on year; and (3) certain bank loans with high interest rates were replaced. The Group will continue to pay attention to changes in market interest rates, adjust the form of loan financing in a timely manner, and refinance existing loans or enter into new bank loans when good bargaining opportunities arise.

Income from investment in associates

For the twelve months ended 31 December 2020, the Group shared loss attributable to associates of approximately RMB15,874,000, compared to approximately RMB5,051,000 for the previous year. The Period mainly represented the equity investment in Guangdong Baobaobao Healthy Soup Co., Ltd., which recognised an investment loss of approximately RMB12,528,000, and the equity investment in Guangdong Haisikanger Rehabilitation Medical Co., Ltd., which recognised an investment loss of approximately RMB2,086,000.

Earnings per share

For the twelve months ended 31 December 2020, earnings per share were RMB33.03 cents, representing an increase of 4.7% over RMB31.54 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 4.7% to approximately RMB1,663,255,000 (twelve months ended 31 December 2019: RMB1,588,114,000).

Liquidity and financial resources

As at 31 December 2020, the Group's current assets amounted to approximately RMB15,131,539,000 (31 December 2019: RMB15,323,624,000), which included cash, cash equivalents and deposits with banks of approximately RMB3,806,318,000 (31 December 2019: RMB5,989,801,000), of which the pledged bank deposits amounted to approximately RMB163,078,000 mainly for bills payable security (31 December 2019: RMB376,168,000). Trade and other receivables amounted to approximately RMB5,033,004,000 (31 December 2019: RMB3,457,951,000). Current liabilities amounted to approximately RMB7,534,600,000 (31 December 2019: RMB11,147,012,000). Net current assets aggregated to approximately RMB7,596,939,000 (31 December 2019: RMB4,176,612,000). The Group's current ratio was 2.0 (31 December 2019: 1.4). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to shareholders of the Company) decreased to 28.3% as at 31 December 2020 from 34.1% as at 31 December 2019. The decrease in gearing ratio was mainly due to a decrease in the amount of bonds payable and an increase in equity attributable to equity holders of the Company.

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. The Group settled the RMB4.8 billion panda bonds due in 2020, issued three-year medium-term notes of RMB2.2 billion and the Super & Short-term Commercial Paper of RMB1 billion, and obtained additional bank loans of RMB400 million. The Group's subsidiaries obtained policy loans for epidemic prevention of RMB641.5 million. As at 31 December 2020, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB10,993,603,000.

Capital expenditure

For the twelve months ended 31 December 2020, the Group's fixed asset and intangible asset investment expenditure was approximately RMB1,380,094,000, compared to approximately RMB1,864,478,000 for the previous year. During the Reporting Period, most of production bases established by the group in various provinces and cities for local TCM integrated operation and concentrated TCM granules were gradully completed. Guangdong Yifang paid approximately RMB64,300,000 for acquiring clinical trial permission and development costs of Huashi Baidu Granules during the Period.

Financing capacity

As at 31 December 2020, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,127,450,000 (31 December 2019: approximately RMB1,247,850,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, acquisition of other intangible assets 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 at 31 December 2020 (31 December 2019: 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 2020, the Group had no Hong Kong Dollar bank borrowings and 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 at 31 December 2020, the Group had a total of 16,286 (31 December 2019: 17,796) employees, including directors of the Company, of which 5,478 were sales staff, 7,390 were manufacturing staff, and 3,418 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 Reporting Period was approximately RMB1,768,909,000 (twelve months ended 31 December 2019: RMB1,718,432,000).

SUBSEQUENT EVENTS

Core Business Industry Policy Update

On 10 February 2021, the NMPA, National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement. This document will impact the future development of the Group's core business of concentrated TCM granules.

Please refer to "Policy Updates" in the Management Analysis and Discussion section of this announcement for further details.

Marketing Authorisation for Huashi Baidu Granules

On 2 March 2021, NMPA has released working update, granting marketing authorisation for Huashi Baidu granules of Guangdong Yifang, a controlling shareholder of the Group, through a special approval procedure for emergency approval.

For details, please refer to the announcements of the Company dated 30 March 2020 and 3 March 2021.

Possible Privatisation of the Company

On 29 January 2021, the Company has made enquiries with Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), the controlling shareholder of the Company, and has been informed by Sinopharm Hongkong that it is currently exploring a proposal to privatise the Company (the "Possible Privatisation"), which if proceeded with, could result in a delisting of the Company from the Stock Exchange.

For details, please refer to the announcements of the Company dated 29 January 2021 and 1 March 2021.

FINAL DIVIDEND

Having considered the overall performance of the Group's operations in 2020, the Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK4.76 cents (approximately RMB4.34 cents) per share).

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 to 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 2020.

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, 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. The 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 2020.

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 2020 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 2020 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 2021

As at the date of this announcement, the Board comprises twelve Directors, of which Mr. WU Xian, Mr. WANG Xiaochun and Mr. YANG Wenming are executive Directors; Mr. YANG Shanhua, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. KUI Kaipin are non-executive Directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive Directors.