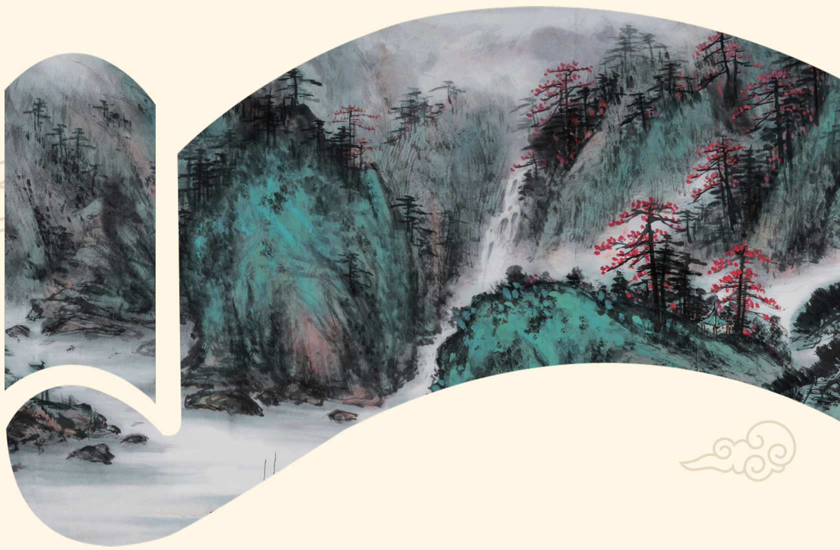
国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

承中药之文化，
扬国药之精髓，
铸人类之健康。



2020
INTERIM REPORT

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CORPORATE INFORMATION

Board of Directors	*Executive Directors* Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun *(Managing Director)* Mr. YANG WENMING *Non-executive Directors* Mr. YANG Shanhua Ms. LI Ru Mr. YANG Binghua Mr. WANG Kan Mr. KUI Kaipin *Independent Non-executive Directors* Mr. XIE Rong Mr. YU Tze Shan Hailson Mr. QIN Ling Mr. LI Weidong
Joint Company Secretaries	Mr. ZHAO Dongji Ms. LEUNG Suet Lun
Audit Committee	Mr. XIE Rong *(Chairman)* Mr. YU Tze Shan Hailson Mr. QIN Ling Mr. LI Weidong Mr. YANG Shanhua
Remuneration and Evaluation Committee	Mr. QIN Ling *(Chairman)* Mr. XIE Rong Mr. YU Tze Shan Hailson Mr. LI Weidong Mr. YANG Shanhua
Nomination Committee	Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun Mr. YANG Wenming Mr. XIE Rong Mr. YU Tze Shan Hailson Mr. QIN Ling Mr. LI Weidong
Strategic Committee	Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun Mr. YANG Wenming Mr. YU Tze Shan Hailson Mr. QIN Ling
Registered Office	Room 1601, Emperor Group Centre 288 Hennessy Road, Wanchai Hong Kong
Auditors	Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Bankers	China Merchants Bank Co., Ltd. Ping An Bank Co., Ltd. Industrial and Commercial Bank of China Limited Bank of China (Hong Kong) Limited
Stock Code	00570
Website	http://www.china-tcm.com.cn

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The board (the "Board") of directors ("Directors") of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") prepared under Hong Kong Financial Reporting Standards ("HKFRS") for the six months ended 30 June 2020 (the "Reporting Period", the "Period"), together with comparative figures for the corresponding periods of 2019 and relevant explanatory notes. The consolidated results are unaudited but have been reviewed by the Company's independent auditor, Deloitte Touche Tohmatsu, and the audit committee of the Company (the "Audit Committee").

OVERVIEW

Since 2020, a novel coronavirus ("COVID-19") pandemic (the "pandemic") has created crises and profound economic and social changes around the globe. During the COVID-19 pandemic, Traditional Chinese Medicine ("TCM"), the unique Chinese medical wisdom, has been a "heavy weapon" for pandemic prevention and control. During the Reporting Period, the Group fulfilled its social responsibilities as a central stated-owned enterprise by donating materiel, allocating internal resources and supplying epidemic prevention-related products, as at 30 June 2020, the Group has donated a total of RMB33.4017 million worth of medical products. The Group also seized on development opportunities for the TCM industry and supported the resumption of work and production in order to minimize the pandemic's adverse impact. Finally, the Group continued to implement the "all-round construction of a sustainable, mutually synergistic, and jointly-developed TCM healthcare industry chain" strategy and meaningful results were achieved.

During the Reporting Period, the Group's revenue was approximately RMB6,655,319,000, representing a decrease of 4.1% compared with approximately RMB6,937,016,000 for the same period last year. This was mainly due to the underperformance of business operations impacted by COVID-19 during the first half of the year. The concentrated TCM granules business contributed approximately RMB4,569,912,000 or 68.7% of total revenue. Revenue from the finished drugs business was approximately RMB1,304,332,000, representing 19.6% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB566,999,000, or 8.5% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB42,185,000, representing 0.6% of total revenue. Revenue from the local TCM integrated operation was approximately RMB171,891,000, representing 2.6% of total revenue.

BUSINESS REVIEW

The Group firmly believes in "developing new opportunities in the face of crisis and opening new chapters in turbulent situations". The Group's vision of achieving high quality sustainable development has never changed, and the basic pattern and strategic focus of its enterprise operation and development has never wavered. During the Reporting Period, the Group supported the fight against the pandemic by taking comprehensive prevention and control measures, but also actively expand the business, to push all business segments sustained developed. The following are highlights of the Group's business during the first half of 2020:

I. Leveraging the advantages of the comprehensive TCM healthcare industry chain to support pandemic prevention and control

The depth and breadth of TCM's role in diagnosis and treatment during the COVID-19 pandemic were unprecedented. Soon after the outbreak began, the Group, as the core platform of the modern TCM industry under the China National Pharmaceutical Group Corporation（"CNPGC"), leveraged on the advantages of the whole industry chain to participate in prevention and control. As part of this effort, the Group provided concentrated TCM granules, TCM finished drugs, TCM decoction pieces and TCM healthcare complex services.

In addition to syndrome differentiation and modification of TCM formulations according to symptoms, the Group's concentrated TCM granules offer the advantage of rapid dosage adjustment as per the respective TCM prescriptions of recommended treatment plans of different provinces. This ensures the accuracy, effectiveness, convenience and continuity of TCM use. Over 20 TCM finished drugs of the Group, including two exclusive products listed in the Essential Drug List – Jinye Baidu Granules (金葉敗毒顆粒) and Yu Ping Feng Granules (玉屏風顆粒) – have been adopted in more than 30 COVID-19 prevention and treatment plans. The Group's national marketing network and channel system enabled it to coordinate its resources and leverage on regional advantages to complete task deployment, pharmaceutical production, transportation and distribution within the shortest time possible, ensuring market supply.

The Group also leveraged on its drug research and development ("R&D") technology advantages during the pandemic. Guangdong Yifang Pharmaceutical Co., Ltd. ("Guangdong Yifang") was commissioned to produce "Toujie Quwen Granules" (透解祛瘟顆粒) (formerly known as "No. 1 formula for pneumonia") for 30 designated hospitals in Guangdong Province to receive and treat patients. Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. were commissioned to produce "Chaigechangyuan mixture" (柴葛暢原合劑) and "Dayuan disinfectant mixture" (達原消毒合劑) for government departments and public institutions, colleges and universities in Guizhou Province. Finally, with an expert team from the Chinese Academy of Chinese Medical Sciences ("CACMS"), the Group worked to launch "Huashi Baidu Granules" (化濕敗毒顆粒) – one of the "Three Drugs and Three Formulas for treating COVID-19" (三藥三方) acquired by Guangdong Yifang.

II. Continuing to expand strategic presence and modernize the industry chain

1. Accelerating the establishment of GACP cultivation bases to make advancement in industry chain traceability

The 2020 edition of the "Pharmacopoeia of the People's Republic of China" (the "New Pharmacopoeia") thoroughly defined the limits on heavy metal, hazardous element, and pesticide residue content in plant-based traditional Chinese medicinal herbs as a measure to further enhance safety. The publication and implementation of the New Pharmacopoeia will raise requirements for cultivation of traditional Chinese medicinal herbs and bring new challenges to TCM companies. Quality control and source traceability will be among the keys to succeed in the future competitions. In line with the revised pharmacopoeia's policy direction, in 2019 the Group began establishing Good Agriculture and Collection Practices for Medicinal Herb Plantation ("GACP") bases for a wide variety of Chinese medicinal herbs.

To improve the traceability of the TCM industry chain and strengthen quality control for traditional Chinese medicinal herbs, the Group encouraged subsidiaries to participate in the establishment of GACP medicinal herb plantation bases according to our national business plan. During the Reporting Period, 110 bases cultivating 44 medicinal varieties with a planted area of over 70,000 mus. were jointly established. The planting varieties and geographical distribution are as follows:

Province	**Medicinal herb variety**
Anhui	Radix Paeoniae Alba, Chaenomelis Fructus
Chongqing	Coptidis Rhizoma, CyathulaeRadix, Angelicae Pubescentis Radix, Polygonati Rhizoma
Fujian	Radix seudostellariae, Gardeniae Fructus, Paridis Rhizoma, Polygonati Rhizoma, Zaocys
Gansu	Chinese gancao, pinellia ternata, Chinese rhubarb
Guangxi	Cinnamomi Cortex
Guizhou	Radix seudostellariae, Epimedii Folium
Henan	Prunellae Spica
Hunan	Nelumbinis Semen, Polygonati Odorati Rhizoma, Aurantii FructusImmaturus, AurantiiFructus, Lilii Bulbus
Jiangsu	Fritillariae Thunbergii Bulbus, Hirudo, Chrysanthemi Flos
Jiangxi	Acori Tatarinowii Rhizoma, Rosae Laevigatae Frucyus, Stephaniae Tetrandrae Radix, Gardeniae Fructus, AurantiiFructus, Euodiae Fructus, Euryales Semen
Ningxia	Lycii Fructus

Province	Medicinal herb variety
Shandong	Honeysuckle, Scutellariae Radix
Shanxi	Forsythiae Fructus, Polygala tenuifolia Willd
Shaanxi	Corydalis Rhizoma
Sichuan	Aconiti Lateralis Radix Praeparata, Chuanxiong Rhizoma, Morindae Officinalis Radix, Mori Fructus, Bombyx Batryticatus
Yunnan	Notoginseng Radix Et Rhizoma, Amomi Fructus, Poria
Zhejiang	Fritillaria, Rubi Fructus

2. *Consolidating the layout plan of the pharmaceutical industry to capture market opportunities*

During the first half of 2020, several provincial and municipal governments introduced policies to support TCM industry development in response to the "Opinions on Promoting the Inheritance and Innovation Development of Traditional Chinese Medicine" issued by the State Council. During the Reporting Period, the Group seized the opportunity to consolidate and optimise its midstream industrial development plan to enjoy the advantage as the first-mover. Besides steadily developing the TCM finished drugs business, the Group also continued to build up synergy between the production and operation of TCM decoction pieces, and gave guidelines to various regional subsidiaries for the cultivation of key medicinal herbs based on the resource advantages and processing capabilities of authentic medicinal materials, so as to strengthen the quality management of raw materials of traditional Chinese medicinal herbs, set up their own inspection and testing capacities, and actively respond to the enhanced standards of the New Pharmacopoeia on TCM decoction pieces.

As the leader of concentrated TCM granules industry, the Group accelerated the expansion in the production and sales of concentrated TCM granules within the Group on a national scale. During the Reporting Period, another subsidiary, Yunnan Tianjiang Yifang Pharmaceutical Co., Ltd. ("Yunnan Tianjiang Yifang"), was qualified to sell concentrated TCM granules, and Chongqing Tianjiang Yifang Pharmaceutical Co., Ltd. obtained the local license for producing concentrated TCM granules. Relying on the basis of the operational and technical experience of the Group's mature concentrated TCM granules production subsidiaries, a number of subsidiaries leveraged on their own advantages to enrich their business operations and developed from a company with only TCM finished drugs or TCM decoction pieces production business into a diversified company integrated with the production of TCM finished drugs, TCM decoction pieces, and concentrated TCM granules, which greatly reduced the cost of investment and time for the expansion of its concentrated TCM granules enterprises across the country.

Meanwhile, the trend of concentrated TCM granules industry open up has been clearer, and the market potential is huge. The nationwide business plan helped the Group prepare sufficient production capacity. As at 30 June 2020, the Group has built up 12 extraction facilities for concentrated TCM granules, with designated extraction capacity of nearly 70 thousand tonnes; nine standardized concentrated TCM granules production facilities, with designated production capacity of nearly 20 thousand tonnes; and 19 standardized TCM decoction pieces processing facilities, with designated processing capacity of nearly 70 thousand tonnes. The overall layout plan of capacity covered 23 provinces and municipalities.

3. *Strengthening quality assurance through an integrated TCM quality control and traceability platform*

To strengthen the Group's TCM product traceability and quality control capabilities and maintain its market competitiveness, during the Reporting Period, the Company and Ping An International Smart City Technology Co., Ltd. ("Ping An Smart City"), a subsidiary of the Ping An Insurance (Group) Company of China, Ltd. ("Ping An Group"), began to build an integrated management platform for TCM quality control and traceability. Relying on Ping An Smart City's core technologies in artificial intelligence, blockchain and cloud computing, the platform covers the whole process from seedlings, plantation, harvesting and storage, to preliminary processing, production and sales so as to build up a platform with traceable source and destination, controllable process and pursuable responsibility.

4. *Exploring a diversified marketing model with "internet-plus" business*

During the pandemic, patient visits to hospital significantly decreased. While this made a relatively large impact on the traditional marketing model for drugs, it also accelerated the interpenetration of healthcare and internet and provided an opportunity for the development and transformation of real economy.

During the Reporting Period, the Group broadened the scale of online-offline business integration and promote the transformation and upgrade of traditional pharmaceutical product sales models by providing online diagnosis and treatment services, smart cloud pharmacy and expand online sales channels coverage. The Company also established an internet marketing department to explore innovative business models and discover the development potential of medicine food homology compound and health supplement products in the online channel, as well as further enhance the influence of "Dragon Seal Sino-TCM" brand among the end consumers.

III. Strengthening the transformation of innovation and applicable achievement to enhance core competitiveness

In November 2019, the National Medical Products Administration sought public opinion on the "Technical Requirements for Establishing the Quality Control and Standards of Concentrated Traditional Chinese Medicine Granules (中藥配方顆粒質量控制與標準制定技術要求)" in the course of standardizing concentrated TCM granules research and developing technical requirements for quality control. On the same day, the Chinese Pharmacopoeia Commission announced pilot unified standards for 160 concentrated TCM granule varieties. These national standardized quality standards will increase market acceptance of concentrated TCM granules which was conducive to long-term development of concentrated TCM granule industry. During the Reporting Period, the Group carried out research on the adaptability of production to the national standards, reviewed standards for the announced varieties, and continued its research and development for standards for the remaining concentrated TCM granule varieties, so as to build up the competition barrier.

Utilizing the research advantages on the single medicinal herb of concentrated TCM granules and its TCM industry chain resources, the Group accelerated its research on 35 classical formulas. During the Reporting Period, the Group completed textual research and the establishment of preliminary analysis methods for 11 classical formulas. Among these, research on substance standards for two classical formulae was completed.

In terms of finished drugs, the Group constantly devoted to the evidence-based clinical research for key products. The real-world product safety study of Xianling Gubao Capsules has enrolled over 4,000 subjects and the safety evaluation study of Runzao Zhiyang Capsules has enrolled over 2,000 subjects. A Clinical research project has also commenced for the key OTC product Yaoshen Paste also started a clinical research project. With sustained input of academic promotion, it laid a good foundation for future growth potential of TCM finished drugs.

During the Reporting Period, the Group also accelerated the commercialization of major scientific and technological achievements and developed new sources of business growth. The Group and the CACMS jointly promoted the commercialization of major scientific research achievements, Guangdong Yifang obtained clinical trial permission documents and patents of "Huashi Baidu Granules". "Huashi Baidu Granules" are optimized and produced by the medical scientific research team of the CACMS in the fight against the epidemic in Wuhan combined with the team's clinical practice experience. It is the first new TCM products with fully independent property rights approved for clinical trials for the treatment of COVID-19. At present, Guangdong Yifang is advancing work on the new drug application of Huashi Baidu Granules so that the product can be launched to market as quickly as possible.

IV. Improving quality and efficiency for high-quality development

During the Reporting Period, the Group implemented a special project of improving operation quality and efficiency, in order to improve the operation quality and profitability, so as to minimize the impact of the pandemic and help the Company keep a sustainable development. The Group actively carried out mobilization deployment, strengthened publicity and promotion, and conducted a special assessment for this project. 75 subsidiaries and 11 departments have set up a total of 525 sub-projects, covering nine major categories (16 sub-categories), such as management, policy, sales, production, labor cost control, product procurement, asset revitalization, technology and quality control, infrastructure construction. In the first half of the year, 46% of the annual goal of cost reduction and efficiency improvement was achieved, with remarkable economic benefits on some reproducible projects, such as panda bond and loan swap, commissioned processing business, the centralized procurement of packaging material, the reduction of production costs and consumption, the travel expense control, etc.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments nor material acquisitions and disposals in the first half of 2020. As at the date of this report, the Group had no plans for material investments or acquisitions or disposals of capital assets.

PROSPECTS

In the future, the Group will continue to seize new development opportunities in the TCM industry, undertake high-quality policy analyses, research and judgments, strengthen the in-depth development of the TCM healthcare complex industry chain, and lead the enterprise on a path of sustainable high-quality development.

In the second half of year 2020, the Group will continue to implement the work of improving quality and efficiency in the whole system, strengthen lean management, and convert the operating pressure brought by the pandemic into the driving force of transformation and upgrading, so as to minimize the negative impact of the pandemic on the Company's economic indicators and ensure the stable and sustainable development of the Group. Each business segment will explore the business potential and reduce expenditure according to its marketing characteristics: promote the interactive and integrated development of online and offline business by carrying out online diagnosis and treatment service, smart cloud pharmacy business, and expanding pharmaceutical e-commerce sales channels, so as to promote the transformation and upgrading of the marketing model of traditional pharmaceutical products; by sorting out the operation details and starting from small points, we can improve the management efficiency of each operation link, reduce costs and increase efficiency.

The deregulation of concentrated TCM granules is imminent, and the market demand will be significantly released, so sufficient production capacity is essential to guarantee the product supply. The Company will continue to enrich the capacity reserve based on the existing basis, following the pace of market development, so as to meet the future blue ocean market demand of concentrated TCM granules. On the other hand, the details of regulations of concentrated TCM granules industry will also be implemented, while precise policy research and estimate are very important to the future competition. Local governments are likely to play an important role in future industry management. The Group has obtained 10 local pilot licenses and will strive to obtain local licenses for all covered provinces in the future, so as to build a competitive advantage in the future environment of medical insurance coverage and market entry requirement.

At the same time, the Group will continue to increase efforts on R&D from the four dimensions of depth, breadth, height and precision, to create an all-round closed-loop R&D ecosystem. By further promoting the standard research of concentrated TCM granules, the Group strives to finish the research on all varieties in three years; by making use of the Group's accumulated scientific research experience in the concentrated TCM granules, the Group actively carries out the research on classic formulas to seize the market opportunity of TCM compounded preparations.

Finally, through the coordination of online and offline channels, the brand construction of "Dragon-Seal Sino-TCM" brand and the integration of various business segments will be driven by the combination of brand and quality, with high-quality product portfolio such as premium decoction pieces, concentrated TCM granules, finished drugs, and medicine and food homology products.

As the core platform of CNPGC modern TCM sector, the Group undertakes the task of "comprehensively building a sustainable, coordinated and co-development of the TCM health industry chain", improving the strength of CNPGC in TCM industry, and creating a leader in the TCM industry. Under the overall future strategic vision of CNPGC, it vigorously supports the development of the Group, encouraging the Group to plan a high-quality development direction from a wider field, a longer cycle trend of development, to adhere to the principle of market-oriented, open-minded and innovation, to intensify investment in mergers and acquisitions, to make up for the shortage and loopholes in the existing business and product line, and to promote more optimizing industry layout, so as to speed up the progress to high-end industrial chain and value chain.

ANALYSIS OF BUSINESS SEGMENTS

From the end of 2017 to 2020, pursuant to the strategic goal of building a vertically consolidated TCM healthcare industry chain and adapting to changing policies for the concentrated TCM granules industry, the Company began to expand its strategic presence in major authentic medicinal herb producing provinces in the PRC and establish the "local TCM integrated operation" companies engaging in production of concentrated TCM granules and decoction pieces, and conducting primary processing and trading of medicinal herbs and decoction. The establishment of such companies can provide the Group with authentic local medicinal herbs and reduce cost through mass production of products authentic medicinal herb varieties locally; while it can also enjoy the preferential policies of the local government, further open up the local market, increase its market share, and form its own comprehensive competitive advantage.

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

During the Reporting Period, the Company added six new subsidiaries (from mid-2019 to the end of the Reporting Period). Among them, Shandong Yifang Pharmaceutical Co., Ltd. was newly established for concentrated TCM granules; Feng Liao Xing (Zhongshan) Pharmaceutical Co., Ltd., Li County Dahuang Technology and Science Co., Ltd., Xihe Banxia Technology and Science Co., Ltd. were newly established for TCM decoction pieces; and Guangxi Fangning Pharmaceutical Co., Ltd. was established and Shanxi Guoxin Tianjiang Pharmaceutical Co., Ltd. ("Shanxi Guoxin") was acquired for local TCM integrated operation.

Segment	Number of Companies in mid-2020	Number of Companies in mid-2019	Year-on-year Change (number)
Holding company	10	10	
Concentrated TCM granules	13	12	1
Finished drugs	20	20	
TCM decoction pieces	19	16	3
TCM healthcare complex	10	10	
Local TCM integrated operation	18	16	2
Total	90	84	6

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

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

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

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

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

1. Concentrated TCM granules

Key financial indicators for the concentrated TCM granules business

	Unaudited		
	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Revenue	**4,569,912**	4,570,764	0.0%
Cost of sales	**1,428,309**	1,545,382	-7.6%
Gross profit	**3,141,603**	3,025,382	3.8%
Gross profit margin	**68.7%**	66.2%	2.5ppt
Operating profit	**984,822**	984,482	0.0%
Profit for the period	**765,931**	787,445	-2.7%
Net profit margin	**16.8%**	17.2%	-0.4ppt

During the Reporting Period, sales of concentrated TCM granules business remained stable, with revenue of approximately RMB4,569,912,000, which was the same as that of the same period last year and accounted for 68.7% of the total revenue. Due to the outbreak of COVID-19 pandemic, the flow of outpatient visits in medical institutions decreased, resulting in a phased decline in sales in the first quarter. Nevertheless, with the gradual improvement of the pandemic, the sales of concentrated TCM granules gradually recovered in the second quarter. The monthly revenue in June increased by 16.7% year-on-year, mainly due to: (1) the quality control and convenience of concentrated TCM granules, and the efficacy of TCM playing clear advantages during the epidemic, and the epidemic prevention products helping the growth; (2) the continuous promotion of the operation model of medicine dispensing machine contributing to the growth of sales through channels at all levels, increasing sales stickiness at all levels; and (3) intensification of development of recent marketing channels, strengthening the development and marketing input of grass-root medical channels and western region of China, and new customers brought about approximately 8.8% sales growth to the Group for the Period.

Gross profit margin rose by 2.5 percentage points to 68.7% from 66.2% for the same period last year, mainly due to the price adjustment to some products in line with the market and sales channel promotion and thus an active rise in some products from the second quarter of 2019; the increase in the sales volume of some high-margin products for epidemic prevention for the Period and a significant effect in cost reduction and efficiency enhancement such as intensification of production at the same time.

During the Reporting Period, the operating profit and profit for the period of concentrated TCM granules segment amounted to approximately RMB984,822,000 and RMB765,931,000 respectively, representing respective increases of 0.0% and -2.7% over the same period last year. Net profit margin decreased by 0.4 percentage point compared to the same period last year. This was mainly due to: (1) the less-than-expected revenue due to the pandemic; (2) the strengthened development and investment of primary medical channels and western region of China to adapt to the market changes and expand marketing channels as well as the inability to reduce the fixed expenses such as depreciation of dispensing machines and basic labor salaries despite marketing expenses with reasonable control, the sales expense ratio in the Period increased by 2.8 percentage points compared with the same period last year; and (3) the Company's continuity to increase the investment in the R&D of the national standards of concentrated TCM granules, carrying out research on the classical formula and newly investing in research project on epidemic control during the COVID-19 pandemic, so that the proportion of R&D expenses to revenue for the Period increased by 0.5 percentage point compared with the previous year.

Revenue analysis by region (RMB million)

	Six months ended 30 June					
Region	**2020**	**Proportion**	2019	Proportion	Growth amount	Growth rate
East China	**1,409**	**30.8%**	1,463	32.0%	-54	-3.7%
South China	**1,044**	**22.8%**	1,028	22.5%	16	1.6%
North China	**666**	**14.6%**	621	13.6%	45	7.2%
Central China	**487**	**10.7%**	466	10.2%	21	4.5%
Northwest China	**333**	**7.3%**	348	7.6%	-15	-4.3%
Northeast China	**167**	**3.6%**	229	5.0%	-62	-27.1%
Southwest China	**419**	**9.2%**	363	7.9%	56	15.4%
Overseas and others	**45**	**1.0%**	53	1.2%	-8	-15.1%
Total	**4,570**	**100.0%**	4,571	100.0%	-1	0.0%

During the Reporting Period, sales in east, south, north and central China accounted for 78.9% of total sales, compared with 78.3% for the same period last year. South, north, central and southwest China achieved a year-on-year increase, while Southwest China was the most prominent area of sales growth with a year-on-year increase of more than 15.4%.

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		
	2020	2019	
	RMB'000	*RMB'000*	Change
Revenue	**1,304,332**	1,698,480	-23.2%
Cost of sales	**570,354**	660,603	-13.7%
Gross profit	**733,978**	1,037,877	-29.3%
Gross profit margin	**56.3%**	61.1%	-4.8ppt
Operating profit	**151,121**	248,663	-39.2%
Profit for the period	**94,109**	147,655	-36.3%
Net profit margin	**7.2%**	8.7%	-1.5ppt

Revenue analysis by product type (RMB million)

	Six months ended 30 June				
Product Type	**2020**	**Proportion**	2019	Proportion	Change
Core prescription products	**688.53**	**52.8%**	833.17	49.0%	-17.4%
Core OTC products	**273.30**	**21.0%**	418.83	24.7%	-34.7%
Other products	**342.50**	**26.2%**	446.48	26.3%	-23.3%
Total	**1,304.33**	**100.0%**	1,698.48	100.0%	-23.2%

Notes: Core prescription products: 9 products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Waimaining Capsules (威麥寧膠囊), Trionycis Bolus (鱉甲煎丸) and Jinye Baidu Granules (金葉敗毒顆粒).

Core OTC products: 11 products including Bi Yan Kang Tablets (鼻炎康片), Feng Liao Xing Dieda Medicinal Wine (馮了性風濕跌打藥酒), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Sheng Tong Ping (聖通平), Vitamin C Yinqiao Tablets (維C銀翹片), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Tongluo Guzhining Paste (通絡骨質寧膏), Angong Niuhuang Bolus (安宮牛黃丸) and Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊).

During the Reporting Period, the finished drugs segment was more affected by the pandemic and recorded a year-on-year decline, the main reasons were: (1) for core prescription products, outpatients at all levels of medical institutions substantially decreased in phases, and sales fell sharply; at the same time, the product structure changed, and non-respiratory products including Xianling Gubao Capsules, Moisturizing and Anti-Itching Capsules and Jingshu Granules, were all greatly affected; while sales of Jinyebaidu Granules which was included in the epidemic prevention catalogue increased; (2) for core OTC products, during the pandemic, pharmaceutical retailers implemented real-name registration of customers who purchased medicines to relieve fever and cough, together with a reduction in the flow of pharmacies, have restrained the sales of products to relieve cough and sputum and fever-reducing products; and (3) traditional Chinese medicine has played an important role in epidemic prevention and control, and our key products of the finished drugs segment, Jinye Baidu Granules and Yu Ping Feng Granules, being recommended as reserve and preventive medicines in the pandemic, have increased consumers' awareness of the products of the Company.

The net profit margin decreased by 1.5 percentage points, mainly affected by that the gross profit margin decreased by 4.8 percentage points. As the greater decline in sales of non-epidemic-prevention medicines, such as Xianling Gubao Capsules, Bi Yan Kang Tablets, and Feng Liao Xing Rheumatism Medicinal Wine resulting in a decline in production capacity in some months, and some products were affected by rising raw material prices, unit production costs increased. Meanwhile, through reasonable control of marketing expenses, there was a decrease of 2.0 percentage points in sales expense ratio. With the gradual control of the pandemic and the further recovery of the medical market, promotion resources for sales terminal will be further increased in the later stage to alleviate the adverse effects of the pandemic.

3. TCM decoction pieces

Key financial indicators for the TCM decoction pieces business

	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Revenue	**566,999**	604,911	-6.3%
Cost of sales	**482,173**	496,384	-2.9%
Gross profit	**84,826**	108,527	-21.8%
Gross profit margin	**15.0%**	17.9%	-2.9ppt
Operating profit	**-17,708**	32,519	-154.5%
Profit for the period	**-15,427**	30,911	-149.9%
Net profit margin	**-2.7%**	5.1%	-7.8ppt

During the Reporting Period, revenue from the TCM decoction pieces business was approximately RMB566,999,000, representing a decrease of 6.3% compared to approximately RMB604,911,000 for the same period last year, and accounting for 8.5% of total revenue. The decrease in revenue of TCM decoction pieces was mainly because: (1) during the COVID-19 pandemic, the prevention and control in hospitals (especially in Beijing and Shanghai) was under severe conditions, the customer flow of hospitals and pharmacies was greatly reduced. Medical institutions at all levels adopted measures of reservations and control on number of visitors. This significantly affected the sales of two major decoction pieces enterprises, Shanghai Tongjitang Pharmaceutical Co., Ltd. and Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited, which mainly targeted for the local medical market, and the sales of the original high-margin and expensive and refined varieties business declined significantly year-on-year; (2) external customer demand for industrial TCM decoction pieces has dropped significantly as a result of the impact of the pandemic.

The gross profit margin decreased by 2.9 percentage points from 17.9% in the same period last year to 15.0%. The decline in gross profit margin was mainly attributable to: (1) the decrease in the sales of high-margin products has reduced the overall gross profit margin for the Period as a result of the impact of the COVID-19 pandemic; (2) new factories commencing operation has led to increasing depreciation and amortization, labor costs and other fixed cost expenses; and (3) delay in resumption of work and production of upstream companies and increased prices of raw material has resulted in higher production costs.

During the Reporting Period, the operating profit and profit for the period of the TCM decoction pieces segment were approximately RMB-17,708,000 and approximately RMB-15,427,000, respectively, representing year-on-year decreases of 154.5% and 149.9% respectively. The net profit margin decreased by 7.8 percentage points, mainly due to: (1) a decrease of 2.9 percentage points in the gross profit margin in the Period; (2) the newly established premium decoction pieces department and the gradual establishment of a terminal promotion team, which resulted in an increase of 4.0 percentage points in sales expense ratio from the same period last year. However, affected by the pandemic, the sales of premium decoction pieces did not meet our expectations; and (3) active exploration and building of a standardized processing quality control system for decoction pieces, as the Company continued to promote standardized production and quality control research for decoction pieces, there was an increase in the proportion of R&D expenses to revenue compared with the same period last year.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Revenue	**42,185**	35,701	18.2%
Cost of sales	**23,917**	21,198	12.8%
Gross profit	**18,268**	14,503	26.0%
Gross profit margin	**43.3%**	40.6%	2.7ppt
Operating profit	**-5,875**	-6,983	15.9%
Profit for the period	**-6,629**	-7,537	12.0%
Net profit margin	**-15.7%**	-21.1%	5.4ppt

During the Reporting Period, the TCM healthcare complex business had a total of eight TCM clinics in operation. Revenue was approximately RMB42,185,000, representing an increase of 18.2% over RMB35,701,000 for the same period last year, and accounting for 0.6% of total revenue. The major reason for the increase in revenue was that Nanhai TCM Clinic, Chengnan TCM Clinic, Tongkang TCM Hospital, Zunyi TCM Hospital and Jiangyin TCM Clinic were gradually opened in the second half of 2018, and after being launched in the market for over one year, flow of customer has gradually increased with increasing income as compared with the same period last year. At the same time, due to the adjustment of business types of Jiangyin TCM Clinic, expanding business scope to the sales of decoction pieces, physiotherapy, finished drugs and ginseng and antlers and other premium TCM materials, have led to an increase in revenue; and as the operation of the newly opened TCM clinics were gradually put on track, the ratio of fixed expenses to revenue decreased. The gross profit margin for the Period increased as compared with the same period last year, and the overall loss decreased as compared with the same period last year.

5. Local TCM integrated operation

Key financial indicators for the local TCM integrated operation

	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Revenue	**171,891**	27,160	532.9%
Gross profit margin	**22.2%**	3.3%	18.9ppt
Other income	**35,065**	27,997	25.2%
Administrative expenses	**43,862**	27,258	60.9%
Operating profit	**-4,235**	-5,061	16.3%
Profit for the period	**-7,787**	-4,037	-92.9%
Net profit margin	**-4.5%**	-14.9%	10.4ppt

During the Reporting Period, the local TCM integrated operation segment's revenue amounted to approximately RMB171,891,000, representing an increase of 532.9% over RMB27,160,000 for the same period last year, and accounting for 2.6% of total revenue. The substantial increase in the revenue of the local TCM integrated operation segment was because: (1) Heilongjiang Sinopharm Shuanglanxing Pharmaceutical Co., Ltd., Sichuan Sino Tianjiang Pharmaceutical Co., Ltd. and Yunnan Tianjiang Yifang have commenced sales of concentrated TCM granules and recorded a sales of approximately RMB43,737,000, compared with RMB5,794,000 in the same period last year; and (2) Shandong Zhongping Pharmaceutical Co., Ltd. ("Shandong Zhongping"), located in Pingyi, Shandong, the hometown of honeysuckle, has developed honeysuckle-based sales business of authentic medicinal herbs, increasing its external turnover by RMB66,042,000 year-on-year. At the same time, other local TCM integrated operation companies also generally launched production and sales of decoction pieces and TCM medicinal herbs trading. The gross profit margin of the local TCM integrated operation segment increased sharply, mainly because the gross profit of the high-margin concentrated TCM granules increased significantly year-on-year, and the development of the decoction pieces sales business has diluted the unit fixed cost in production process.

During the Reporting Period, the profit for the period of the local TCM integrated operation segment decreased year-on-year, mainly due to: (1) the merger and acquisition of Shanxi Guoxin in October 2019 was still at pre-opening stage and recorded a loss during the Period of RMB4,188,000, without this factor, the loss on the local TCM integrated operation segment was reduced RMB438,000, compared with the same period last year; and (2) other than Shandong Zhongping which has developed stable business operation of honeysuckle, the active engagement of companies in this segment, which were still in the initial stage of operation, in the business of medicinal herbs and TCM decoction pieces has yet to generate profit as a result of the depreciation of fixed assets and relatively high personnel costs. However, with the gradual build-up of the production capacity of concentrated TCM granules and decoction pieces, profitability will be improved quickly.

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Other income

For the six months ended 30 June 2020, the Group's other income was approximately RMB121,956,000, representing an increase of 23.4% from approximately RMB98,848,000 for the same period last year. This was mainly due to recorded income from a government grant during the Reporting Period, representing an increase of 33.6% over the same period last year. Details can be found in Note 4 of Notes to the Condensed Consolidated Financial Statements.

Other gains and losses

For the six months ended 30 June 2020, the Group's other gains were approximately RMB24,309,000 (six months ended 30 June 2019: other losses of approximately RMB14,893,000). During the Reporting Period, the reason for the change in other gains and losses: the Company continued to carry out inspection of assets and liabilities and recorded non-operating income of RMB37,304,000 for the Period while a provision for impairment of inventories of RMB18,239,000 was made for the same period last year.

Impairment losses under expected credit loss model, net of reversal

Affected by factors such as the COVID-19 pandemic and the majority of sales payment was concentrated in the second half of the year, the balance of accounts receivable increased as at 30 June 2020. According to the Group's credit impairment loss provision policy, the provision for credit impairment loss was approximately RMB33,139,000 for the Period, compared with RMB51,936,000 for the same period last year.

Selling and distribution costs

For the six months ended 30 June 2020, the Group's selling and distribution costs were approximately RMB2,442,849,000 (six months ended 30 June 2019: RMB2,453,493,000).

	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Advertising, promotion, channel expansion and travel expenses	**1,627,862**	1,499,876	8.5%
Salary expenses of sales and marketing staff	**376,578**	306,519	22.9%
Transportation and storage expenses *(note)*	**124,053**	121,469	2.1%
Other selling and distribution costs	**314,356**	525,629	-40.2%
Total	**2,442,849**	2,453,493	-0.4%

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

During the Reporting Period, the Group's selling and distribution costs decreased by 0.4% over the same period last year. Affected by the pandemic, the revenue decreased greatly, therefore, the proportion of the revenue increased by 1.3 percentage points to 36.7% from 35.4% for the same period last year. This was mainly because: (1) the concentrated TCM granule business' sales expenses margin increased by 2.8 percentage points over the same period last year. The expanding lower-tier sales channels and the Company had to spend extra efforts in developing the primary medical market, the increase in the corresponding sales staff resulted in an increase in salaries of employees in the period compared with the same period of last year; the continuous investment and improvement and upgrading of the medicine dispensing machine led to an increase in daily maintenance costs and depreciation expenses compared with the same period of last year; (2) with the gradual commencement of its local TCM integrated operation business which was in the market cultivation stage, the greatly expanded sales scale has resulted in a significant increase in the corresponding sales expenses over the same period of the previous year; and (3) the TCM decoction pieces business strengthened the construction of self-built promotion team, and established the premium decoction piece department, activated the promotion work of the "Dragon Seal Sino-TCM" brand.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses were approximately RMB333,682,000 (six months ended 30 June 2019: RMB303,077,000).

	Six months ended 30 June		
	2020	2019	
	RMB'000	*RMB'000*	Change
Salary	**159,800**	153,630	4.0%
Depreciation and amortisation	**48,501**	44,232	9.7%
Office rental and other expenses	**125,381**	105,215	19.2%
Total	**333,682**	303,077	10.1%

Administrative expenses increased by 10.1% over the same period last year, and the percentage of administrative expenses to revenue increased by 0.6 percentage point to 5.0%, up from 4.4% for the same period last year. The increase was mainly due to: (1) the increase in the management office buildings and equipment asset depreciation and amortization, salary expenses and office expense of sales and manufacturing staff, with the completion of establishment and commencing production of companies in the local TCM integrated operation segment; (2) the fact that the Company focused on internal management, the average number and setting of management staff slightly increased; and (3) the fact that the Company increased special expense for the epidemic control during the COVID-19 pandemic.

Research and development expenses

For the six months ended 30 June 2020, the Group's research and development expenses amounted to approximately RMB245,324,000, representing an increase of 17.4% over approximately RMB209,001,000 for the same period last year. During the pandemic, 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 new drugs and classical formulas; (3) improve future efficiency research, focusing on production process improvement and production base construction research; and (4) support special R&D expenditure for epidemic prevention products.

Profit from operations

For the six months ended 30 June 2020, the Group's profit from operations was approximately RMB1,108,125,000, representing a decrease of 11.6% compared to approximately RMB1,253,620,000 for the same period last year. The operating profit margin (defined as profit from operations divided by revenue) was 16.7%, a decrease of 1.4 percentage points from 18.1% for the same period last year. The decrease in operating profit margin was mainly because under the impact of COVID-19 pandemic, although the profit from operation of concentrated TCM granules business maintained flat attributed to its product characteristic and channel expansion in recent years, the finished drugs and TCM Decoction pieces business suffered more, and the profitability of local TCM integrated operation delayed; thus, the overall profit from operations declined.

Finance costs

For the six months ended 30 June 2020, the Group's finance costs were approximately RMB112,894,000 (six months ended 30 June 2019: RMB111,505,000). The financial expense ratio increased by 0.1% year-on-year, mainly due to the decrease in revenue during the Period. Meanwhile, with the increased scale of loan, the actual loan interest rate decreased, and the finance costs were stable as compared to the same period last year. During the Reporting Period, capitalised finance costs of the Group were approximately RMB6,767,000 (six months ended 30 June 2019: RMB12,265,000) and its effective loan interest rate was 3.56% (six months ended 30 June 2019: 4.19%). 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 2020, the Group shared loss attributable to associates of approximately RMB4,860,000, which was mainly due to the loss making operation of Guangdong Baobaobao Healthy Soup Co., Ltd., compared to loss of approximately RMB1,653,000 for the same period last year.

Earnings per share

For the six months ended 30 June 2020, earnings per share were RMB14.54 cents, representing a decrease of 14.8% over RMB17.06 cents for the same period last year. The decrease in earnings per share was due to profit attributable to equity holders of the Company during the Reporting Period, which decreased by 14.8% to approximately RMB732,020,000 (six months ended 30 June 2019: RMB859,120,000).

Liquidity and financial resources

As at 30 June 2020, the Group's current assets were approximately RMB16,472,584,000 (31 December 2019: RMB15,323,624,000), which included cash, cash equivalents and deposits with banks of approximately RMB5,103,304,000 (31 December 2019: RMB5,989,801,000), of which pledged bank deposits amounted to approximately RMB219,985,000 (31 December 2019: RMB376,168,000). Trade and other receivables were approximately RMB5,735,443,000 (31 December 2019: RMB3,457,951,000). Current liabilities amounted to approximately RMB9,666,530,000 (31 December 2019: RMB11,147,012,000). Net current assets totalled approximately RMB6,806,054,000 (31 December 2019: RMB4,176,612,000). The Group's current ratio was 1.7 (31 December 2019: 1.4). The gearing ratio (defined as bank and other borrowings and bonds payable divided by equity attributable to equity holders of the Company) increased from 34.1% as at 31 December 2019 to 40.3%. The increase in gearing ratio was mainly due to the increase in the balance of bank and other loans during the Period.

Bank and other borrowings and pledge of assets

As at 30 June 2020, the Group's balance of bank and other borrowings was approximately RMB1,853,497,000 (31 December 2019: RMB799,334,000), of which approximately RMB471,079,000 (31 December 2019: RMB336,061,000) was secured by the Group's assets with a carrying amount of approximately RMB561,774,000 (31 December 2019: RMB377,768,000). Out of the balance of bank and other borrowings, approximately RMB1,650,358,000 and RMB203,139,000, respectively, were repayable within one year and over one year (31 December 2019: approximately RMB639,212,000 and RMB160,122,000, respectively).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. During the Reporting Period, the Group issued RMB2.2 billion of corporate bonds in June 2020 to replace the maturing three-year medium-term notes of RMB2 billion. At the same time, RMB400 million bank loan was temporarily borrowed in order to pay the Super & Short-term Commercial Paper matured in July 2020, and RMB640 million subsidised loan for COVID-19 was granted during the Reporting Period. Apart from this, no major financing activity has been carried out. To improve its working capital turnover, the Group increased the percentage of payment with notes in raw materials procurement and project construction during the Reporting Period. As at 30 June 2020, 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 2020, the investment made by the Group for the fixed asset and intangible asset amounted to approximately RMB538,977,000, compared with RMB539,706,000 for the same period last year. The capital expenditure for the period was mainly due to the Group's continued promotion of development plans for TCM decoction pieces and concentrated TCM granules. The Group was still preparing production bases in various provinces and cities for local TCM integrated operation and concentrated TCM granules during the Reporting Period. Besides, Guangdong Yifang paid RMB50,258,000 for acquiring clinical trial permission of Huashi Baidu Granules during the Period.

Financing capacity

As at 30 June 2020, capital commitments which the Group has entered but are outstanding and not provided for in the financial statements were approximately RMB1,067,463,000 (31 December 2019: approximately RMB1,247,850,000). 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 2020 (31 December 2019: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 30 June 2020, the Group had no Hong Kong Dollar bank borrowings. As at 30 June 2020, 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 2020, the Group had a total of 17,573 (30 June 2019: 15,614) employees, including the Directors, of which 7,218 were sales staff, 7,114 manufacturing staff, and 3,241 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 RMB863,638,000 (six months ended 30 June 2019: RMB751,828,000).

Event after the Reporting Period

Save as disclosed in note 27 to Notes to the Condensed Consolidated Financial Statements of this report, there was no other significant event subsequent to 30 June 2020 as at the date of this report.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK5.72 cents per share (approximately RMB5.12 cents)).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 30 June 2020:

Name of Director	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Shares**
WANG Xiaochun	Interest of controlled corporation	270,001,042 (long position) *(Note)*	5.36%

Note: The 270,001,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

Other than as disclosed above, none of the Directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of the Directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the six months ended 30 June 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2020, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 30 June 2020:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) *(Note 1)*	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) *(Note 1)*	32.46%
Ping An Life Insurance	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An Group	Interest of controlled corporation	604,296,222 (long position) *(Note 2)*	12.00%
Hanmax	Beneficial owner	270,001,042 (long position)	5.36%

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. The 604,296,222 shares are held by Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance") which is a subsidiary of Ping An Group. Ping An Group is deemed to be interested in Ping An Life Insurance's interest in the Company under SFO.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2020.

CONTINUING CONNECTED TRANSACTION

Deposit Service Agreement with Ping An Bank Co., Ltd. ("Ping An Bank")

On 15 January 2020, the Company and Ping An Bank entered into the deposit service agreement in respect of the provision of deposit service by Ping An Bank to the Group during the period of three years from 15 January 2020 to 14 January 2023 (the "Deposit Service Agreement").

In accordance with the Deposit Service Agreement, the Annual Caps for the deposit service during the validity term of the agreement (i.e from 15 January 2020 to 14 January 2023) shall be the maximum daily deposit balance of not higher than RMB600,000,000 (including any interest accrued thereon).

Ping An Bank is a subsidiary of Ping An Group, which is the holding company of Ping An Life Insurance. Ping An Life Insurance holds 604,296,222 shares, representing 12% of the issued shares of the Company. Ping An Bank is therefore a connected person of the Company as defined in the Listing Rules, and the transactions contemplated under the Deposit Service Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board is of the view that entering into the Deposit Service Agreement is in the interest of the Group as it provides the Group with more options in respect of its funding management and the Group shall at its sole discretion select the most suitable service provider. In addition, in view of the close relationship between the Group and Ping An Group, it is expected that the application procedures for deposit service of Ping An Bank will be more efficient, convenient and flexible as compared to those of independent commercial banks, and the terms offered by Ping An Bank under the Deposit Service Agreement will be no less favorable than those offered by independent commercial banks to the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the Period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Code on 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 Listing Rules throughout the six months ended 30 June 2020.

The Model Code for Securities Transactions

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

CHANGE IN DIRECTORS' AND SENIOR MANAGEMENT'S INFORMATION

Subsequent to the date of the Annual Report 2019 (30 March 2020), there is no change of information about the Directors and senior management of the Company required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rules.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2020, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2020. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board

WU Xian
Chairman

Hong Kong, 21 August 2020

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 58, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes.The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose.We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
	NOTES	**2020**	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	*3*	**6,655,319**	6,937,016
Cost of sales		**(2,638,465)**	(2,749,844)
Gross profit		**4,016,854**	4,187,172
Other income	*4*	**121,956**	98,848
Other gains and losses	*5*	**24,309**	(14,893)
Impairment losses under expected credit loss model, net of reversal		**(33,139)**	(51,936)
Selling and distribution expenses		**(2,442,849)**	(2,453,493)
Administrative expenses		**(333,682)**	(303,077)
Research and development expenses		**(245,324)**	(209,001)
Profit from operations		**1,108,125**	1,253,620
Finance costs	*6*	**(112,894)**	(111,505)
Share of results of associates		**(4,860)**	(1,653)
Profit before tax		**990,371**	1,140,462
Income tax expense	*7*	**(160,174)**	(186,025)
Profit for the period	*8*	**830,197**	954,437
Other comprehensive income (expense) for the period			
Item that may be reclassified subsequently to profit or loss:			
– Fair value gain (loss) on debt instruments measured at fair value through other comprehensive income		**7,298**	(10,633)
– (Reversal of) impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		**(449)**	1,079
– Income tax relating to items that may be reclassified to profit or loss		**(808)**	1,536
Other comprehensive income (expense) for the period, net of income tax		**6,041**	(8,018)
Total comprehensive income for the period		**836,238**	946,419
Profit for the period attributable to:			
– Owners of the Company		**732,020**	859,120
– Non-controlling interests		**98,177**	95,317
		830,197	954,437
Total comprehensive income for the period attributable to:			
– Owners of the Company		**737,091**	851,433
– Non-controlling interests		**99,147**	94,986
		836,238	946,419
Earnings per share	*10*		
– Basic (RMB cents)		**14.54**	17.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 June 2020

	NOTES	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Restated and audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**5,600,352**	5,370,318
Right-of-use-assets	11	**1,230,202**	1,231,228
Investment properties		**81,617**	72,859
Goodwill	12	**3,538,800**	3,538,800
Other intangible assets	12	**6,425,606**	6,456,090
Interests in associates		**21,949**	24,359
Deposits and prepayments		**376,469**	304,810
Deferred tax assets		**191,112**	151,637
		17,466,107	17,150,101
CURRENT ASSETS			
Inventories	13	**4,803,360**	4,691,753
Trade and other receivables	14	**5,735,443**	3,457,951
Financial assets at fair value through profit or loss ("FVTPL")	16	**–**	72,800
Debt instruments at fair value through other comprehensive income ("FVTOCI")	17	**830,477**	1,111,319
Pledged bank deposits	18	**219,985**	376,168
Bank balances and cash	18	**4,883,319**	5,613,633
		16,472,584	15,323,624
CURRENT LIABILITIES			
Trade and other payables	19	**4,842,050**	5,279,732
Lease liabilities		**11,952**	12,013
Contract liabilities		**157,358**	223,106
Bank and other borrowings	20	**1,650,358**	639,212
Unsecured notes – due within one year	21	**2,864,617**	4,868,724
Tax liabilities		**140,195**	124,225
		9,666,530	11,147,012
NET CURRENT ASSETS		**6,806,054**	4,176,612
TOTAL ASSETS LESS CURRENT LIABILITIES		**24,272,161**	21,326,713

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 June 2020

	NOTES	**At 30 June 2020 RMB'000 (Unaudited)**	At 31 December 2019 RMB'000 (Restated and audited)
NON-CURRENT LIABILITIES			
Deferred government grants		**303,703**	265,181
Deferred tax liabilities		**1,730,035**	1,748,580
Unsecured notes – due after one year	*21*	**2,192,318**	–
Bank and other borrowings	*20*	**203,139**	160,122
Lease liabilities		**95,982**	102,105
		4,525,177	2,275,988
NET ASSETS		**19,746,984**	19,050,725
CAPITAL AND RESERVES			
Share capital	*22*	**11,982,474**	11,982,474
Reserves		**5,158,703**	4,640,941
Equity attributable to owners of the Company		**17,141,177**	16,623,415
Non-controlling interests		**2,605,807**	2,427,310
TOTAL EQUITY		**19,746,984**	19,050,725

Approved and authorised for issue by the board of directors on 21 August 2020.

WU Xian
Executive Director

WANG Xiaochun
Executive Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company								
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note)	FVTOCI reserve RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2020 (audited)	**11,982,474**	**(165,183)**	**529,415**	**(12,308)**	**(49,807)**	**4,338,824**	**16,623,415**	**2,427,310**	**19,050,725**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**732,020**	**732,020**	**98,177**	**830,197**
Other comprehensive income for the period	**–**	**–**	**–**	**5,071**	**–**	**–**	**5,071**	**970**	**6,041**
Total comprehensive income for the period	**–**	**–**	**–**	**5,071**	**–**	**732,020**	**737,091**	**99,147**	**836,238**
Dividends recognised as distribution	**–**	**–**	**–**	**–**	**–**	**(219,329)**	**(219,329)**	**–**	**(219,329)**
Capital injection from non-controlling equity holders of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**79,350**	**79,350**
At 30 June 2020 (unaudited)	**11,982,474**	**(165,183)**	**529,415**	**(7,237)**	**(49,807)**	**4,851,515**	**17,141,177**	**2,605,807**	**19,746,984**
At 1 January 2019 (audited)	11,982,474	(165,183)	528,437	(607)	(47,882)	3,254,194	15,551,433	1,959,138	17,510,571
Profit for the period	–	–	–	–	–	859,120	859,120	95,317	954,437
Other comprehensive income for the period	–	–	–	(7,687)	–	–	(7,687)	(331)	(8,018)
Total comprehensive (expense) income for the period	–	–	–	(7,687)	–	859,120	851,433	94,986	946,419
Dividends recognised as distribution	–	–	–	–	–	(244,093)	(244,093)	–	(244,093)
Dividends distributed to NCI of a subsidiary	–	–	–	–	–	–	–	(48,579)	(48,579)
Capital injection from non-controlling equity holders of subsidiaries	–	–	–	–	–	–	–	180,307	180,307
Acquisition of non-controlling interest	–	–	–	–	(1,925)	–	(1,925)	(14,777)	(16,702)
At 30 June 2019 (unaudited)	11,982,474	(165,183)	528,437	(8,294)	(49,807)	3,869,221	16,156,848	2,171,075	18,327,923

Note: As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve. Appropriation to such reserve is made out of net profit after taxation as reflected in the statutory financial statements of the PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(1,818,008)**	(1,450,679)
Investing activities		
Purchase of property, plant and equipment and payment for construction in progress	**(464,227)**	(539,706)
Purchase of other intangible assets	**(47,542)**	(695)
Proceeds from disposal of property, plant and equipment	**104**	2,334
Assets-related government grants received	**60,982**	8,081
Payments for right-of-use assets	**(23,120)**	(7,133)
Payments for rental deposits	**–**	(732)
Capital contribution to an associate	**(2,450)**	–
Interest received	**21,498**	25,568
Deposits paid for acquisition of a subsidiary	**(98,710)**	(600)
Decrease (increase) in pledged deposits with banks	**156,183**	(337,185)
Purchase of financial assets at FVTPL	**–**	(1,350,000)
Proceeds from disposal of financial assets at FVTPL	**73,353**	1,201,066
Acquisition of subsidiaries, net of cash acquired	**–**	(386)
Cash consideration paid for the prior year acquisition of subsidiaries	**–**	(1,242)
Net cash used in investing activities	**(323,929)**	(1,000,630)
Financing activities		
New bank borrowings raised	**1,919,047**	923,077
Repayment of bank borrowings	**(867,686)**	(942,918)
Dividend paid	**–**	(241,486)
Dividend paid to non-controlling interests of a subsidiary	**(48,528)**	–
Interest paid	**(115,752)**	(124,986)
Proceeds from issue of unsecured notes	**2,200,000**	–
Repayment of unsecured notes	**(2,000,000)**	–
Repayment of lease liabilities	**(7,687)**	(6,609)
Capital injection from non-controlling equity holders of subsidiaries	**66,573**	170,307
Acquisition of additional interests in non-controllinginterests	**–**	(16,702)
Net cash from (used in) financing activities	**1,145,967**	(239,317)
Net decrease in cash and cash equivalents	**(995,970)**	(2,690,626)
Cash and cash equivalents at 1 January	**5,046,024**	5,975,825
Effect of foreign exchange rate changes	**2,897**	65
Cash and cash equivalents at 30 June, represented by unrestricted bank balances and cash	**4,052,951**	3,285,264

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 31 December 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6, to the Hong Kong Companies Ordinance.

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

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

1A. SIGNIFICANT EVENT FOR THE CURRENT INTERIM PERIOD

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The sales of the Group decreased from February 2020 to March 2020 due to mandatory government quarantine measures in an effort to contain the spread of the pandemic. On the other hand, the Group recognised government grants of RMB6,270,000 in respect of Covid-19-related subsidies which related to compensation for part of staff costs and other normal operating expenses incurred by the Group during the current interim period. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue and increase in government grants in respect of Covid-19-related subsidies as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

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

2.1.1 Accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

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

2.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB593,000 in the profit or loss for the current interim period.

3. REVENUE AND SEGMENT INFORMATION

3A. Disaggregation of revenue

	For the six months ended 30 June 2020					
Segments	**Finished drugs RMB'000**	**Concentrated TCM granules RMB'000**	**TCM decoction pieces RMB'000**	**TCM healthcare complex RMB'000**	**Local TCM integrated operation RMB'000**	**Total RMB'000**
Types of goods or services						
Goods						
Finished drugs	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

3. REVENUE AND SEGMENT INFORMATION (continued)

3A. Disaggregation of revenue (continued)

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

3. REVENUE AND SEGMENT INFORMATION (continued)

3B. Segment reporting

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the Executive Directors, being the chief operating decision 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 3B(ii).

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

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

3. REVENUE AND SEGMENT INFORMATION (continued)

3B. Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

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.

Segments	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
For the six months ended 30 June 2020 (unaudited)						
Reportable segment revenue	1,340,655	4,667,062	993,331	42,903	318,928	7,362,879
Eliminated of inter-segment revenue	(36,323)	(97,150)	(426,332)	(718)	(147,037)	(707,560)
Revenue from external customers	1,304,332	4,569,912	566,999	42,185	171,891	6,655,319
Reportable segment profit (adjusted EBITDA)	229,653	1,130,795	18,933	3,446	21,231	1,404,058
Interest income	45,275	79,470	2,550	46	2,222	129,563
Eliminated of inter-segment interest income	(36,782)	(69,267)	(978)	–	(485)	(107,512)
Interest income from third parties	8,493	10,203	1,572	46	1,737	22,051
Finance costs	54,858	151,556	8,759	836	4,397	220,406
Eliminated of inter-segment finance costs	(30,086)	(72,151)	(3,199)	–	(2,076)	(107,512)
Finance costs from third parties	24,772	79,405	5,560	836	2,321	112,894
Depreciation and amortisation	89,078	157,297	41,524	9,399	27,222	324,520
As at 30 June 2020 (unaudited)						
Reportable segment assets	7,159,606	22,446,858	3,408,695	238,249	2,666,752	35,920,160
Reportable segment liabilities	2,314,073	7,651,944	2,573,759	74,258	1,190,952	13,804,986

3. REVENUE AND SEGMENT INFORMATION (continued)

3B. Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Segments	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Local TCM integrated operation RMB'000	Total RMB'000
For the six months ended 30 June 2019 (unaudited)						
Reportable segment revenue	1,722,357	4,612,224	777,834	35,722	34,927	7,183,064
Eliminated of inter-segment revenue	(23,877)	(41,460)	(172,923)	(21)	(7,767)	(246,048)
Revenue from external customers	1,698,480	4,570,764	604,911	35,701	27,160	6,937,016
Reportable segment profit (adjusted EBITDA)	314,574	1,125,113	70,510	1,891	10,143	1,522,231
Interest income	95,991	75,434	1,264	56	420	173,165
Eliminated of inter-segment interest income	(87,573)	(59,862)	(162)	–	–	(147,597)
Interest income from third parties	8,418	15,572	1,102	56	420	25,568
Finance costs	115,723	134,400	5,439	811	2,729	259,102
Eliminated of inter-segment finance costs	(68,058)	(74,521)	(2,396)	(96)	(2,526)	(147,597)
Finance costs from third parties	47,665	59,879	3,043	715	203	111,505
Depreciation and amortisation	87,335	147,256	39,089	8,611	13,081	295,372
As at 31 December 2019 (audited)						
Reportable segment assets	10,487,759	21,510,726	3,520,895	240,220	2,482,060	38,241,660
Reportable segment liabilities	5,781,392	7,984,077	2,352,609	56,880	915,842	17,090,800

3. REVENUE AND SEGMENT INFORMATION (continued)

3B. Segment reporting (continued)

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reportable segment profit (adjusted EBITDA)	**1,404,058**	1,522,231
Depreciation and amortisation	**(324,520)**	(295,372)
Interest income	**22,051**	25,568
Finance costs	**(112,894)**	(111,505)
Rental income	**5,752**	2,783
Fair value changes on financial assets at FVTPL	**–**	4
Net exchange gain (loss)	**784**	(1,594)
Share of results of associates	**(4,860)**	(1,653)
Consolidated profit before taxation	**990,371**	1,140,462

3. REVENUE AND SEGMENT INFORMATION (continued)

3B. Segment reporting (continued)

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

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Assets		
Reportable segment assets	**35,920,160**	38,241,660
Elimination of inter-segment receivables	**(2,262,325)**	(6,005,871)
	33,657,835	32,235,789
Financial assets at FVTPL	**–**	72,800
Deferred tax assets	**191,112**	151,637
Unallocated head office and corporate assets	**89,744**	13,499
Consolidated total assets	**33,938,691**	32,473,725
Liabilities		
Reportable segment liabilities	**13,804,986**	17,090,800
Elimination of inter-segment payables	**(2,262,325)**	(6,005,871)
	11,542,661	11,084,929
Tax liabilities	**140,195**	124,225
Deferred tax liabilities	**1,730,035**	1,748,580
Unallocated head office and corporate liabilities	**778,816**	465,266
Consolidated total liabilities	**14,191,707**	13,423,000

(iii) Geographical information and information about major customers

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

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both current and prior period.

4. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants		
– Unconditional subsidies (note i)	**71,693**	54,573
– Conditional subsidies (note ii)	**22,460**	15,924
Interest income on bank deposits	**21,498**	20,830
Interest income on financial assets at FVTPL	**553**	4,738
Rental income from investment properties	**5,752**	2,783
	121,956	98,848

Notes:

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

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

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**(1,460)**	(3,935)
Fair value changes on financial assets at FVTPL	**–**	4
Net exchange gain (loss)	**784**	(1,594)
Others	**24,985**	(9,368)
	24,309	(14,893)

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**15,945**	24,839
Interest on lease liabilities	**2,705**	2,319
Effective interest expense on unsecured notes	**101,011**	96,612
Total borrowing costs	**119,661**	123,770
Less: amounts capitalised in the cost of qualifying assets	**6,767**	12,265
	112,894	111,505

Borrowing costs capitalised during the current period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.16% (2019: 5.16%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT")	**197,219**	199,157
Under provision in prior years:		
PRC EIT	**21,783**	2,857
	219,002	202,014
Deferred tax credit	**(58,828)**	(15,989)
	160,174	186,025

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

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

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation		
– investment properties	**2,089**	1,165
– property, plant and equipment	**220,811**	191,119
– right-of-use assets	**23,492**	19,650
Amortisation of other intangible assets	**78,128**	83,438
Total depreciation and amortisation	**324,520**	295,372
Capitalised in inventories	**(219,538)**	(207,902)
	104,982	87,470
Covid-19-related rent concessions	**593**	–
Write down of inventories	**1,983**	18,239
Gross rental income from investment properties	**(5,752)**	(2,783)
Less: direct operating expenses incurred for investment properties	**522**	690
	(5,230)	(2,093)

9. DIVIDENDS

During the current interim period, a final dividend of HK4.76 cents per share in respect of the year ended 31 December 2019 (six month ended 30 June 2019: HK5.51 cents per share in respect of the year ended 31 December 2018) was declared to the owners of the Company. The aggregate amount of the 2019 final dividend declared in the current interim period amounted to HK$239,704,000 (approximately RMB219,329,000) (six months ended 30 June 2019: HK$277,473,000, approximately RMB244,093,000).

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK5.72 cents per share).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company	**732,020**	859,120
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,035,801**	5,035,801

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

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group incurred approximately RMB97,556,000 (six months ended 30 June 2019: RMB119,730,000), and RMB366,644,000 (six months ended 30 June 2019: RMB550,512,000) on acquisition of property, plant and equipment and construction in process, respectively.

Certain of the Group's buildings with carrying values of RMB399,213,000 (31 December 2019: RMB341,214,000) were pledged to secure certain bank borrowings granted to the Group.

During the current interim period, the Group entered into several new lease agreements for the use of buildings and leasehold land with lease terms ranging from 1 to 50 years. The Group is required to make fixed payments during the contract period. On lease commencement date, the Group recognised right-of-use assets of RMB23,196,000 (six months ended 30 June 2019: RMB97,707,000) and lease liabilities of RMB76,000 (six months ended 30 June 2019: RMB72,328,000), respectively.

Certain of the Group's right-of-use assets with carrying values of RMB160,348,000 (31 December 2019: RMB36,554,000) were pledged to secure certain bank borrowings granted to the Group.

12. GOODWILL/OTHER INTANGIBLE ASSETS

	Goodwill RMB'000	**Other intangible assets** RMB'000
Cost and carrying amount:		
At 1 January 2020 (audited)	3,538,800	6,456,090
Additions	–	47,644
Amortisation for the period	–	(78,128)
At 30 June 2020 (unaudited)	3,538,800	6,425,606

No impairment loss has been recognised in respect of goodwill and other intangible assets of the Group during the both interim periods for the respective cash generated unit where the goodwill and other intangible asset is allocated.

13. INVENTORIES

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Raw materials	**1,356,078**	1,346,297
Work in progress	**1,803,311**	1,713,268
Finished goods	**1,643,971**	1,632,188
	4,803,360	4,691,753

The inventories are net of a write-down of approximately RMB103,653,000 as at 30 June 2020 (31 December 2019: RMB101,807,000).

14. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	**5,170,552**	3,001,626
Less: allowance for credit losses	**(80,653)**	(55,173)
	5,089,899	2,946,453
Deposits and prepayments	**174,555**	155,447
Advance tax payments	**257,180**	232,016
Other receivables	**236,358**	152,331
Less: allowance for credit losses	**(22,549)**	(28,296)
	213,809	124,035
	5,735,443	3,457,951

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

The following are the aged analysis of the Group's trade receivables based on invoice date which approximates the revenue recognition date at the end of each reporting period:

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
0-90 days	**3,196,058**	2,071,360
91-180 days	**1,260,830**	445,385
181-365 days	**627,496**	426,727
Over 365 days	**86,168**	58,154
	5,170,552	3,001,626

15. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO EXPECTED CREDIT LOSS ("ECL") MODEL

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss recognised/(reversed) in respect of		
– trade receivables	**32,737**	51,415
– other receivables	**851**	614
– bill receivables	**–**	(1,172)
– debt instruments at FVTOCI	**(449)**	1,079
	33,139	51,936

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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

The amount represented structured bank deposits. During the current interim period, the arrangements of structured bank deposits have been completed and fully redeemed.

17. DEBT INSTRUMENTS AT FVTOCI

	At 30 June 2020	At 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Bills receivable	**830,477**	1,111,319

18. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.3% to 0.35% per annum (2019: 0.3% to 0.35%).

(b) Bank balances and cash

Included in bank balances and cash is RMB4,052,951,000 (2019: RMB5,046,024,000) which represents cash held by the Group and short-term deposits and carried interest at prevailing market rates ranging from 0.30% to 0.35% per annum (2019: 0.30% to 0.35% per annum) with original maturity of three months or less.

The remaining of bank balances and cash is RMB830,368,000 (2019: RMB567,609,000) which represents the cash collected on behalf of factoring institutions under the non-recourse factoring arrangement of trade receivables.

19. TRADE AND OTHER PAYABLES

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Restated and audited)
Trade payables	**1,281,229**	1,684,157
Bills payable	**616,751**	802,874
Deposits received	**847,695**	900,153
Salaries and welfare payables	**207,640**	321,986
Other tax payables	**142,664**	189,274
Accrual of operating expenses	**423,418**	555,241
Dividend payable	**289,404**	118,958
Consideration payable for acquisitions of subsidiaries	**17,380**	35,518
Collection of accounts receivables on behalf of factoring institutions under the non-recourse factoring arrangement	**830,368**	567,609
Other payables	**185,501**	103,962
	4,842,050	5,279,732

19. TRADE AND OTHER PAYABLES (continued)

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

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
0-90 days	**1,397,852**	2,009,949
91-180 days	**326,119**	306,583
181-365 days	**97,662**	46,069
Over 365 days	**76,347**	124,430
	1,897,980	2,487,031

20. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB1,919,047,000 (six months ended 30 June 2019: RMB923,077,000). The loans carry interest at fixed market rates ranging from 1.15% to 5.17% and are repayable in instalments over a period of 8 years.

21. UNSECURED NOTES

During the current interim period, the Group issued new unsecured notes amounting to RMB2,200,000,000 (six months ended 30 June 2019: nil), with a maturity of three years and coupon rate of 3.28% per annum.

22. SHARE CAPITAL

	Number of shares For the six months ended		**Share capital For the six months ended**	
	2020 '000	2019 '000	**2020 RMB'000**	2019 RMB'000
Authorised	**Unlimited number of ordinary shares with no par value**			
Issued and fully paid	**5,035,801**	5,035,801	**11,982,474**	11,982,474

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements and valuation processes

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	30 June 2020 RMB'000	31 December 2019 RMB'000		
Financial assets at FVTPL				
Structured bank deposits	**–**	72,800	Level 3	Expected yields of underlying investments and commodities, bonds and funds invested by bank at a discount rate that reflects the credit risk of the bank
Financial assets at FVTOCI				
Bills receivables	**830,477**	1,111,319	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

There were no transfers between Level 1 and 3 during both interim periods.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Fair value of the financial assets and liabilities that are not measured at fair value on a recurring basis

Except as disclosed below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	30 June 2020 RMB'000	31 December 2019 RMB'000
Carrying amount	**5,056,935**	4,868,724
Fair value under Level 2 fair value hierarchy	**4,991,522**	4,816,885

The fair values of the financial liabilities included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Company.

24. CAPITAL COMMITMENTS

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
– Investments in PRC entities	**640,000**	640,000
– Acquisition of property, plant and equipment	**425,683**	507,360
– Acquisition of a subsidiary	**1,780**	100,490
	1,067,463	1,247,850

25. RELATED PARTY TRANSACTIONS

During the current interim period, the Group entered into the following related party transactions:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(i) Sale of finished goods to China National Pharmaceutical Group Corporation's ("CNPGC") subsidiaries other than the Group	**298,242**	382,195
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	**7,477**	12,819
(iii) Rental income from CNPGC's subsidiaries other than the Group	**2,645**	2,652
(iv) Interest income from CNPGC's subsidiaries other than the Group	**530**	213

Particulars of significant balances between the Group and the related parties are as follows:

	At 30 June 2020	At 31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
(i) Trade and other receivables due from CNPGC's subsidiaries other than the Group	284,847	342,788
(ii) Trade and other payables due to CNPGC's subsidiaries other than the Group	17,933	9,014
(iii) Bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 18	125,682	593,043

25. RELATED PARTY TRANSACTIONS (continued)

Key management remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**3,353**	2,960
Post-employments benefits	**80**	217
	3,433	3,177

Transactions/balances with other state-controlled entities

The Group itself is part of a larger group of companies under CNPGC, which is controlled by the government of the PRC. Apart from the transactions with the parent company and its subsidiaries which have been disclosed in other notes, the Group also conducts businesses with entities directly or indirectly owned or controlled, jointly controlled or significantly influenced by the PRC government ("stated-controlled entities") in the ordinary course of business. The directors of the company consider those entities other than the CNPGC group are independent third parties as far as the Group's business transactions with them are concerned. In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter party is a state-controlled entity or not. The Group is of the opinion that it has provided, in the best of its knowledge, adequate and appropriate disclosure of related party transactions in the condensed consolidated financial statements.

The Group has bank balances deposited in and entered into various transactions, including sales, purchases, borrowings and other operating expenses, with other state-controlled entities during the current period in which the directors are of the opinion that it is impracticable to ascertain the identity of the controlling parties of these counterparties and accordingly whether the counterparties are state-controlled entities.

26. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative amounts of the interest payables arising from bank and other borrowings and unsecured notes have been reclassified to conform to the current period presentation and the details are set out as below:

	31 December 2019 RMB'000 (previously stated)	Reclassifications RMB'000	31 December 2019 RMB'000 (as restated)
Trade and other payables	5,355,025	(75,293)	5,279,732
Bank and other borrowings	638,300	912	639,212
Unsecured notes			
– due within one year	4,794,343	74,381	4,868,724

27. EVENT AFTER THE REPORTING PERIOD

On 30 December 2019, Guangdong Yifang Pharmaceutical Co., Ltd, a subsidiary of the Group, entered into an equity transfer agreement with Gansu Provincial Hospital of Traditional Chinese Medicine to acquire 51% equity interest of Longzhong Pharmaceutical Co., Ltd. held by Gansu Provincial Hospital of Traditional Chinese Medicine. Longzhong Pharmaceutical Co., Ltd. is mainly engaged in the manufacture of the hospital-made formula and the processing of decoction pieces. The total transaction price was RMB138,710,000. The acquisition of Longzhong Pharmaceutical Co., Ltd. was completed in July 2020. The Group is still in the process of assessing the fair value of the identifiable assets acquired and determining the purchase price allocation. It is impractical to disclose the related information in the acquisition.