

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board (the “Board”) of directors of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 (the “Reporting Period”) as follows:

RESULTS HIGHLIGHTS

	Period ended 30 June		
	2021	2020	Change
	RMB'000	RMB'000	
Revenue			
– Concentrated TCM granules	5,321,498	4,569,912	16.4%
– Finished drugs	1,755,089	1,304,332	34.6%
– TCM decoction pieces	707,672	566,999	24.8%
– TCM healthcare complex	62,815	42,185	48.9%
– Local TCM integrated operation	302,277	171,891	75.9%
Total	8,149,351	6,655,319	22.4%
Gross profit	5,002,764	4,016,854	24.5%
Adjusted EBITDA	1,673,332	1,404,058	19.2%
Operating profit	1,315,660	1,108,125	18.7%
Profit for the period	1,006,679	830,197	21.3%
Profit attributable to equity holders of the Company	929,828	732,020	27.0%
Basic earnings per share (RMB cents)	18.46	14.54	27.0%
Proposed interim dividend per share (HK cents)	6.66	–	N/A

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	<i>Notes</i>	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
REVENUE	4	8,149,351	6,655,319
Cost of sales		(3,146,587)	(2,638,465)
Gross profit		5,002,764	4,016,854
Other income	5	76,260	121,956
Other gains and losses	6	651	24,309
Impairment losses under expected credit loss model, net of reversal		(46,280)	(33,139)
Selling and distribution expenses		(3,043,328)	(2,442,849)
Administrative expenses		(379,704)	(333,682)
Research and development expenses		(294,703)	(245,324)
Operating profit		1,315,660	1,108,125
Finance costs	7	(109,929)	(112,894)
Share of profits and losses of associates		(7,808)	(4,860)
PROFIT BEFORE TAX	8	1,197,923	990,371
Income tax expense	9	(191,244)	(160,174)
PROFIT FOR THE PERIOD		<u>1,006,679</u>	<u>830,197</u>

	<i>Note</i>	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent period:</i>			
Fair value gain on debt instruments measured at fair value through other comprehensive income		3,258	7,298
Reclassification of loss for debt instruments at fair value through other comprehensive income included in profit or loss		(410)	(449)
Income tax relating to items that may be reclassified to profit or loss		(415)	(808)
		<u>2,433</u>	<u>6,041</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>2,433</u>	<u>6,041</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>1,009,112</u>	<u>836,238</u>
Profit for the period attributable to:			
Owners of the Company		929,828	732,020
Non-controlling interests		76,851	98,177
		<u>1,006,679</u>	<u>830,197</u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		931,857	737,091
– Non-controlling interests		77,255	99,147
		<u>1,009,112</u>	<u>836,238</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and Diluted (RMB cents)	<i>11</i>	<u>18.46</u>	<u>14.54</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June	31 December
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		6,370,215	6,226,767
Right-of-use assets		1,227,166	1,242,788
Investment properties		264,537	299,191
Goodwill		3,510,742	3,521,963
Other intangible assets		6,277,802	6,365,640
Investments in associates		16,902	22,161
Deposits and prepayments		147,744	108,027
Deferred tax assets		187,287	170,307
		<hr/>	<hr/>
Total non-current assets		18,002,395	17,956,844
CURRENT ASSETS			
Inventories	<i>12</i>	5,327,547	4,908,485
Trade and other receivables	<i>13</i>	6,903,598	5,033,004
Debt instruments at fair value through other comprehensive income (“FVTOCI”)		1,125,217	1,383,732
Time deposits		3,000	203,000
Pledged bank deposits		150,324	163,078
Bank balances and cash		4,092,388	3,440,240
		<hr/>	<hr/>
Total current assets		17,602,074	15,131,539
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	5,301,808	4,412,628
Lease liabilities		14,918	13,994
Contract liabilities		137,918	292,331
Bank and other borrowings		2,130,249	1,658,026
Unsecured notes – due within one year		1,000,845	1,006,793
Tax liabilities		123,532	150,828
		<hr/>	<hr/>
Total current liabilities		8,709,270	7,534,600
		<hr/>	<hr/>
NET CURRENT ASSETS		8,892,804	7,596,939
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,895,199	25,553,783
		<hr/>	<hr/>

		30 June	31 December
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		397,938	405,092
Deferred tax liabilities		1,707,029	1,710,376
Unsecured notes – due after one year		2,196,579	2,230,523
Bank and other borrowings		593,384	221,410
Lease liabilities		87,234	89,961
		<hr/>	<hr/>
Total non-current liabilities		4,982,164	4,657,362
		<hr/>	<hr/>
Net assets		21,913,035	20,896,421
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	<i>15</i>	11,982,474	11,982,474
Reserves		7,011,942	6,081,612
		<hr/>	<hr/>
		18,994,416	18,064,086
Non-controlling interests		2,918,619	2,832,335
		<hr/>	<hr/>
Total equity		21,913,035	20,896,421
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

The financial information relating to the year ended 31 December 2020 that is included in the interim condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has submitted the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company's auditors have reported on the financial statements for the year ended 31 December 2020. The auditor's report was unqualified; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

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

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16
Amendment to HKFRS 16

Interest Rate Benchmark Reform – Phase 2

*Covid-19-Related Rent Concessions beyond 30 June
2021 (early adopted)*

The application of these amended and revised HKFRSs in the Reporting Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

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

The Group presented five reportable and operating segments, 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", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments. Further details of the adjusted items are set out in note 3(i).

Segment assets include all tangible, intangible assets and current assets with the exception of 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, finance costs, depreciation and amortisation, which is managed directly by the segments.

(i) **Segment results**

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.

Six months ended 30 June 2021	Concentrated	TCM	TCM	Local TCM	Elimination	Total	
	Finished drugs	TCM granules	decoction pieces	healthcare complex			integrated operation
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue (note 4)							
External customers	1,755,089	5,321,498	707,672	62,815	302,277	-	8,149,351
Inter segment sales	46,901	105,202	699,062	643	320,163	(1,171,971)	-
Reportable segment Revenue	<u>1,801,990</u>	<u>5,426,700</u>	<u>1,406,734</u>	<u>63,458</u>	<u>622,440</u>	<u>(1,171,971)</u>	<u>8,149,351</u>
Reportable segment profit (adjusted EBITDA)							
	<u>321,946</u>	<u>1,311,702</u>	<u>57,464</u>	<u>5,730</u>	<u>(23,510)</u>	<u>-</u>	<u>1,673,332</u>
Interest income	<u>10,718</u>	<u>12,365</u>	<u>648</u>	<u>176</u>	<u>447</u>	<u>-</u>	<u>24,354</u>
Finance costs	<u>36,152</u>	<u>55,501</u>	<u>6,142</u>	<u>870</u>	<u>11,264</u>	<u>-</u>	<u>109,929</u>
Depreciation and amortisation	<u>96,475</u>	<u>183,171</u>	<u>48,810</u>	<u>9,042</u>	<u>52,365</u>	<u>-</u>	<u>389,863</u>
Six months ended 30 June 2020	Concentrated	TCM	TCM	Local TCM	Elimination	Total	
	Finished drugs	TCM granules	decoction pieces	healthcare complex			integrated operation
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue (note 4)							
External customers	1,304,332	4,569,912	566,999	42,185	171,891	-	6,655,319
Inter segment sales	36,323	97,150	426,332	718	147,037	(707,560)	-
Reportable segment revenue	<u>1,340,655</u>	<u>4,667,062</u>	<u>993,331</u>	<u>42,903</u>	<u>318,928</u>	<u>(707,560)</u>	<u>6,655,319</u>
Reportable segment profit (adjusted EBITDA)							
	<u>229,653</u>	<u>1,130,795</u>	<u>18,933</u>	<u>3,446</u>	<u>21,231</u>	<u>-</u>	<u>1,404,058</u>
Interest income	<u>8,493</u>	<u>10,203</u>	<u>1,572</u>	<u>46</u>	<u>1,737</u>	<u>-</u>	<u>22,051</u>
Finance costs	<u>24,772</u>	<u>79,405</u>	<u>5,560</u>	<u>836</u>	<u>2,321</u>	<u>-</u>	<u>112,894</u>
Depreciation and amortisation	<u>89,078</u>	<u>157,297</u>	<u>41,524</u>	<u>9,399</u>	<u>27,222</u>	<u>-</u>	<u>324,520</u>

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Reportable segment profit (adjusted EBITDA)		1,673,332	1,404,058
Depreciation and amortisation		(389,863)	(324,520)
Interest income	5	24,354	22,051
Finance costs	7	(109,929)	(112,894)
Rental income	5	7,762	5,752
Net exchange gain	6	75	784
Share of profit or losses of associates		(7,808)	(4,860)
		1,197,923	990,371

The following table presents the segment asset and liability information of the Group's operating segments as at 30 June 2021 and 31 December 2020,

	Finished drugs	Concentrated TCM granules	TCM decoction pieces	TCM healthcare complex	Local TCM integrated operation	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment assets						
30 June 2021 (unaudited)	<u>8,025,954</u>	<u>24,473,545</u>	<u>3,510,365</u>	<u>243,597</u>	<u>3,045,490</u>	<u>39,298,951</u>
31 December 2020 (audited)	<u>6,355,934</u>	<u>22,331,527</u>	<u>4,229,574</u>	<u>289,822</u>	<u>3,206,802</u>	<u>36,413,659</u>
Reportable segment liabilities						
30 June 2021 (unaudited)	<u>2,991,311</u>	<u>8,337,017</u>	<u>2,439,308</u>	<u>80,384</u>	<u>1,593,207</u>	<u>15,441,227</u>
31 December 2020 (audited)	<u>2,154,857</u>	<u>7,051,430</u>	<u>2,720,889</u>	<u>91,128</u>	<u>1,509,813</u>	<u>13,528,117</u>

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Assets		
Reportable segment assets	39,298,951	36,413,659
Elimination of inter-segment receivables	(3,886,639)	(3,515,057)
	35,412,312	32,898,602
Deferred tax assets	187,287	170,307
Unallocated head office and corporate assets	4,870	19,474
Consolidated total assets	35,604,469	33,088,383
Liabilities		
Reportable segment liabilities	15,441,227	13,528,117
Elimination of inter-segment payables	(3,886,639)	(3,515,057)
	11,554,588	10,013,060
Tax liabilities	123,532	150,828
Deferred tax liabilities	1,707,029	1,710,376
Unallocated head office and corporate liabilities	306,285	317,698
Consolidated total liabilities	13,691,434	12,191,962

(ii) Geographical information and information about major customers

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

The Group's customer base is diversified and there was no customer from whom the revenue was exceeded 10% of the Group's revenue in both current and prior periods.

4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers	<u>8,149,351</u>	<u>6,655,319</u>

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2021

Segments	Finished drugs <i>RMB'000</i> (Unaudited)	Concentrated TCM granules <i>RMB'000</i> (Unaudited)	TCM decoction pieces <i>RMB'000</i> (Unaudited)	TCM healthcare complex <i>RMB'000</i> (Unaudited)	Local TCM integrated operation <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services						
Goods						
Finished drugs	<u>1,652,339</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,652,339</u>
Concentrated TCM granules	<u>75,763</u>	<u>5,254,528</u>	<u>–</u>	<u>–</u>	<u>89,805</u>	<u>5,420,096</u>
TCM decoction pieces	<u>22,308</u>	<u>57,479</u>	<u>701,149</u>	<u>–</u>	<u>212,274</u>	<u>993,210</u>
Services						
TCM healthcare complex	<u>–</u>	<u>–</u>	<u>–</u>	<u>62,815</u>	<u>–</u>	<u>62,815</u>
Others	<u>4,679</u>	<u>9,491</u>	<u>6,523</u>	<u>–</u>	<u>198</u>	<u>20,891</u>
Total	<u>1,755,089</u>	<u>5,321,498</u>	<u>707,672</u>	<u>62,815</u>	<u>302,277</u>	<u>8,149,351</u>
Geographical markets						
Mainland China	<u>1,755,026</u>	<u>5,278,354</u>	<u>707,672</u>	<u>62,815</u>	<u>302,277</u>	<u>8,106,144</u>
Hong Kong	<u>63</u>	<u>11,272</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>11,335</u>
Overseas and others	<u>–</u>	<u>31,872</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>31,872</u>
Total	<u>1,755,089</u>	<u>5,321,498</u>	<u>707,672</u>	<u>62,815</u>	<u>302,277</u>	<u>8,149,351</u>
Timing of revenue recognition						
A point in time	<u>1,755,089</u>	<u>5,321,498</u>	<u>707,672</u>	<u>62,815</u>	<u>302,277</u>	<u>8,149,351</u>

For the six months ended 30 June 2020

Segments	Finished drugs <i>RMB'000</i> (Unaudited)	Concentrated TCM granules <i>RMB'000</i> (Unaudited)	TCM decoction pieces <i>RMB'000</i> (Unaudited)	TCM healthcare complex <i>RMB'000</i> (Unaudited)	Local TCM integrated operation <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services						
Goods						
Finished drugs	1,287,536	–	–	–	–	1,287,536
Concentrated TCM granules	261	4,505,011	–	–	43,737	4,549,009
TCM decoction pieces	8,522	63,052	562,771	–	127,106	761,451
Services						
TCM healthcare complex	–	–	–	42,185	–	42,185
Others	8,013	1,849	4,228	–	1,048	15,138
Total	1,304,332	4,569,912	566,999	42,185	171,891	6,655,319
Geographical markets						
Mainland China	1,304,247	4,525,300	566,999	42,185	171,891	6,610,622
Hong Kong	85	15,000	–	–	–	15,085
Overseas and others	–	29,612	–	–	–	29,612
Total	1,304,332	4,569,912	566,999	42,185	171,891	6,655,319
Timing of revenue recognition						
A point in time	1,304,332	4,569,912	566,999	42,185	171,891	6,655,319

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

For the six months ended 30 June 2021

Segments	Finished drugs <i>RMB'000</i> (Unaudited)	Concentrated TCM granules <i>RMB'000</i> (Unaudited)	TCM decoction pieces <i>RMB'000</i> (Unaudited)	TCM healthcare complex <i>RMB'000</i> (Unaudited)	Local TCM integrated operation <i>RMB'000</i> (Unaudited)	Elimination <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers							
External customers	1,755,089	5,321,498	707,672	62,815	302,277	–	8,149,351
Intersegment sales	<u>46,901</u>	<u>105,202</u>	<u>699,062</u>	<u>643</u>	<u>320,163</u>	<u>(1,171,971)</u>	<u>–</u>
Total revenue from contracts with customers	<u><u>1,801,990</u></u>	<u><u>5,426,700</u></u>	<u><u>1,406,734</u></u>	<u><u>63,458</u></u>	<u><u>622,440</u></u>	<u><u>(1,171,971)</u></u>	<u><u>8,149,351</u></u>

For the six months ended 30 June 2020

Segments	Finished drugs <i>RMB'000</i> (Unaudited)	Concentrated TCM granules <i>RMB'000</i> (Unaudited)	TCM decoction pieces <i>RMB'000</i> (Unaudited)	TCM healthcare complex <i>RMB'000</i> (Unaudited)	Local TCM integrated operation <i>RMB'000</i> (Unaudited)	Elimination <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue from contracts with customers							
External customers	1,304,332	4,569,912	566,999	42,185	171,891	–	6,655,319
Intersegment sales	<u>36,323</u>	<u>97,150</u>	<u>426,332</u>	<u>718</u>	<u>147,037</u>	<u>(707,560)</u>	<u>–</u>
Total revenue from contracts with customers	<u><u>1,340,655</u></u>	<u><u>4,667,062</u></u>	<u><u>993,331</u></u>	<u><u>42,903</u></u>	<u><u>318,928</u></u>	<u><u>(707,560)</u></u>	<u><u>6,655,319</u></u>

5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants		
Unconditional subsidies (<i>note i</i>)	29,064	71,693
Conditional subsidies (<i>note ii</i>)	15,080	22,460
Interest income on bank deposits	24,354	21,498
Interest income on financial assets at FVTPL	–	553
Rental income from investment properties	7,762	5,752
	<u>76,260</u>	<u>121,956</u>

Note:

- (i) The amount represents subsidy income received from various government authorities as encouragement for its contribution to the local economy.
- (ii) The amounts included government grants and subsidies received to compensate for the Group's research and development expenditures, which relate to future costs to be incurred and it requires the Group's compliance with conditions attached to the grants and subsidies and the government acknowledgement of the compliance of these conditions. These grants are recognised in profit or loss when related costs are subsequently incurred and the Group receives the government acknowledgement of the compliance. Other government grants have been received to compensate for the construction costs of the production lines. The subsidies are recognised in profit or loss over the useful lives of the relevant assets.

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised in respect of goodwill	(11,221)	–
Gain/(loss) on disposal of property, plant and equipment	4,725	(1,460)
Net exchange gain	75	784
Others	7,072	24,985
	<u>651</u>	<u>24,309</u>

7. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	54,551	15,945
Interest on lease liabilities	2,512	2,705
Effective interest expense on unsecured notes	<u>53,000</u>	<u>101,011</u>
Total borrowing costs	110,063	119,661
Less: amounts capitalised in the cost of qualifying assets	<u>(134)</u>	<u>(6,767)</u>
	<u>109,929</u>	<u>112,894</u>

Borrowing costs capitalised during the current period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.25% (2020: 5.16%) per annum to expenditure on qualifying assets.

8. PROFIT BEFORE TAX

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

	<i>Notes</i>	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of inventories sold		3,146,587	2,638,465
Included: Write-down of inventories to net realisable value*		13,010	1,983
Depreciation			
– property, plant and equipment		263,957	220,811
– investment properties		10,800	2,089
– right-of-use assets		22,916	23,492
Amortization of other intangible assets		<u>92,190</u>	<u>78,128</u>
Research and development costs		294,703	245,324
Foreign exchange gain, net	6	(75)	(784)
(Gain)/Loss on disposal of property, plant and equipment	6	(4,725)	1,460
Impairment of financial asset, net:			
– Impairment of trade receivables		42,218	32,737
– Impairment of other receivables		4,472	851
Reversal loss of debt instruments at FVTOCI		<u>(410)</u>	<u>(449)</u>

* The write-down of inventories to net realisable value is included in "Cost of inventories sold" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

9. INCOME TAX EXPENSE

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods while certain PRC subsidiaries are enjoying preferential Enterprise Income Tax ("EIT") at a rate of 20%, 15% or full EIT exemption as approved by the relevant tax authorities for their operation in designated areas with preferential EIT policies or being qualified enterprises with operation of medicinal plants primary processing business.

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current		
PRC EIT	200,204	197,219
Under provision in prior periods	12,308	21,783
Deferred	(21,268)	(58,828)
	<hr/>	<hr/>
Total tax charge for the period	191,244	160,174
	<hr/> <hr/>	<hr/> <hr/>

10. DIVIDENDS

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Final declared and paid-Nil (2020: HK4.76 cents) per ordinary share	-	219,329
	<hr/> <hr/>	<hr/> <hr/>

On 20 August 2021, the board of directors have approved the interim dividend of HK6.66 cents (six months ended 30 June 2020: Nil) per ordinary share, amounting to a total of HK\$335,384,000, approximately RMB278,948,000 (six months ended 30 June 2020: Nil).

The interim dividend is expected to be settled on 20 October 2021 to the shareholders on the register member of the Company on 8 September 2021.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of RMB929,828,000 (six months ended 30 June 2020: RMB732,020,000), and the weighted average number of ordinary shares of 5,035,801,000 (2020: 5,035,801,000) in issue during the period.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company:	929,828	732,020
	5,035,801	5,035,801
	5,035,801	5,035,801

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

12. INVENTORIES

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	1,739,212	1,380,460
Work in progress	1,556,369	1,614,392
Finished goods	2,031,966	1,913,633
	5,327,547	4,908,485

The inventories are net of a write-down of approximately RMB92,074,000 as at 30 June 2021 (31 December 2020: RMB82,678,000).

13. TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	6,552,867	4,640,875
Less: allowance for credit losses	(128,189)	(88,138)
	6,424,678	4,552,737
Deposits and prepayments	82,377	102,503
Advance tax payments	245,382	275,051
Other receivables	190,206	137,286
Less: allowance for credit losses and impairment loss	(39,045)	(34,573)
	151,161	102,713
	6,903,598	5,033,004

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

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
0 to 90 days	3,755,445	2,784,998
91 to 180 days	1,705,410	1,091,495
181 to 365 days	901,769	648,167
Over 365 days	62,054	28,077
	6,424,678	4,552,737

14. TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	1,627,777	1,393,043
Deposits received	1,009,725	796,679
Salaries and welfare payables	211,103	348,414
Other tax payables	218,735	182,859
Accrual of operating expenses	760,177	562,254
Bills payable	632,497	571,108
Dividend payable to non-controlling interests	65,442	65,615
Consideration payable for acquisitions of subsidiaries	6,318	19,548
Payable under non-recourse factoring arrangement	518,045	254,613
Other payables	251,989	218,495
	<u>5,301,808</u>	<u>4,412,628</u>

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
0 to 90 days	1,622,269	1,437,683
91 to 180 days	354,489	257,608
181 to 365 days	182,192	184,849
Over 365 days	101,324	84,011
	<u>2,260,274</u>	<u>1,964,151</u>

15. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2021 '000	31 December 2020 '000	30 June 2021 RMB'000	31 December 2020 RMB'000
Authorised	Unlimited number of ordinary shares with no par value			
Issued and fully paid	<u>5,035,801</u>	<u>5,035,801</u>	<u>11,982,474</u>	<u>11,982,474</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Reporting Period, the Group's revenue was approximately RMB8,149,351,000, representing an increase of 22.4% compared with approximately RMB6,655,319,000 for the same period last year. The increase was mainly benefited from increased recognition of the quality control of TCM granules and the dispensing machine operation model, which promoted the steady development of concentrated TCM granules business; finished drugs business gradually recovered and grew significantly as the pandemic subsided; and the development of new business by TCM decoction pieces, TCM healthcare complex and local TCM integrated operation segments, which contributed to the growth. The concentrated TCM granules business contributed approximately RMB5,321,498,000 or 65.3% of total revenue. Revenue from the finished drugs business was approximately RMB1,755,089,000, representing 21.5% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB707,672,000, or 8.7% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB62,815,000, representing 0.8% of total revenue. Revenue from the local TCM integrated operation was approximately RMB302,277,000, representing 3.7% of total revenue.

Gross profit was approximately RMB5,002,764,000, representing an increase of 24.5% compared with approximately RMB4,016,854,000 for the same period last year. Gross profit margin was 61.4%, representing an increase of 1.0 percentage point compared with 60.4% for the same period last year. This was mainly due to increase in production which led to lowering of unit cost while the lean management implemented resulted in further lowering of unit production cost.

BUSINESS REVIEW

In recent years, the overall operating trend of the pharmaceutical industry is good. Successive medical reform policies and implementation measures have been launched which are positive for the enhancement of regulation of the industry and provide a good macro environment for the transformation and development of various medical sectors. The landscape of competition and future development trend of the TCM industry is increasingly clear, which, together with changes in the post-pandemic economic, social and market environment, has profound influence on the business development and strategic planning of the Group.

In the first half of 2021, focusing on its development objective of “all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry”, the Group consolidated its advantages in the industrial manufacturing sector, proactively adjusted strategic initiatives, increased investment in R&D, constantly enhanced internal governance standard and took on new changes in the market with full commitment, which laid a solid foundation for the achievement of its annual target.

I. Obvious advantages in industrial layout with joint development of business segments

The Group clearly recognized that to stand out in the intensely competitive environment of the TCM industry, the offering of high-quality TCM products is critical. In order to solve issues of the industry such as confused basic source of TCM resources, haphazard development of plantation bases, low standard in the quality and safety of production, and lack of innovative TCM varieties, the Group has, since 2017, taken concentrated TCM granules as the core, planned ahead and established supportive upstream, midstream and downstream businesses of the TCM industry chain to carry out industrial establishment in key regions across the country in form of industrial park, with the business segments interacting and complementing each other, and the economies of scale gradually seen.

Year	2017	2018	2019	2020
Number of province and city covered	10	14	22	22

(1) Further completion of the establishment of a Chinese medicinal herb sources system

The Group took the establishment of management system in accordance with Good Agriculture and Collection Practices for Medicinal Plants (“GACP”) for Chinese medicinal herbs with its characteristics as the main initiative, continuously accelerated establishment of upstream medicinal herb bases to strengthen control of the quality of Chinese medicinal herb sources and build a GACP system, which has unified standards, quality guarantee, controlled costs and a full range of herbs and meets the need of the Group. This will enable the Group to achieve standardized plantation and regulated harvesting of Chinese medicinal herbs, and build its core competitiveness with sustainability and high-quality development. The Group has established and constantly improved its TCM information and market analysis system, and gradually formed the TCM information survey – market trend analysis – procurement strategy service model, which manages the sourcing of bulk TCM, and coordinates and shares effective information, giving full play to its advantages of scale and standardization across the whole industry chain.

As at 30 June 2021, the Group cooperated with 74 GACP production bodies to build 182 medicinal herb plantation bases, cultivating 70 medicinal herb varieties and spanning across 21 provinces with a total area of 90,000 mus and expected output of over 7,000 tons.

Province	Medicinal herb variety
Anhui	Radix Paeoniae Alba, Cortex Moutan, Gastrodiae Rhizoma
Chongqing	Coptidis Rhizoma, Cyathulae Radix, Angelicae Pubescentis Radix, Scutellariae Radix
Gansu	Chinese Gancao, Radix Codonopsis, Radix Astragali, Angelica Sinensis, Pinellia Ternata

Province	Medicinal herb variety
Guangdong	Morindae Officinalis Radix, Cinnamomi Cortex, Cinnamomi Mmulus
Guangxi	Cinnamomi Mmulus, Cinnamomi Cortex, Curcumae Radix, Curcumae Rhizoma
Guizhou	Radix Seudostellariae, Radix Cynanchi Bungei, Uncariae Ramulus Cum Uncis, Epimedii Folium
Hebei	Aconiti Kusnezoffii Radix, Rhizoma Atractylodis, Saposhnikoviae Radix
Heilongjiang	Great Burdock Achene, Schisandrae Chinensis Fructus
Hubei	Angelicae Pubescentis Radix, Scrophulariae, Chinese Rhubarb, Coptidis Rhizoma, Cyathulae Radix, Aucklandiae Radix
Hunan	Nelumbinis Semen, Polygonati Odorati Rhizoma, AurantiiFructus, Aurantii FructusImmaturus, Lili Bulbus
Jilin	Balloon Flower, Isatidis Radix
Jiangsu	Fritillariae Thunbergii Bulbus, Hirudo, Chrysanthemi Flos
Jiangxi	Acori Tatarinowii Rhizoma, Rosae Laevigatae Fructus, Stephaniae Tetrandrae Radix, AurantiiFructus, Aurantii FructusImmaturus, Euodiae Fructus, Euryales Semen, Polygonati Rhizoma, Gardeniae Fructus
Inner Mongolia	Saposhnikoviae Radix, Chinese Gancao, Ephedrae Herba
Ningxia	Chinese Gancao, Lycii Fructus
Shandong	Honeysuckle, Scutellariae Radix, Crataegi Fructus
Shanxi	Fructus Cannabis, Forsythiae Fructus, Polygala Tenuifolia Willd, Radix Bupleuri, Sophorae Flavescens Radix
Shaanxi	Corydalis Rhizoma, Polyporus

Province	Medicinal herb variety
Sichuan	Aconiti Lateralis Radix Praeparata, Chuanxiong Rhizoma, Rhizoma Alismatis, Ophiopogon Japonicas, Mori Fructus, Bombyx Batryticatus
Yunnan	Notoginseng Radix Et Rhizoma, Amomi Fructus, Poria, Aucklandiae Radix, Paridis Rhizoma
Zhejiang	Rubi Fructus, Fritillariae Thunbergii Bulbus, Corydalis Rhizoma, Radix Paeoniae Alba, Scrophulariae, Atractylodes macrocephala

(2) Synergic effect of TCM decoction pieces further highlighted

The Group’s TCM decoction pieces products are mainly divided into industrial TCM decoction pieces and medical decoction pieces. In the industrial TCM decoction pieces business, the Group’s subsidiaries with the production capability of TCM decoction pieces are proactive and synergistic, focusing on the advantages of herbal resources and adjusting the strategy of coordinated supply of TCM decoction pieces in a timely manner to resolve conflicts between the supply and demand sides. As at 30 June 2021, the production capacity of the Group for ordinary TCM decoction pieces, toxic decoction pieces and directly administered decoction pieces were over 70,000 tons/year, over 9,000 tons/year and nearly 2,000 tons/year respectively, boasting a significant advantage in production scale. Such abundant capacity not only guarantees the development of decoction pieces segment itself, but also provides favorable security for the cost control and quality traceability for the production of concentrated TCM granules and TCM finished drugs in downstream of the industry chain.

In medical decoction pieces business, leveraging its core competitiveness of high-quality TCM decoction pieces and high-standard terminal services, the Group has continued to deepen the “hospital-enterprise cooperation” to steadily increase its market share in the existing hospitals, and increased its efforts to develop large hospitals and medical institutions to actively capture the incremental market. With the further expansion of market development and terminal coverage, the sales structure of enterprises such as Shanghai Tongjitang Pharmaceutical Co., Ltd. (“Shanghai Tongjitang”), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (“Feng Liao Xing Material & Slices”), Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited (“Beijing Huamiao”), which produce and operate a full range of TCM decoction pieces, is increasingly focused on the sharing of TCM and intelligent distribution center business model. As at 30 June 2021, 15 distribution centers were established covering 9 provinces and municipalities including Beijing, Shanghai, Guangdong, Jiangsu, Zhejiang, Shandong, Gansu, Hunan and Guizhou. During the Reporting Period, 9 additional hospitals/medical institutions were connected, and the distribution center system was running steadily, with the volume received from the terminals continuing to grow. The business of paste formula, preparations and decoction continued to increase and over 700,000 prescription orders were processed and distributed.

Meanwhile, the Group actively developed its overseas decoction pieces business, expanded the sales of its main products, and established close and long-term cooperation with iconic major pharmacy chains to gradually launch customized decoction pieces products. The Group used key single products as a breakthrough to prepare for the launch and promotion of premium decoction pieces.

(3) Concentrated TCM granules business took leading advantages to actively cope with the new policy

On 10 February 2021, National Medical Products Administration (“NMPA”), National Administration of Traditional Chinese Medicine, National Health Commission and National Healthcare Security Administration jointly issued the Announcement on Ending the Pilot Scheme of Concentrated TCM Granules (the “Announcement”), which will be officially implemented on 1 November 2021. As a milestone of development of policies regarding concentrated TCM granules industry, the Announcement clearly stipulates regulatory principles of concentrated TCM granules, qualification of production enterprises, requirements for the use of Chinese medicinal herbs, product processing technology and quality standards, sales scope, medical insurance policy and other aspects.

The Group reinforced, enhanced and secured its leading position in the concentrated TCM granules sector through building a TCM healthcare industry chain. As at 30 June 2021, the Group had 17 subsidiaries in line with the new policy on TCM granules, which have obvious advantages in coverage across the country and abundant reserve of production capacity, of which extraction capacity and preparation capacity was over 50,000 tons/year and 15,000 tons/year respectively.

Type of production license	Quantity	Provinces and municipalities 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, Hubei, Heilongjiang, Hunan, Jilin, Jiangxi, Jiangsu, Shandong, Shanxi, Shaanxi, Sichuan, Yunnan, Zhejiang

During the Reporting Period, the Group tightly grasped the window period after the launching of the concentrated TCM granules policy to establish and advance the concentrated TCM granules special working group, promoted the achievement of key missions such as national standard research, production license, provincial standard filing, sharing of extraction and medical insurance access, which effectively enhanced the overall strategic awareness and unity of action within the Group for the development of the concentrated TCM granules business. The Group strived to enhance product quality, effectively lower production costs and expand market share, and accelerated the translation of its industrial advantages into sales advantages.

(4) Finished drug segment consolidated core product competitiveness

The Group have advanced finished drug production lines and extensive resources of finished drug products. It has more than 1,200 finished drug product specifications, of which about 51.9% were included in the National Reimbursement Drug List (“NRDL”), about 23.4% were included in the National Essential Drug List (“NEDL”), and 10 drugs were exclusive products, giving it strong competitiveness in TCM finished drug sub-sector. The Group has always insisted on the large varieties cultivation plan, thoroughly sorted out and revitalized existing idle proprietary finished drug variety resources, firmly implemented the marketing strategy of “evidence-based product, unified target, in-depth marketing, professional promotion, detailed data and brand building”, continuously promoted the basic research of products, and carried out promotion in an “academic (brand) + customer emotional relationship” dual-drivers model, which effectively increased the product distribution rate and shelf sales ratio.

During the Reporting Period, based on “Longgu Project” management, the Company optimized the quality and business process management for commercial customers, terminal data flow and statistics to form a closed-loop management of factory product – target business – medical pharmacy terminal – consumer, and generated more accurate sales data to support more efficient and scientific sales decisions. Meanwhile, the Company strengthened the synergistic development of internal systems, established a standardized, process-oriented internal communication mechanism, improved production and sales coordination, and made flexible coordination according to dynamic changes on the supply and demand sides.

Variety	Therapeutic area	Exclusive variety	Included in NRDL	Included in NEDL
Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊/片)	Orthopaedics	Yes	Capsules (Class A) Tablets (Class B)	Yes
Yu Ping Feng Granules (玉屏風顆粒)	Pediatrics, respiratory, otolaryngology, dermatology	Yes	Class A	Yes
Bi Yan Kang Tablets (鼻炎康片)	Internal medicine, otolaryngology	Yes	Class A	Yes
Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	Dermatology	Yes	Class A	Yes
Jingshu Granules (頸舒顆粒)	Orthopedics, rehabilitation	Yes	Class A	Yes
Zaoren Anshen Capsules (棗仁安神膠囊)	Neurology, psychiatry	Yes	Class B	Yes
Chongcao Qingfei Capsules (蟲草清肺膠囊)	Respiratory, internal medicine	Yes	No	No

Variety	Therapeutic area	Exclusive variety	Included in NRDL	Included in NEDL
Sheng Tong Ping (Nifedipine Sustained-release Tablets I) (聖通平(硝苯地平緩釋片I))	Cardiovascular	No	Class A	No
Fengshi Gutong Capsules (風濕骨痛膠囊)	Rheumatology and immunology, orthopaedics	Yes	Class A	Yes
Waimaining Capsules (威麥寧膠囊)	Nourishes the lungs and nourishes one's vitality, clears the lungs and eliminates phlegm, relieves cough and asthma	Yes	Class B	No

(5) Active innovation in healthcare business

With improvement of people's living standards and popularization of the concept of health care, people's demand for healthy living has been further upgraded. In keen response, the TCM clinics in operation continued to develop the three business lines of specialties, physical therapy and rehabilitation, and home healthcare in accordance with the established main line of business, actively innovated the business development model, increased the development of independent products, launched a number of customized home prescription products such as TCM soup packs and beauty and menstruation conditioning tea, and vigorously developed new physical therapies such as "huolong" moxibustion and umbilical moxibustion. The COVID-19 pandemic has promoted Internet channels to reach more consumer groups. The Group leveraged the Internet to launch the Meituan group-buying project, the live broadcast of Chinese medicine health seminars by doctors, and the live streaming ecommerce by clinic to promote health knowledge and raise the Group's awareness in the field of healthcare. During the Reporting Period, Huizhou Gehong TCM Clinic officially opened, and Lishui Fenglixing TCM Clinic entered the trial operation stage.

In addition, in order to stay close to consumer market, the Group also actively explored diversified online marketing strategy and established official strategic cooperation with internet platforms such as Tmall, Jingdong and Tik Tok. In the building of healthcare brand, the Group renewed the design of product packages, developed a brand manual to create a professional, effective and uniform image, and leveraged its internet platform to continuously convey its brand value, demonstrating its strong R&D strength and excellent quality, and expanding the coverage of consumer groups.

II. Increased effort in technological innovation and achieved fruitful significant results

The technological innovation team is the symbol of the enterprise's core competitiveness and security of enterprise's continuous creation of value. Currently, the Group's R&D team has a total of 1,408 employees, including 3 experts with special allowances from the State Council, 1 leader in science and technology innovation from the "Ten Thousand Talent Plan" of China and 3 scientific CNPGC research leaders; 36 persons with senior title and 62 persons with vice-senior title; 5 post-doctorates, 9 doctors and 215 masters. The Group has continuously strengthened the building of scientific and technological talent teams and talent platform carriers to promote the effective performance of the supporting role and core role of scientific and technological talents.

As the production license of concentrated TCM granules opens up, the industry has set more stringent industry standards, imposing higher requirements on production processes and product quality. The Group's high-standard R&D will help accelerate its adaptation to industry standards and maintain its competitive edge. During the Reporting Period, the Group accelerated R&D of concentrated TCM granules, and rapidly adapted to the existence of both national standards and provincial standards. As at 30 June 2021, the Group has submitted 319 national standards on concentrated TCM granules, and also submitted provincial standards on over 200 varieties to Guangdong, Guizhou, Yunnan, Shandong, Gansu, Shanxi, Zhejiang and Sichuan for filing, with some of them being publicized.

Regarding research on classical formulae, leveraging on its advantages in the research of standards for single medicinal herb of concentrated TCM granules and its TCM industry chain resources, the Group fully promoted researches on ancient classical prescriptions for TCM compound preparation. As at 30 June 2021, the Company has established preliminary research methods for 26 classical formulae, completed substance benchmark research on 13 classical formulae, and completed research on mass production of 6 varieties, of which Taohe Chengqi Decoction and Banxia Baishu Tianma Decoction are undergoing non-clinical safety evaluation.

In promoting commercialization of major scientific research findings, on 2 March 2021, Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") obtained drug registration certificate for Huashi Baidu Granules issued by the NMPA. The successful launching of Huashi Baidu Granules is a milestone signifying the full recognition of the clinical efficacy and accumulated scientific data of TCM during the pandemic, and opens up a new way to follow the rules of TCM and reform the evaluation and approval system of TCM.

In the development of healthcare products, based on its strict product quality control standard and traceable quality assurance system, the Group leveraged its strong R&D capabilities in TCM healthcare products to develop healthcare products that are recognized by consumers and meet the needs of modern consumption, and to promote the transformation and upgrade of the healthcare industry with its superior product quality and production advantages. With Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang"), Guangdong Yifang and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") as the main operating entities, the Group engaged in the development of general food, health food, food ingredients and OEM/ODM products and has launched a range of products.

III. In-depth enhancement of management with full demonstration of effective governance

The Group insisted on taking management improvement as an important means to strengthen the foundation of development, prevent and mitigate risks and enhance the effectiveness of control, and focused on solving outstanding problems and weaknesses in management.

During the Reporting Period, the Group continued to launch the special project of improving quality and efficiency, strengthened the role of supervision and management of financial work to effectively reduce corporate operating costs and managed risks and ensure the good operation of corporate funds. With the core of creating value for customers and shareholders and adhering to the long-term strategic objectives and development philosophy, the Group continued to carry out special efforts to improve quality and efficiency in the whole system and the whole production process. During the Reporting Period, audit were undertaken on 515 projects which may continuously improve the economic effectiveness target of the projects with year-on-year growth of 36%.

In the construction of modern corporate governance system, the Company gradually deepened the reform of mixed ownership system and improved the corporate governance of mixed ownership enterprises in practice. In particular, in the process of cooperation with strategic investors, the Company actively improved the corporate governance structure, perfected the corporate management system, implemented the decision-making authority of the board of directors, optimized the approval process, and gradually built a modern enterprise system with institutionalized management, institutionalized process and informatized process, which has improved the efficiency of decision-making, safeguarded the rights and interests of the shareholders of all parties, and released vitality of the mixed ownership enterprises, taking into account of the articles of association and actual operating situation of the subsidiaries.

Regarding internal control and risk management, the Group continued to improve the refined, regulated and standardized control and governance system, strengthened the prevention and control of major risks and implemented supervisory and management measures for major risks and issues. During the Reporting Period, five major risks were identified and effective control measures were formulated and monitored on a quarterly basis. Meanwhile, the Group insisted on the comprehensive risk management concept of “risk control as the guide, internal control management as the starting point, and compliance management as the bottom line”, and extended the main battlefield of risk management to the business units of subsidiaries to provide solid protection for the sustainable and high-quality development of the enterprise.

IV. Further development of brand strategy with sharp rise in the brand influence of “Dragon Seal Sino-TCM”

The Company focused on the big brand strategy of “Dragon Seal Sino-TCM” and accelerated the promotion of the “Dragon Seal Sino-TCM” brand. The Company steadily promoted the use of communication and publicizing planning of “Dragon Seal Sino-TCM” in the concentrated TCM granules, premium decoction, TCM finished drugs and healthcare products segments to increase its brand influence and competitiveness, as well as building a consistent brand identity of the product portfolio and the enterprise.

During the Reporting Period, the Company, on one hand, leveraged its online advantages and used the traditional platform of the Internet media and the new video platform as the medium, using “Dragon Seal Sino-TCM” as the overall output image and the healthcare products as the output carrier to give consumers an authoritative, quality-assured and authentic core image, highlighting the brand positioning of “high quality TCM with raw materials from the major production areas of Chinese medicinal herbs”; on the other hand, it actively organized and participated in expert forums and large industry events and conferences offline to convey the brand value and connotation to the industry and consumer terminals and increase the brand exposure and awareness.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments in the first half of 2021. As of the date of this announcement, the Group had no plans for material investments or acquisitions of capital assets.

ANALYSIS OF BUSINESS SEGMENTS

In the first half of 2020, the operating results of the Group was significantly impacted by the COVID-19 pandemic. In the first half of 2021, cases of COVID-19 occasionally emerged in some parts of China, and the government has been strengthening the efforts in epidemic prevention and control. During the Reporting Period, while insisting on the prevention and control of the pandemic, the Group focused on its operation and development. By increasing external marketing efforts to drive steady sales growth, and continuing to carry out special efforts to improve quality and efficiency in the entire production process internally, the Group was able to explore potential and increase efficiency on all fronts, resulting in a substantial increase in the Group’s operating results not only compared to the same period last year, but also a steady increase compared to the same period in 2019.

During the Reporting Period, there was no change in the number of the Company’s subsidiaries compared to the end of 2020.

Key enterprises of the business segments were:

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., Tongjitang Pharmaceutical, Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. and Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. (“Zhonglian Pharmaceutical”).

Key enterprises of TCM decoction pieces: Feng Liao Xing Material & Slices, Shanghai Tongjitang, Beijing Huamiao and Longxixian Feng Liao Xing Herbal Co., Ltd.

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: Shandong Zhongping Pharmaceutical Co., Ltd. (“Shandong Zhongping”), Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd. (“Yunan Tianjiang”), Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. (“Sichuan Sinopharm”) and Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd. (“Shuanglanxing Pharmaceutical”).

1. Concentrated TCM granules

Key financial indicators for the concentrated TCM granules business

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	5,321,498	4,569,912	16.4%
Cost of sales	1,566,893	1,428,309	9.7%
Gross profit	3,754,605	3,141,603	19.5%
Gross profit margin	70.6%	68.7%	1.9pp
Operating profit	1,141,285	984,822	15.9%
Profit for the period	936,224	765,931	22.2%
Net profit margin	17.6%	16.8%	0.8pp

During the Reporting Period, sales of concentrated TCM granules business maintained a steady growth, with revenue of approximately RMB5,321,498,000, representing an increase of 16.4% over the same periods in last year and 2019, accounting for 65.3% of the total revenue.

Since the outbreak of the COVID-19 pandemic, the Company actively responded and achieved results, which were mainly attributed to: (1) increase in academic promotion of concentrated TCM granules, and the quality control and convenience of concentrated TCM granules were increasingly recognized by hospitals at all levels, and the continuous promotion of the operation model of medicine dispensing machine, which provided dispensing convenience for hospitals, with existing customers contributing to a growth in the revenue by approximately 12.2% for the period; and (2) the active development of market channels in recent years, with significant growth in the number of primary medical institutions, and newly added customers contributing to a growth in the revenue by approximately 4.2% for the period.

Gross profit margin rose by 1.9 percentage points to 70.6% from 68.7% for the same period last year, mainly due to obvious advantages in the scale and intensification of production, as well as the active promotion of lean management, which reduced unit production cost further.

During the Reporting Period, the profit for the period of concentrated TCM granules segment amounted to approximately RMB936,224,000, representing an increase of 22.2% over the same period last year, and net profit margin increased by 0.8 percentage point compared to the same period last year. This was mainly due to: (1) the steady growth of revenue and effective cost control in the period, which resulted in an increase in gross profit margin by 1.9 percentage points; (2) as the pandemic subsided, marketing and business trips gradually resumed, and development and promotion in various market channels were increased during the period, while the depreciation and technical service expenses of medicine dispensing machines increased as more medicine dispensing machines were put into operation, leading to an increase in sales expense ratio in the period by 1.6 percentage points; (3) continuous increase of investment in research and development of national standards of concentrated TCM granules and research on classical formulae, meanwhile, investment in research on medicine and food homology related healthcare products was also increased, leading to an increase in the R&D expense ratio by 0.1 percentage point compared with the same period last year; (4) the Group adjusted financial products according to market conditions in a timely manner and the finance costs decreased; and (5) an increase in the percentage of the deduction for R&D expenses for the period allowed by the government, resulting in a decrease in the Company's income tax expense ratio.

Revenue analysis by region (RMB million)

Region	Six months ended 30 June					
	2021	Proportion	2020	Proportion	Growth amount	Growth rate
East China	1,663	31.2%	1,409	30.8%	254	18.0%
South China	1,313	24.7%	1,044	22.8%	269	25.8%
North China	717	13.5%	666	14.6%	51	7.7%
Central China	559	10.5%	487	10.7%	72	14.8%
Northwest China	411	7.7%	333	7.3%	78	23.4%
Northeast China	214	4.0%	167	3.6%	47	28.1%
Southwest China	401	7.6%	419	9.2%	-18	-4.3%
Overseas and others	43	0.8%	45	1.0%	-2	-4.4%
Total	5,321	100.0%	4,570	100.0%	751	16.4%

During the Reporting Period, sales in east, south, north and central China accounted for 79.9% of total sales, compared with 78.9% for the same period last year. South China, northwest China and northeast China all grew by over 20%.

Notes:

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

South China (including Guangdong, Guangxi and Hainan)

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

Central China (including Henan, Hubei and Hunan)

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

Northeast China (including Heilongjiang, Jilin and Liaoning)

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

2. Finished drugs

Key financial indicators for the finished drugs business

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	1,755,089	1,304,332	34.6%
Cost of sales	692,501	570,354	21.4%
Gross profit	1,062,588	733,978	44.8%
Gross profit margin	60.5%	56.3%	4.2pp
Operating profit	237,551	151,121	57.2%
Profit for the period	153,875	94,109	63.5%
Net profit margin	8.8%	7.2%	1.6pp

Revenue analysis by product type (RMB million)

Product Type	Six months ended 30 June				Change
	2021	Proportion	2020	Proportion	
Prescription products specification	1,287.86	73.4%	892.10	68.4%	44.4%
OTC products specification	467.23	26.6%	412.23	31.6%	13.3%
Total	1,755.09	100.0%	1,304.33	100.0%	34.6%

Note: Prescription products specification: products specification that are primarily sold at the hospital end;

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

During the Reporting Period, against the backdrop of an effective control over the pandemic and a significant growth in sales, revenue of the finished drugs business was approximately RMB1,755,089,000, representing an increase of 34.6% as compared to the same period last year, accounting for 21.5% of the total revenue and representing an increase of 3.3% as compared to the same period of 2019, indicating a gradual recovery of the business. The reasons for the increase and change in revenue were: (1) prescription products specification: as the pandemic was under effective control, outpatients business at all levels of medical institutions gradually resumed as normal. Among them, the sales of key prescription products specifications such as Xianling Gubao Capsules, Moisturizing and Anti-Itching Capsules, Jingshu Granules and Trionycis Bolus increased by over 40%; the growth of Jinye Baidu Granules, which was included in the epidemic prevention catalogue, was outstanding with an increase in sales by over 80%; Tongjitang Pharmaceutical and Zhonglian Pharmaceutical commenced selling concentrated TCM granules and recorded sales of approximately RMB75,763,000; and (2) OTC products specification: the investment in terminal promotion such as pharmacy chains was increased, which led to recovery of the sales of retail entities, with significant growth in the sales of key OTC products specifications such as Feng Liao Xing Dieda Medicinal Wine and Yao Shen Herbal Paste.

During the Reporting Period, led by growth in revenue, the profit for the period of the finished drugs segment was approximately RMB153,875,000, representing an increase of 63.5% as compared with the same period of last year; and net profit margin increased by 1.6 percentage points to 8.8% from 7.2% in the same period last year. The reasons for the changes in key indicators were mainly: (1) the significant increase in sales of high margin products such as Xianling Gubao Capsules, Moisturizing and Anti-Itching Capsules, Jingshu Granules and Feng Liao Xing Dieda Medicinal Wine in the period contributed to an increase of gross profit margin by 4.2 percentage points to 60.5% from 56.3% in the same period last year; (2) as the pandemic subsided and market gradually recovered, development and promotion of OTC market channels were stepped up and sales expenses ratio increased by 0.8 percentage point as compared with the same period last year; and (3) a decrease in the government grants received as compared with the same period last year.

3. TCM decoction pieces

Key financial indicators for the TCM decoction pieces business

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	707,672	566,999	24.8%
Cost of sales	586,869	482,173	21.7%
Gross profit	120,803	84,826	42.4%
Gross profit margin	17.1%	15.0%	2.1pp
Operating profit	15,020	-17,708	184.8%
Profit for the period	5,705	-15,427	137.0%
Net profit margin	0.8%	-2.7%	3.5pp

During the Reporting Period, revenue from the TCM decoction pieces business was approximately RMB707,672,000, representing an increase of 24.8% compared to approximately RMB566,999,000 for the same period last year, accounting for 8.7% of total revenue and representing an increase of 17.0% compared to the revenue of the same period in 2019, showing a trend of steady growth. The increase in revenue of TCM decoction pieces was mainly because: (1) the customer flow of hospitals and pharmacies was greatly reduced in the same period last year due to impact of the pandemic while sales revenue recovered as the pandemic has abated during the period; and (2) the Group actively developed hospital customers and vigorously developed the paste prescription business during the period, which led to a significant year-on-year increase in revenue from paste prescription, TCM decoction pieces and processing fees.

The Company continued to promote the building of a coordinated production system for industrial decoction pieces to secure the cost control of concentrated TCM granules extraction and TCM finished drugs production in the downstream. Revenue from internal sales of TCM decoction pieces companies to concentrated TCM granules and finished drugs companies was approximately RMB699,062,000, collectively, representing a growth of 64.0% compared to approximately RMB426,332,000 in the same period last year.

The gross profit margin increased by 2.1 percentage points from 15.0% in the same period last year to 17.1%. The increase in gross profit margin was mainly benefited from: (1) the proportion of sales in high margin decoction pieces increased; (2) as production volume increased considerably year-on-year, the unit costs of fixed cost expenses such as depreciation, amortization and labour cost shared by each product decreased; and (3) the decrease in raw material purchasing prices of some products.

In the past two years, the Company has been integrating and optimizing existing business of the segment, preparing and establishing new types of business such as decoction centers and premium decoction pieces department, forming self-operation team and exploring external business, and its profit for the year decreased and incurred losses. During the Reporting Period, the profit for the period of the TCM decoction pieces business was approximately RMB5,705,000, which was a turning around from recording losses for the same period last year. The improvement was mainly attributable to the increase of investment in market development in the past two years which led to significant increase in revenue for the period, as well as the increase in the paste prescription and decoction business of decoction centers in Guangdong, which resulted in passing the break-even point of decoction centers and achieved profitability.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	62,815	42,185	48.9%
Cost of sales	38,326	23,917	60.2%
Gross profit	24,489	18,268	34.1%
Gross profit margin	39.0%	43.3%	-4.3pp
Operating profit	-3,095	-5,875	47.3%
Profit for the period	-5,246	-6,629	20.9%
Net profit margin	-8.4%	-15.7%	7.3pp

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB62,815,000, representing an increase of 48.9% over RMB42,185,000 for the same period last year, accounting for 0.8% of total revenue and representing an increase of 75.9% compared to revenue for the same period in 2019, with continuous expansion of business. The major reason for the increase in revenue was that, comparing to the same period last year, the impact of the COVID-19 pandemic subsided and various business gradually resumed; and the business of new channels increased.

Gross profit margin for the period decreased by 4.3 percentage points from 43.3% in the same period last year to 39.0% due to lower gross margin of new business relative to retail business of stores and expiration of preferential policies related to the pandemic period. Nevertheless, as the operations of newly opened TCM clinics were gradually put on track, the ratio of fixed expenses to revenue decreased and the sales expense ratio and administration expense ratio for the period decreased compared to the same period last year, the overall losses decreased compared to the same period last year.

5. Local TCM integrated operation

Key financial indicators for the local TCM integrated operation

	Six months ended 30 June		Change
	2021	2020	
	RMB'000	RMB'000	
Revenue	302,277	171,891	75.9%
Gross profit margin	13.3%	22.2%	-8.9pp
Other income	12,453	35,065	-64.5%
Administrative expenses	66,768	43,862	52.2%
Operating profit	-75,101	-4,235	-1,673.3%
Profit for the period	-83,879	-7,787	-977.2%
Net profit margin	-27.7%	-4.5%	-23.2pp

During the Reporting Period, the local TCM integrated operation's revenue amounted to approximately RMB302,277,000 representing an increase of 75.9% over RMB171,891,000 for the same period last year, accounting for 3.7% of total revenue and representing an increase of over ten times compared to the revenue for the same period in 2019. The substantial increase in the revenue of the local TCM integrated operation segment was because: (1) the sales of concentrated TCM granules by Shuanglanxing Pharmaceutical, Sichuan Sinopharm and Yunnan Tianjiang increased steadily, and that Chongqing Tianjian Yifang Pharmaceutical Co., Ltd. also commenced the business of selling concentrated TCM granules during the period; (2) Shandong Zhongping, located in Pingyi, Shandong, the hometown of honeysuckle, has developed honeysuckle-based sales business of authentic medicinal herbs, and its external turnover was over 1 time higher than the same period last year; and (3) other local TCM integrated operation companies actively expanded production and sales of TCM decoction pieces and medicinal herbs trading.

During the Reporting Period, the profit for the period of the local TCM integrated operation segment decreased significantly year-on-year, mainly due to (1) although companies in the segment successively commenced concentrated TCM granules business and actively engaged in TCM medicinal herbs trading and sales of TCM decoction pieces, they were generally still in the initial stage of operation and have yet to generate profit as a result of large investment in market development, increased depreciation of fixed assets after previous infrastructure projects were transferred to fixed assets, and relatively high personnel costs; (2) the gross margin of medicinal herbs trading was relatively low and it accounted for a large portion of total sales, which led to a decrease in gross profit margin compared to the same period last year; and (3) government grants and pandemic relief decreased during the period. However, with the gradual build-up of the production capacity of concentrated TCM granules and decoction pieces, it is expected that the segment's profitability will be improved quickly.

PROSPECTS

In the second half of the year, under the strong support of the Board and the strong leadership of the management team, the Group will continue to focus on 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”. Based on its industrial entities throughout the country, the Group will secure its medicinal herb resources, promote integrated industrial synergy, creatively implement technological innovation, substantially increase operational efficiency, enhance governance in all aspects, and building industry-leading brands with high quality. The Group will focus on achieving greener and more sustainable economic growth with higher efficiency, more effective supply and higher-end structure.

Specific measures include: (1) Rapidly promote the work related to the transformation of concentrated TCM granule standards to meet the implementation of the new policies; (2) Insist on multi-model marketing concept in the TCM finished drugs segment to strengthen market terminal development and increase sales; (3) Comprehensively promote the market expansion of the decoction pieces business, and integrate the development of industrial decoction pieces, medical decoction pieces and premium decoction pieces; (4) Continuously promote construction of the GACP system for Chinese medicinal herbs, and consolidate the quality lifecycle management capability together with the middle and downstream industries; (5) Continuously cultivate new business models of TCM healthcare, and strive for more breakthroughs in the fields of TCM clinics and consumer products; (6) Establish strategy-centered group control and management, and comprehensively promote the improvement of governance; (7) Strengthen the leading role of scientific research and innovation to provide core competitiveness for enterprise development; (8) Accelerate digitalization and informatization to adapt to future digital transformation; (9) Increase the publicity of the brand “Dragon Seal Sino-TCM” to enhance the influence and power of the brand; and (10) Explore strategic talent management changes, build a positive incentive compensation system, and fully mobilize the enthusiasm and creativity of talents.

FINANCIAL REVIEW

Other income

For the six months ended 30 June 2021, the Group’s other income was approximately RMB76,260,000, representing a decrease of 37.5% from approximately RMB121,956,000 for the same period last year. This was mainly due to recorded income from a government grant during the Reporting Period was RMB44,144,000, representing a decrease of 53.1% compared with RMB94,153,000 for the same period last year. Details can be found in Note 5 of “Notes to Interim Condensed Consolidated Financial Information”.

Other gains and losses

For the six months ended 30 June 2021, the Group's other gains were approximately RMB651,000 (six months ended 30 June 2020: other gains of approximately RMB24,309,000). During the Reporting Period, the reason for the change in other gains and losses: last year was a critical stage for the Company's carrying out of assets and liabilities inspection and results were achieved, while asset structure was optimised in the period and gains were made upon disposal of one asset, but the amount of gains decreased as compared to the same period last year.

Impairment losses under expected credit loss model, net of reversal

For the six months ended 30 June 2021, affected by factors such as the majority of sales growth and sales payment were concentrated in the second half of the year, and the operation and turnover of the TCM medical consumption market was still in the recovering stage due to the impact of pandemic last year, the balance of accounts receivable increased as at 30 June 2021. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss was approximately RMB46,280,000 for the Reporting Period, compared with RMB33,139,000 for the same period last year.

Selling and distribution costs

For the six months ended 30 June 2021, the Group's selling and distribution costs were approximately RMB3,043,328,000 (six months ended 30 June 2020: RMB2,442,849,000).

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Advertising, promotion, channel expansion and travel expenses	2,266,250	1,751,915	29.4%
Salary expenses of sales and marketing staff	359,482	376,578	-4.5%
Other selling and distribution costs	417,596	314,356	32.8%
Total	3,043,328	2,442,849	24.6%

During the Reporting Period, the Group's selling and distribution costs increased by 24.6% over the same period last year, accounting for 37.3% of revenue, 0.6 percentage point higher than 36.7% for the same period last year. The overall revenue increased by 22.4% over the same period last year, and the corresponding selling and distribution costs also increased. The specific reasons for the increase were: (1) as the pandemic subsided, market promotion and business trips were gradually resumed during the period, and the concentrated TCM granules, finished drugs and TCM decoction pieces segments increased investment in the development of market channels and promotion of products; (2) the increase in depreciation and technical service expenses of medicine dispensing machines as the concentrated TCM granules segment continued to put medicine dispensing machines into operation during the period; and (3) with the gradual commencement of local TCM integrated operation business which was in the market cultivation stage, the greatly expanded sales scale has resulted in an increase in the corresponding sales expenses over the same period last year.

Administrative expenses

For the six months ended 30 June 2021, the Group's administrative expenses were approximately RMB379,704,000 (six months ended 30 June 2020: RMB333,682,000).

	Six months ended 30 June		Change
	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	
Salary	198,772	159,800	24.4%
Depreciation and amortisation	64,692	48,501	33.4%
Office rental and other expenses	116,240	125,381	-7.3%
	<hr/>	<hr/>	
Total	<u>379,704</u>	<u>333,682</u>	<u>13.8%</u>

Administrative expenses increased by 13.8% over the same period last year, and the percentage of administrative expenses to revenue decreased by 0.3 percentage point to 4.7%, down from 5.0% for the same period last year. The increase in administrative expenses was mainly due to: (1) the increase in the management office buildings and equipment asset depreciation and amortization, with the successive completion of establishment and commencing production of companies in the local TCM integrated operation segment; (2) the Company focused on internal management, the average number and setting of administration and senior management staff increased and related salary increased as compared with the same period last year; and (3) the continued implementation of quality and efficiency improvement projects of the Company during the period, which effectively controlled administrative expenses.

Research and development expenses

For the six months ended 30 June 2021, the Group's research and development expenses amounted to approximately RMB294,703,000, representing an increase of 20.1% over approximately RMB245,324,000 for the same period last year. During the Reporting Period, the Company increased investment in R&D, research and development expenses were 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 classical formulae and export registration projects; and (3) improve future efficiency research, focusing on production process improvement and production base construction research.

Profit from operations

For the six months ended 30 June 2021, the Group's profit from operations was approximately RMB1,315,660,000, representing an increase of 18.7% compared to approximately RMB1,108,125,000 for the same period last year. The operating profit margin (defined as profit from operations divided by revenue) was 16.1%, a decrease of 0.6 percentage point from 16.7% for the same period last year. During the Reporting Period, profit from operations increased significantly as revenue increased significantly. However, the sales expenses ratio of the period increased substantially compared to the same period last year as advertising, promotion, channel development and business trips concentrated in the period due to the impact of the COVID-19 pandemic. In addition, as the profitability of local TCM integrated operation delayed, the overall profit from operations slightly declined.

Finance costs

For the six months ended 30 June 2021, the Group's finance costs were approximately RMB109,929,000 (six months ended 30 June 2020: RMB112,894,000). The finance costs decreased year-on-year mainly due to the scale of borrowings in the period decreased compared to the same period last year and the Group's adjustment of financial products, which resulted in a year-on-year decrease of its effective loan interest rate. During the Reporting Period, capitalised finance costs of the Group were approximately RMB134,000 (six months ended 30 June 2020: RMB6,767,000) and its effective loan interest rate was 3.18% (six months ended 30 June 2020: 3.56%). The Group will continue to monitor market interest rates and adjust its borrowing and fundraising mechanism as appropriate. The Group will refinance its existing loans or secure new bank loans when good bargaining opportunities arise.

Income from investment in associates

For the six months ended 30 June 2021, the Group shared loss attributable to associates of approximately RMB7,808,000, and it shared loss of approximately RMB4,860,000 in the same period last year. The loss for the period was mainly due to the investment in Guangdong Baobaobao Healthy Soup Co., Ltd., for which an investment loss of approximately RMB5,180,000 was recognised.

Earnings per share

For the six months ended 30 June 2021, basic earnings per share were RMB18.46 cents, representing an increase of 27.0% over RMB14.54 cents for the same period last year. The increase in basic earnings per share was due to profit attributable to equity holders of the Company during the period under review, which increased by 27.0% to approximately RMB929,828,000 (six months ended 30 June 2020: RMB732,020,000).

Liquidity and financial resources

As at 30 June 2021, the Group's current assets were approximately RMB17,602,074,000 (31 December 2020: RMB15,131,539,000), which included cash, cash equivalents and deposits with banks of approximately RMB4,245,712,000 (31 December 2020: RMB3,806,318,000), of which pledged bank deposits amounted to approximately RMB150,324,000 mainly as security for bills payable (31 December 2020: RMB163,078,000). Trade and other receivables were approximately RMB6,903,598,000 (31 December 2020: RMB5,033,004,000). Current liabilities amounted to approximately RMB8,709,270,000 (31 December 2020: RMB7,534,600,000). Net current assets totalled approximately RMB8,892,804,000 (31 December 2020: RMB7,596,939,000). The Group's current ratio was 2.0 (31 December 2020: 2.0). The gearing ratio (defined as bank and other borrowings and bonds payable divided by equity attributable to equity holders of the Company) increased from 28.3% as at 31 December 2020 to 31.2%. The increase in gearing ratio was mainly due to the increase in the balance of bank and other loans during the Reporting Period.

Bank and other borrowings and pledge of assets

As at 30 June 2021, the Group's balance of bank and other borrowings was approximately RMB2,723,633,000 (31 December 2020: RMB1,879,436,000), of which approximately RMB588,463,000 (31 December 2020: RMB831,478,000) was secured loans. Out of the balance of bank and other borrowings, approximately RMB2,130,249,000 and RMB593,384,000, respectively, were repayable within one year and over one year (31 December 2020: approximately RMB1,658,026,000 and RMB221,410,000, respectively).

As at 30 June 2021, the Group's bank deposits of RMB150,324,000, land use rights with carrying values of RMB117,210,000, investment property and property, plant and equipment with carrying values of RMB433,589,000 and bank acceptance draft with carrying values of RMB237,231,000 were pledged to secure certain borrowings and the issuance of bills payable (31 December 2020: bank deposits of RMB163,078,000, land use rights of RMB130,788,000, investment property and property, plant and equipment of RMB450,881,000 and bank acceptance draft of RMB254,618,000 were pledged).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. During the Reporting Period, the Group obtained bank borrowings of RMB1.3 billion at preferential rate in the first quarter of 2021 to replenish its working capital; issued new 270 days Super & Short-term Commercial Paper of RMB1 billion in the second quarter, of which RMB700 million was used to repay Super & Short-term Commercial Paper matured and RMB300 million was used to replenish liquidity of subsidiaries for procurement of Chinese medicinal herbs; and as the discount rate in the bills market continued to decline, the Group obtained bills discount finance of RMB400 million and used it as a reserve for the procurement of Chinese medicinal herbs. Meanwhile, in the first half of 2021, the Group repaid policy loans of approximately RMB640 million borrowed last year for epidemic prevention with its own funds, and repaid borrowings of RMB400 million from Bank of Communications (Hong Kong) Limited early. Apart from this, no major financing activity has been carried out. To improve its working capital turnover, the Group continued to increase the percentage of payment with notes in raw materials procurement and project construction during the Reporting Period. As at 30 June 2021, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB8,646,541,000.

Capital expenditure

During the six months ended 30 June 2021, the investment made by the Group for the fixed asset and intangible asset amounted to approximately RMB399,676,000, compared with RMB538,977,000 for the same period last year. During the Reporting Period, the production bases established by the Group in various provinces and cities for local TCM integrated operation and concentrated TCM granules were successively transferred to fixed assets.

Financing capacity

As at 30 June 2021, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB957,963,000 (31 December 2020: approximately RMB1,127,450,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group is of the view that with available cash balances, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and its support from major financial institutions, it will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2021 (31 December 2020: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 30 June 2021, the Group had no Hong Kong Dollar bank borrowings. As at 30 June 2021, the Group had not entered into any forward foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 30 June 2021, the Group had a total of 16,590 (30 June 2020: 17,573) employees, including directors of the Company, of which 5,524 were sales staff, 7,558 manufacturing staff, and 3,508 engaged in R&D, administration and senior management. Remuneration packages mainly comprised of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Reporting Period was approximately RMB902,942,000 (six months ended 30 June 2020: RMB863,638,000).

SUBSEQUENT EVENTS

On 29 January 2021, the Company was informed by Sinopharm Group Hongkong Co., Limited (“Sinopharm Hongkong”) (the controlling shareholder of the Company) that it was exploring a proposal to privatise the Company (the “Possible Privatisation”), and the Company made monthly announcement(s) setting out the progress of the Possible Privatisation in accordance with Rule 3.7 of The Hong Kong Code on Takeovers and Mergers. The Company was informed by Sinopharm Hongkong that it had decided not to proceed with the Possible Privatisation this time on 10 August 2021. Accordingly, the offer period in relation to the Possible Privatisation ended on 11 August 2021.

INTERIM DIVIDEND

The Board recommended an interim dividend of HK6.66 cents (approximately RMB5.54 cents) per share for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil). The interim dividend will be payable on 20 October 2021 to the shareholders on the register of members of the Company on 8 September 2021.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 6 September 2021 to Wednesday, 8 September 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Friday, 3 September 2021.

CORPORATE GOVERNANCE

Corporate Governance Code

To the best knowledge of the Board, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2021.

Model Code for Securities Transactions

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

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

For the six months ended 30 June 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “Audit Committee”) has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2021, including the accounting principles, treatments and practices adopted by the Group. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board

China Traditional Chinese Medicine Holdings Co. Limited

WU Xian

Chairman

Hong Kong, 20 August 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 nonexecutive Directors.