



国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)



2022
Interim Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. CHEN Yinglong (*Chairman*)
Mr. CHENG Xueren (*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. NG Sau Mei

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. CHEN Yinglong (*Chairman*)
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

STRATEGIC COMMITTEE

Mr. CHEN Yinglong (*Chairman*)
Mr. CHENG Xueren
Mr. YANG Wenming
Mr. YU Tze Shan Hailson
Mr. QIN Ling

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STOCK CODE

The shares of China Traditional Chinese Medicine Holdings Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

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PRINCIPAL BANKS

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Ping An Bank Co., Ltd.
Industrial and Commercial Bank of China Limited
Bank of China (Hong Kong) Limited

WEBSITE

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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 for the six months ended 30 June 2022 (the “Reporting Period”, or the “Period”), together with comparative figures for the corresponding periods of 2021 and relevant explanatory notes. The consolidated results are unaudited but have been reviewed by the Company’s independent auditor, Ernst & Young, and the audit committee of the Company (the “Audit Committee”).

OVERVIEW

During the Reporting Period, the Group’s revenue was approximately RMB5,911,638,000, representing a decrease of 27.5% compared with approximately RMB8,149,351,000 for the same period last year. Among them, revenue from Chinese medicinal herbs integration business was approximately RMB431,175,000, representing 7.3% of the total revenue. Revenue from TCM decoction pieces business was approximately RMB841,372,000, representing 14.2% of the total revenue. The concentrated TCM granules business contributed approximately RMB2,761,603,000 or 46.7% of the total revenue. Revenue from the TCM finished drugs business was approximately RMB1,765,649,000, representing 29.9% of the total revenue. Revenue from the TCM great health products business was approximately RMB48,321,000, representing 0.8% of the total revenue. Revenue from TCM medical institutions business was approximately RMB63,518,000, representing 1.1% of the total revenue.

Gross profit was approximately RMB2,951,871,000, representing a decrease of 41.0% compared with approximately RMB5,002,764,000 for the same period last year. Gross profit margin was 49.9%, representing a decrease of 11.5 percentage points compared with 61.4% for the same period last year. This was mainly caused by: (1) proportion of revenue from concentrated TCM granules business with high gross profit dropped by 19.9 percentage points as compared with the same period of last year due to decrease in sales; and (2) gross profit margin of concentrated TCM granules business dropped by 9.9 percentage points as compared with the same period of last year, bringing a decrease in the Group’s total gross profit margin.

BUSINESS REVIEW

During the Reporting Period, the Group formulated specific development plans focusing on the six major business segments of “Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health products and TCM medical institutions”, actively promoted implementation of the Group’s “14th Five-Year” strategy plan, coordinately carried out various tasks such as safety production, operation and management and pandemic prevention and control, constantly optimized the strategy-centered group operation and management system, continuously enhanced risk prevention capability, gradually improved corporate governance efficiency and made every efforts to promote the high-quality development of the whole TCM healthcare industry chain.



MANAGEMENT DISCUSSION AND ANALYSIS

I. Optimize layout of six major business segments and promote construction of the whole TCM healthcare industry chain

(I) *Steadily promote the layout of Chinese medicinal herbs resources and set industrial model for its traceability management*

Focusing on the general direction of long-term, healthy and sustainable development plan, the Group relied on its own technology and resource advantages to actively carry out the seed variety selecting and breeding and the construction of germplasm resource gardens, and enlarge bases for authentic Chinese medicinal herbs, so as to build a supply guarantee platform for high-grade TCM resources open to the industry, make sources sustainable, quality traceable and costs controllable, empower the high-quality development of the whole TCM healthcare industry chain and enhance the Group's influence in the field of Chinese medicinal herbs resources.

As of 30 June 2022, the Group jointly and independently built a total of 207 Good Agriculture and Collection Practices for Medicinal Plants ("GACP") bases for Chinese medical herbs in 22 provinces (regions and municipalities) across the country, involving 75 varieties and with a planting area of over 150,800 mu. Among them, 543 mu of improved variety of epimedium resources planting base will produce the first batch of improved epimedium. Epimedium planting has made breakthrough from basic research to medicinal herbs output.

The Group also promoted construction of the production quality traceability management system for Chinese medicinal herbs (formerly "Integrated Management Platform of Quality Control and Traceability for TCM"). As of 30 June 2022, 32 varieties entered the traceability system of Chinese medicinal herbs, of which 4 varieties, including *cmnamomi mmulus*, *aurantii fructus immaturus*, *fritillariae thunbergii* bulbous and honeysuckle, can be traced through QR code, so as to realize traceability of the whole process from seed breeding to medicinal herbs output and make quality stable and controllable, generate benchmark models for the industry, and improve Chinese medicinal herbs quality as well as its standardized production.

(II) *Boost TCM decoction pieces segment by virtue of decoction and prescription service*

During the Reporting Period, the Group's TCM decoction pieces business maintained a good momentum. The TCM decoction pieces manufacturers across China continued to strengthen construction of their own special herb bases and initial processing in production sites, which were gradually transformed into competitive advantages. Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices") and other leading decoction pieces enterprises continued to develop medical institutions and did well. During the Reporting Period, the "hospital-enterprise cooperation" went deeper, with over 1,000 new medical institutions of various types.



MANAGEMENT DISCUSSION AND ANALYSIS

As demand on TCM decoction pieces in the terminal market keeps mounting, the “Share of TCM – Intelligent Distribution Center” (“Intelligent Distribution Center”) established by the Group has been highly recognized by the public for its convenient, high-quality and efficient “one-stop” TCM service new model, showing relatively high economic benefits and regional value. As of 30 June 2022, the Group has constructed 24 Intelligent Distribution Centers nationwide, achieving a substantial growth of 20% in sales and accounting for 35% of the total revenue of the decoction pieces business. Besides, to cope with the growing demand on TCM decoction pieces in the terminal market, the Group invested more: another 26 Intelligent Distribution Centers are under construction, which will promote the Group’s TCM decoction pieces business and further enhance the TCM services capability and financial returns.

The Group also adhered to the “people-oriented” principle and played an important role in saving lives during the pandemic. In the second quarter of 2022, the COVID-19 pandemic hit Shanghai, resulting in a shortage of medicines and other supplies. Shanghai Tongjitang overcame lockdown difficulties, organized production of anti-pandemic Chinese medicines at the first time, delivered the anti-pandemic prescription packs and decoction to the front line of the anti-pandemic battlefield in a timely manner and completed production and supply of nearly 7 million doses of anti-pandemic prescriptions in total.

(III) Comprehensively promote concentrated TCM granules adapting to the new policies and lay solid foundation for long-term healthy development

With the formal implementation of the new policy on concentrated TCM granules, the industry is under transition of new and former standards. National standards and provincial standards on concentrated TCM granules are to be gradually implemented. Since the industry is in the stage of transition from the former standards to the new ones, full variety supply still has a way to go, the medical institutions are undergoing prescription limits caused by the transition, and it will take time for medical institutions to consume product reserve of former enterprise standard before the new ones, the overall market scale of concentrated TCM granules declined during the Reporting Period.

In this regard, the Group, as the leader in concentrated TCM granules industry, made every effort to safeguard the supply chain of concentrated TCM granules, set milestones, coordinated, and accelerated key works such as product filing, conversion to new standards and supply and production according to the research and implementation of concentrated TCM granules standards and breakthroughs in production. At the same time, propagation on new standards and guidance on clinical prescription continued, making clinicians adopt more national and provincial standard products and boosting sales recovery.

Current market fluctuation is temporarily caused by the aforementioned transition. With improvement of the national concentrated TCM granules standard system and the open of the primary medical market, market scale of concentrated TCM granules will continue to expand, and the Group will capitalize on this trend to recover performance and achieve greater development.



MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Expand market and cultivate TCM finished drugs sub-sector

As centralized quantity procurement gets normalized, the Group has adjusted market strategy of some core TCM finished drug varieties such as Xianling Gubao Capsules (仙靈骨葆膠囊). On 8 April 2022, the Guang Dong Medicine Exchange (廣東省藥品交易中心) announced the proposed selected/alternative results of the centralized quantity procurement of TCM finished drugs such as Qingkailin of Guangdong Union, and 4 varieties of the Group, including Xianling Gubao Capsules (仙靈骨葆膠囊), were included in the scope of the centralized procurement.

During the Reporting Period, the Group boosted its TCM finished drugs business in multiple dimensions and strengthened market development and academic promotion around brands, product categories and marketing model. Products including Yu Ping Feng Granules (玉屏風顆粒), Bai Ling Tablets (白靈片), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Jinye Baidu Granules (金葉敗毒顆粒), Trionycis Bolus (鱉甲煎丸) and Huashi Baidu Granules (化濕敗毒顆粒), achieved a growth of over 20%.

On academic side, the Group participated in major academic activities in the industry such as the “2022 CDRP”, “2022 Chinese Medicine Terminal Marketing Summit” and “2022 West Lake Forum”, focusing on value of high-quality TCM development and enhancing its influence in the industry in a continuous manner; on marketing side, the Group explored new modes of online marketing for key products and cooperated with two major medicine e-commerce platforms, namely Alibaba Health Pharmacy and JD Pharmacy, expanding the sales channels for finished drugs products; on brand building side, the Group carried out brand building and promotion for a number of OTC products, such as Yu Ping Feng Granules (玉屏風顆粒), Bi Yan Kang Tablets (鼻炎康片) and Yao Shen Herbal Paste (腰腎膏), with brand renewal as the core, optimizing the methods of user communication and achieving brand rejuvenation and digital transformation and upgrading.

The Group also strengthened innovative varieties research and products indication exploration of TCM finished drugs. During the Reporting Period, the laboratory experimental and pilot test of process optimization, mass production research and mass production process confirmation of Yu Shu Da Tablets (郁樞達片) have been completed and the clinical trial protocol of phase III has been submitted; the pharmacological study of Qing Da Granules (清達顆粒) has been completed and is under review and approval of the Center for Drug Evaluation; expert seminar on the implementation plan of the research project of Huashi Baidu Granules was successfully held; and Yu Ping Feng Granules was included in the “Expert Consensus on the Prevention and Treatment of Novel Coronavirus with TCM finished drugs” (《中成藥防治新型冠狀病毒肺炎專家共識》) and other guidance documents, providing reliable and quality treatment alternative against COVID-19 pandemic.



MANAGEMENT DISCUSSION AND ANALYSIS

(V) Enrich great health products structure and broaden sales channels

The Group produced consumer-recognized great health products by leveraging on its supply strengths in the whole TCM healthcare industry chain and comprehensive TCM manufacturing capabilities, strict production quality control standards and traceable quality guarantee system. During the Reporting Period, the Group focused on five dimensions, including “development of functional products”, “development of Chinese medicine homologous food products”, “development of food for special dietary uses”, “optimization of existing products” and “development of other product categories”, with 68 new varieties being developed and 49 new varieties being launched in the market, forming a better system of great health products with local characteristics.

The Group also actively explored diversified business models to broaden the marketing channels for its great health products. Among them, Guangdong Qifeng Health Industry Co., Ltd. (廣東旗峰健康產業有限公司) (“Qifeng Health”) actively expanded its OEM, self-owned brand, chain operation and other businesses, showing rapid development; Sinopharm Group Guizhou Healthcare Industry Development Company (國藥集團貴州大健康產業發展公司) (“Guizhou Healthcare”) has set four development directions, namely bulk material supply, specialty channel, OEM/ODM and health products/foods for special dietary uses to further expand its product categories and actively explore the retail market channels.

(VI) Proactively explore business growth model and improve TCM medical institutions operation system

The Group always follows the new trend of TCM medical institutions business and continues to strengthen the technical depth and development of the three business lines of specialties, physical therapy and rehabilitation, and home healthcare.

During the Reporting Period, the Group has, taking regional characteristics into consideration, explored and developed an operation model that matches needs of local consumers, set up famous TCM doctor’s working stations and explored business growth model through joint construction and operation as well as revenue sharing among departments. The Group continued to promote its TCM medical institutions service projects of diagnosis and treatment through training new practicing physicians to broadcast online. At the same time, the Group continued to upgrade technology and seek product development, launched five new physical therapy techniques including “acupuncture for Du meridian with ginger” (督脈隔姜灸) and developed five TCM cipher prescription preparations such as “classical prescription for invigorating the spleen and stomach” (健脾養胃方). By doing so, the Group laid solid business foundation and found profit growth point.

With the TCM medical institutions as a medium and capitalizing on its own products and industrial advantages, the Group actively promoted the “Chinese Medicine Health Community Construction” project, jointly built a quality and efficient Chinese medicine service system with local governments and promoted the allocation of quality medical resources to the primary level.



MANAGEMENT DISCUSSION AND ANALYSIS

II. Establish high-level technology and innovation platforms and cultivate high-quality development advantages

(I) Continuously build high-level scientific research platforms and improve technology innovation capabilities

The Group attaches great importance to the construction of scientific and technological talents as well as scientific research platforms, which fully leverages the support from the talents. During the Reporting Period, Jiangyin Tianjiang Pharmaceutical Co., Ltd. (“Jiangyin Tianjiang”) was recognized as the “National Enterprise Technology Center”, representing high recognition for its innovation capabilities, innovation mechanism and leading exemplary role. The workstation of Academician Tong Xiaolin formally settled in Guangdong Yifang Pharmaceutical Co, Ltd. (“Guangdong Yifang”), which facilitates cultivation and introduction of talents, and provides new development vitality to the Group.

The Group also promoted production-education-research-practice integration cooperation on all fronts and strengthened synergies and innovation. The Group jointly conducted 9 scientific research projects with education institutions, research institutes and enterprises, carried out 1 cooperation project with central enterprises and enterprises in upstream and downstream of the internal industry chain, continued to expand cooperation channels for scientific and technological innovation, and enhanced the transformation capability of scientific research results.

(II) Promote sustainable development of Chinese medicinal herb sources

The Group accelerated the formation of technological edges in Chinese medicinal herb sources and developed fresh concepts for sustainable development and utilization. During the Reporting Period, 3 epimedium plant new varieties, namely Guitong Jianye No. 1 (貴同箭葉1號), Guitong Jianye No. 2 (貴同箭葉2號) and Guitong Roumao No. 1 (貴同柔毛1號), of Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. (“Tongjitang Pharmaceutical”) entered the substantive review of new variety protection (new variety rights), and the international standard of epimedium has passed the review by domestic experts. Guangdong Yifang has completed the research on pinellia ternata chemical composition and pinellia ternata breeding. Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. (“Zhonglian Pharmaceutical”) carried out research on green, high-quality and efficient cultivation, harvesting, processing and storage technology of atracylodes lancea, and established an experimental and demonstration base of 200 mu.

(III) Accelerate formulation of standard for concentrated TCM granules, cultivating development drivers

As a pioneer and leader in concentrated TCM granules industry, the Group was actively engaged in formulation of national and various provincial standards for concentrated TCM granules. During the Reporting Period, 63 national standard researches and 73 provincial standard researches were conducted, with a total of 423 national standard researches and 376 provincial standard researches being completed. Among 250 national standards for concentrated TCM granules that have been promulgated and released, 129 were drafted by the Group.



MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Scientific research achievements emerge

During the Reporting Period, the Group's scientific research projects yielded encouraging results. The project "Formulation of National Standard System of Concentrated TCM Granules and Innovation and Application of Key Technologies" jointly completed by Guangdong Yifang, Jiangyin Tianjiang, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. ("Dezhong Pharmaceutical"), Tongjitang Pharmaceutical and scientific research institutes won the first prize of Sci-Tech Advancement Award of Guangdong Province (廣東省科技進步一等獎). The project "Accurate Analysis and Quality Control Key Technologies and Industrialization of the Whole Chain of Lingnan (South of the Five Ridges) Famous and Quality TCM" jointly participated by Guangdong Yifang and Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing Pharmaceutical") won the second prize of Sci-Tech Advancement Award of Guangdong Province (廣東省科技進步二等獎). The project "Construction and Application of High Quality Fuzi (Radix Aconiti) Standardized Production Technology System" participated by Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao") and Sichuan Jiangyou Zhongbafuzi Technology Development Co., Ltd. ("Sichuan Jiangyou") won the second prize of Sci-Tech Advancement Award of Sichuan Province (四川省科技進步二等獎). The project "Interpretation and Application of the Scientific Connotation of Different Treatment of Raw and Stewed Rheum Officinale" participated by Jiangyin Tianjiang won the second prize of Jiangsu Science and Technology Award of TCM. Guangdong Yifang's independent scientific research project "Key Technologies for the Industrialization of Concentrated TCM Granules" ranked the Leading Technology List of 2021 "Innovation China". The invention patent "Nifedipin Extended-release Preparation and its Preparation Method" independently developed by Guangdong Medi-World won the Outstanding Award of the 23rd Patent Awards of China.

III. Focus on systematic management efficiency, driving the steady implementation of "14th Five-Year" strategy

(I) Adhere to strategic leadership and scientific development planning and enhance business development and management support

During the Reporting Period, with "14th Five-Year" strategy plan as its guidance, the Group persisted in applying new development concept throughout the whole process and various fields of enterprise development, and formulated specific development plans for each of the six business segments, namely Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health products and TCM medical institutions, through in-depth investigation and research as well as several rounds of discussion and demonstration. According to the development plan, the relevant functional departments of the Group's headquarters regarded strengthening strategic support and managing coordination as the major principle, formulated six key functional plans including talent development, digital transformation, scientific and technological research and development, public relations, brand building and strategic management system, and strengthened the role of functional management in supporting business development.



MANAGEMENT DISCUSSION AND ANALYSIS

(II) Accelerate digital transformation and upgrading to meet the demands of enterprise development

The Group closely followed the contemporary development trends and accelerated its digital transformation in line with the construction of “Digital China”. With the “four unifications”, unified planning, unified standards, unified construction and unified management, as the implementation principle, and focusing on the overall target of “Digital TCM” construction, the Group emphasized on promoting procedure informatization, control and management integration and business digitization to empower its support in operation, control and management, and upstream and downstream development of the industry chain, so as to build core competitiveness.

During the Reporting Period, the Group’s self-developed safe and environmental management system was put into trial operation; the production quality traceability management system of Chinese medicinal herbs, the operation and maintenance management platform, the resource management platform for Chinese medicinal herbs and the information system of the centralized procurement center were optimized and upgraded; in addition, the Group also completed the launch and switchover of Phase I of Guangdong Yifang’s intelligent manufacturing and the scheme design of Phase I of Feng Liao Xing Material intelligent manufacturing.

(III) Focus on optimizing human resource management and consolidate talents foundation of strategic development

During the Reporting Period, the Group proposed the “Five Key Aspects of Development Plan” cultivation system. Through “Excellent Management Plan” which focuses on talents management, “Excellent Specialists Plan” which focuses on professional and technical talents, “Excellent Master Plan” which focuses on the construction of internal trainers team, “Excellent Employee Plan” which focuses on the development of new employees, and “Excellent Class Plan” which focuses on cultivating professional and technical talents in the business segment, the Group well integrated the demands of business development, continued to enhance the training of professional and technical talents, and further promoted the talents development system.

The Group also explored and established professional talents incentive mechanism, set up the incentive funds of the research and development projects, encouraged its outstanding employees to have a quick career progress and promoted the implementation of R&D projects, providing a strong guarantee for the Company’s important R&D projects to be completed on schedule.



MANAGEMENT DISCUSSION AND ANALYSIS

(IV) Deepen business and financial integration and improve financial management efficiency

The Group was dedicated to improving the “Business Segment” budgets execution and estimate system, strengthened the comparison of budgets execution, and further improved the level of accurate and efficient budget management and control through the quarterly financial analysis reporting system, tracking the overall level of all business segments and the specific operating conditions of enterprises. During the Reporting Period, the Group continued special project on improving quality and efficiency, and promoted potential tapping and efficiency increase in all links, processes, and operation of the production and operation within the system.

In addition, the Group optimized the financing portfolio, expanded issue scale of bonds in the open market as appropriate, and obtained supporting loans with preferential interest rate, which not only realized the smooth continuity of existing debts, but also seized the window period of policies and markets to optimize financing structure and cost.

(V) Insist upon compliance to build protective barrier for production and operation

The Group improved the compliance management system, accurately controlled the impact of laws, regulations and regulatory rules on companies’ operations, created a pattern in which all employees comply with the laws, take their own responsibilities and comply with legal management, and made every effort to ensure high-quality development of the Group.

During the Reporting Period, the Group continued to optimize internal control and management mechanisms, facilitating internal control system cover key subsidiaries level by level, such as Jiangyin Tianjiang, Guangdong Yifang, Tongjitang Pharmaceutical, Sinopharm Group Feng Liao Xing (Foshan) Traditional Chinese Medicine Health Industry Company Limited (“Health Industry Company”). Meanwhile, through the “Production Safety Month” activity, the Group strengthened knowledge and regulations education, carried out investigation and rectification of safety production hazards and safety production training of all subsidiaries, continued to enlarge coverage of responsibilities, and mitigated potential risks of safety and environment protection.



MANAGEMENT DISCUSSION AND ANALYSIS

POLICY UPDATES

In January 2022, Mr. Huang Luqi, vice commissioner of the National Administration of Traditional Chinese Medicine and President of China Academy of Chinese Medical Sciences, on behalf of the China TCM Evidence-based Research Center, submitted the “Evidence-based Evaluation and Researching Report on the Treatment for COVID-19 with Traditional Chinese Medicine” to Mr. Tedros, Director-General of the World Health Organization, and discussed the collaboration in respect of TCM and traditional medical science. During the 2022 Beijing Winter Olympics, Huashi Baidu Granules appeared at the Beijing Winter Olympics TCM Cultural Display Space, which showcased the extensive and profound TCM culture and the immense value of TCM in prevention and treatment of COVID-19 to the world. Increasing importance has been attached to the inheritance and innovation of TCM where China has continuously provided guidelines and rules to promote the industry norms, which is conducive to leading the all-round transformation and development towards modernization of TCM and formulating a clearer develop pattern of TCM industry. During the Reporting Period, industry policies related to the Group are as follows:

On 15 January 2022, National Administration of Traditional Chinese Medicine and Leading Group Office for Promoting the Construction of The Belt and Road Initiative (推進「一帶一路」建設工作領導小組辦公室) jointly issued the “Development Plan for Promoting the High-quality Integration of Traditional Chinese Medicine into The Belt and Road Initiative (2021-2025)” (《推進中醫藥高質量融入共建「一帶一路」發展規劃(2021-2025年)》) which specifies that during the “14th Five-Year” Plan period, China will co-establish 30 high-quality TCM overseas centers, 10 brand projects for oversea propagation of TCM culture, 50 TCM international cooperation bases and a number of national TCM service export bases with countries along the routes of The Belt and Road Initiative. The plan emphasizes the deployment of cooperation among eight fields including global health governance, medical and health care, scientific and technological innovation, international trade, health industry, regional internationalization, education and cultural exchanges, aiming to expand the development scale of TCM, strengthen the internationalized construction of TCM talents team and enhance the influence of TCM.

On 7 February 2022, 15 authorities including National Health Commission, Ministry of Education and National Administration of Traditional Chinese Medicine, jointly issued the “14th Five-Year Plan for Healthy Aging” (《「十四五」健康老齡化規劃》) which proposes 9 primary missions, with the improvement of TCM health services for the elderly as one of the tasks thereunder. The plan will promote the construction of geriatric medical specialist alliance, and improve the ability and management level of geriatric medical services through various ways such as joint construction of specialties, collaboration in education and training, coordination of scientific research and projects, and integration between TCM and Western medicine, which in turn enhances the rehabilitation service ability of TCM. By 2025, proportion of TCM tertiary hospitals that establish department of rehabilitation (medicine) will exceed 85%, while study on geriatrics will be initiated in the specialties of public health, clinical medicine and TCM, and training of interdisciplinary talents related to the health of the elderly.



MANAGEMENT DISCUSSION AND ANALYSIS

On 17 March 2022, National Medical Products Administration, the Ministry of Agriculture and Rural Affairs, the State Forestry and Grassland Administration and the National Administration of Traditional Chinese Medicine jointly issued the “Good Agricultural Practice” (《中藥材生產質量管理規範》) which emphasizes the meticulous management of the entire process of Chinese medicinal herbs with focus on crucial procedures based on the actual production practice, provides highly exercisable technology stipulations in compliance with stringent standards and requirements, so as to guide and promote the normalized, standardized and intensive development and reinforce the quality control on the Chinese medicinal herbs; encourages the TCM manufacturing enterprises like TCM decoction pieces manufacturers and TCM marketing authorization holders to self-establish and co-establish the manufacturing enterprises and production bases of Chinese medicinal herbs at its place of origin in accordance with the practice, extending the pharmaceutical quality management system to cover its place of origin; encourages the TCM manufacturing enterprises to give priority to the use of Chinese medicinal herbs that meet the requirements of the practice.

On 29 March 2022, the General Office of the State Council issued the “14th Five-Year Plan for the Development of Traditional Chinese Medicine” (《「十四五」中醫藥發展規劃》) which formulates the overall arrangements for TCM tasks for the “14th Five-Year” Plan period. This five-year development plan for TCM is the first one that the General Office of the State Council has issued on TCM, which demonstrates that the CPC Central Committee and the State Council attach great importance to the development of TCM industry. The plan deploys key tasks in ten aspects, including establishment of a high-level TCM inheritance protection and technology innovation system, promotion of the high-quality development for TCM industry, evolution of the TCM health service industry, advance of the prosperity for TCM culture, acceleration of the open-ended development of TCM, intensification of the TCM reform and reinforcement of the supportive guarantees for TCM development, requirements on the consolidation of TCM resources protection and utilization, tightening of the production management on authentic Chinese medicinal herbs, raise of the TCM industrial development level, enhancement of the TCM safety monitoring, and reformative optimization of the TCM registration management.

On 15 April 2022, the National Development and Reform Commission convened a news conference to introduce the effectiveness of the current investment stabilization policies and the follow-up investment focus. The conference proposed that budget of the central government for the “14th Five-Year” Plan period will be collectively injected into the critical projects in the healthcare area, such as the revitalization and development of TCM, and around 30 national TCM bases for epidemic prevention and control will be deployed nationwide. Furthermore, the construction of national TCM inheritance and innovation centers will be initiated and implemented, providing support for construction of around 30 national TCM inheritance and innovation centers, while continuously promoting the construction of major hospitals characterized by TCM and facilitating the public’s entitlement of superior TCM service resources.



MANAGEMENT DISCUSSION AND ANALYSIS

On 20 May 2022, the General Office of the State Council issued the “14th Five-Year Plan for National Health Plan” (《「十四五」國民健康規劃》) which pointed out that it is necessary to promote the inheritance and innovation of TCM, give full play to the role of TCM in health services, and implement major projects to revitalise and develop TCM, enrich the service content of TCM medical institutions and promote the promotion and application of TCM techniques. This plan will explore a rehabilitation service model that is conducive to giving full play to the advantages of TCM, establish and improve the working mechanism and model of collaboration between TCM and Western medications for national major and difficult diseases, consolidate the foundation for high-quality development of TCM, advance scientific and technological innovation of TCM, accelerate the research and development on time-honored classical formula preparations, strengthen quality assurance of TCM, and build a quality standard system, monitoring system and traceability system for medicinal herb.

On 14 June 2022, General Department of the National Medical Product Administration issued the “Announcement on Matters Regarding Encouraging Enterprises and Third Parties to Participate in the Formulation and Revision of Chinese Medicine Standards (Draft for comments)” (《關於鼓勵企業和社會第三方參與中藥標準制定修訂工作有關事項的公告(徵求意見稿)》) which clarified that the drug marketing authorisation holder, manufacturers of Chinese medicines, consortiums formed by enterprises and R&D institutions, social communities and independent third party social institutions may participate in the formulation and revision of the Chinese medicinal herbs standards and standards for the processing of TCM decoction pieces, pointed out the ways of enterprises and the third parties to participate in the formulation and revision of TCM standards, encouraged and supported enterprises and the third parties to invest more in information, technology, talents and funds in the research and improvement of TCM standard, and put forward reasonable opinions and suggestions on the revision of TCM standards.

The Group believes that the above-mentioned policies will comprehensively promote the standardization of the TCM industry development in terms of cultivating of Chinese medicinal herbs, R&D and production of TCM, the formulation of TCM standard and TCM health service, and provide a good macro environment for the Group.



BUSINESS ANALYSIS

During the Reporting Period, the Group's revenue was approximately RMB5,911,638,000, representing a decrease of 27.5% from approximately RMB8,149,351,000 for the same period last year. Revenue and cost of sales of each of business segment is as follows:

Business segments	Six months ended 30 June					
	2022	2021	Change	2022	2021	Change
	Revenue RMB'000	Revenue RMB'000		Cost of sales RMB'000	Cost of sales RMB'000	
Chinese medicinal herbs integration business	431,175	303,954	41.9%	403,768	290,788	38.9%
TCM decoction pieces	841,372	688,908	22.1%	681,297	582,594	16.9%
Concentrated TCM granules	2,761,603	5,424,327	-49.1%	1,059,231	1,544,987	-31.4%
TCM finished drugs	1,765,649	1,648,611	7.1%	737,457	669,760	10.1%
TCM great health products	48,321	21,271	127.2%	38,506	19,538	97.1%
TCM medical institutions	63,518	62,280	2.0%	39,508	38,920	1.5%
Total	5,911,638	8,149,351	-27.5%	2,959,767	3,146,587	-5.9%

1. Chinese medicinal herbs integration business

	Six months ended 30 June		
	2022 RMB'000	2021 RMB'000	Change
Revenue	431,175	303,954	41.9%
Cost of sales	403,768	290,788	38.9%
Gross profit	27,407	13,166	108.2%
Gross profit margin	6.4%	4.3%	2.1pp

During the Reporting Period, the revenue of the Chinese medicinal herbs integration business segment was approximately RMB431,175,000, representing an increase of 41.9% compared with the revenue of approximately RMB303,954,000 for the same period last year and accounting for 7.3% of the total revenue. The robust growth of the Chinese medicinal herbs integration business was mainly because: (1) our subsidiaries located at the origin planting zone for Chinese medicinal herbs actively implemented the strategic deployment of the "14th Five-Year" plan, focused on the varieties of authentic Chinese medicinal herbs and vigorously developed Chinese medicinal herbs operation business by leveraging on its localised industrial layout, realizing significant increase in revenue during the Period; and (2) the coverage of sales channels gradually expanded along with the development of our marketing team, which drove the rapid growth of the revenue owing to the high efficiency in acquisition of new customers during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

The gross profit margin during the Period was 6.4%, representing an increase of 2.1 percentage points compared with 4.3% for the same period last year, which was mainly attributed to the fact that we made a further control on our cost through virtue of supply capacity for originally planted quality authentic Chinese medicinal herbs and the initial economic benefit of our newly-built Chinese medicinal herbs GACP bases.

2. TCM decoction pieces

	Six months ended 30 June		Change
	2022 RMB'000	2021 RMB'000	
Revenue	841,372	688,908	22.1%
Cost of sales	681,297	582,594	16.9%
Gross profit	160,075	106,314	50.6%
Gross profit margin	19.0%	15.4%	3.6pp

During the Reporting Period, the revenue of the TCM decoction pieces business segment was approximately RMB841,372,000, representing an increase of 22.1% compared with the revenue of approximately RMB688,908,000 for the same period last year and accounting for 14.2% of the total revenue. TCM decoction pieces business segment maintained a sound development momentum, which was mainly because: (1) continuous drawing upon its advantages in the quality of medical use TCM decoction pieces and our service capability led to an increase in the procurement volume from existing customers; (2) revenue from new customers significantly increased owing to our in-depth penetration into medical channels and continuous efforts in developing new medical customers; and (3) the decoction business continuously grew along with the implementation of our convenient and standardized intelligent distribution service for TCM decoction pieces with ever-increasing market recognition.

The gross profit margin during the Period was 19.0%, representing an increase of 3.6 percentage points compared with 15.4% for the same period last year. The increase in gross profit margin was mainly attributed to: (1) further optimization of our product structure; and (2) the economies of scale achieving by vigorously promoting internal synergy of Chinese medicinal herbs business and TCM decoction pieces business.

3. Concentrated TCM granules

	Six months ended 30 June		Change
	2022 RMB'000	2021 RMB'000	
Revenue	2,761,603	5,424,327	-49.1%
Cost of sales	1,059,231	1,544,987	-31.4%
Gross profit	1,702,372	3,879,340	-56.1%
Gross profit margin	61.6%	71.5%	-9.9pp



MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the revenue of the concentrated TCM granules business segment was approximately RMB2,761,603,000, representing a decrease of 49.1% compared with the same period last year and accounting for 46.7% of the total revenue. This was mainly because: (1) at present, shortages of published or recorded varieties of national standards and provincial standards for concentrated TCM granules have put limits on prescription in medical ends, which affects sales for the Period; and (2) demands of some medical institutions for the Period have seen decrease in different phases resulting from sufficient products storage of enterprise standard at the initial stage of the implementation of the new policy.

The gross profit margin during the Period was 61.6%, representing a decrease of 9.9 percentage points compared with 71.5% for the same period last year, which was mainly because: (1) the production cost has a significant increase since the application of national standards for concentrated TCM granules, whereas price increase in medical institutions has not yet been fully put in place; and (2) an increase of approximately RMB108,308,000 in amortisation of production protection rights derived from the Group's acquisition of Jiangyin Tianjiang Group, as the Group changed the accounting estimates with respect to its useful lives from "indefinite" to "10-year" in prior year.

4. TCM finished drugs

	Six months ended 30 June		Change
	2022 RMB'000	2021 RMB'000	
Revenue	1,765,649	1,648,611	7.1%
Cost of sales	737,457	669,760	10.1%
Gross profit	1,028,192	978,851	5.0%
Gross profit margin	58.2%	59.4%	-1.2pp

During the Reporting Period, the revenue of the TCM finished drugs business segment was approximately RMB1,765,649,000, representing an increase of 7.1% compared with the revenue of approximately RMB1,648,611,000 for the same period last year and accounting for 29.9% of the total revenue. The recovery of the sales in TCM finished drugs business segment was mainly because the Company made continuous efforts to advance its business plans of cultivation of prescription products blockbuster along with the penetration of the corresponding market channels, which led to the significant increase in the revenue of prescription products. Among them, the sales of our key prescription products such as Moisturizing and Anti-itching Capsules and Yu Ping Feng Granules increased by over 20%, while the sales of Trionycis Bolus and JinYE Baidu Granules increased by over 110%.

The gross profit margin during the Period was 58.2%, representing a decrease of 1.2 percentage points compared with 59.4% for the same period last year, which was mainly due to the changes in our product mix and the negative impact on cost of some raw materials resulting from the price fluctuation of Chinese medicinal herbs during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

5. TCM great health products

	Six months ended 30 June		
	2022	2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	48,321	21,271	127.2%
Cost of sales	38,506	19,538	97.1%
Gross profit	9,815	1,733	466.4%
Gross profit margin	20.3%	8.1%	12.2pp

During the Reporting Period, the revenue of TCM great health products business segment was approximately RMB48,321,000, representing an increase of 127.2% compared with the revenue of approximately RMB21,271,000 for the same period last year and accounting for 0.8% of the total revenue. TCM great health products business segment showed a rapid growth momentum, which was mainly because: (1) we achieved the win-win situation with our customers by fully capitalizing on our advantages of the solid base in TCM industry, which led to a significant increase in the business volume derived from OEM/ODM; and (2) a series of private label products, such as roxburgh rose and honeysuckle, realized increase in sales volume, which was driven by our innovative and diversified business models.

The gross profit margin during the Period was 20.3%, representing an increase of 12.2 percentage points compared with 8.1% for the same period last year, which was mainly because the Group reduced cost through improving supply chain systems to better match the production needs by leveraging on our authentic Chinese medicinal herbs resources.

6. TCM medical institutions

	Six months ended 30 June		
	2022	2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	63,518	62,280	2.0%
Cost of sales	39,508	38,920	1.5%
Gross profit	24,010	23,360	2.8%
Gross profit margin	37.8%	37.5%	0.3pp

During the Reporting Period, the revenue of TCM medical institutions business segment was approximately RMB63,518,000, representing an increase of 2.0% compared with the revenue of approximately RMB62,280,000 for the same period last year. With the establishment of our TCM medical institutions brands, the overall business remained stable while showing an upward trend, however, the growth slowed down due to the impact of the epidemic on certain TCM medical institutions. The gross profit margin during the Period was 37.8%, basically the same as 37.5% for the same period last year.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In the second half of 2022, the Group will continue to focus on the overall strategy of “all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare whole industry chain group”, seize the new opportunities for the development of TCM during the “14th Five-Year Plan” period, establish a coordinated, efficient and leading TCM healthcare whole industry chain system, accelerate the process of modernization, standardization and industrialization of TCM, and create “four-in-one” TCM healthcare enterprises with the integration of product research and development, intelligent manufacturing, global sales and system services as its core, making contributions to the construction of “Healthy China”.

Specific measures include: (1) implement the planning and layout for the Chinese medicinal herbs integration business, accelerate the construction of the production quality traceability management system for the Chinese medicinal herbs, and train a team of integrated talents for the integration business of Chinese medicinal herbs resources; (2) upgrade operating capacity of the TCM decoction pieces, create regional market competitiveness, and enhance internal collaboration in Chinese medicinal herbs supply, production allocation, and customer resource of the decoction pieces business; (3) make every effort to promote the research and formulation of national and provincial standards for concentrated TCM granules and sale registration, develop medical institutions at all levels in a faster pace, and effectively ensure that the supply of products meet the demands of medical institutions; (4) continue to advance the strategy of nurturing TCM finished drug blockbusters, enhance the TCM evidence-based research on major products, and continue to build out a top brand in the treatment of dominant diseases with TCM; (5) continuously cultivate new products and new business models of TCM great health, and explore the research and development, production and integration of market resources of great health industry; (6) strengthen specialties business, promote the construction of specialized departments for specific diseases with regional characteristics in various TCM medical institutions, and vigorously develop generalized health products and non-treatment physical therapy and rehabilitation business; (7) optimize human resources system, improve the evaluation system of scientific and technological talents based on innovation ability, quality, effectiveness and contribution, and continue to explore and establish diversified incentive mechanisms; (8) strengthen the construction of brand management systems, standardize the management of brand licensing and promotion, and enhance the influence of brands; (9) reinforce the leading role of science and technology, and strive to explore researches on the inheritance and innovation of Chinese medicinal herbs manufacturing technology; and (10) focus on the core target of “improving the management of traditional Chinese medicine with digital empowerment”, and accelerate the improvement of the overall scheme of digital empowerment management.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Other income

For the six months ended 30 June 2022, the Group's other income was approximately RMB94,596,000, representing an increase of 24.0% from approximately RMB76,260,000 for the same period last year. Such increase was mainly because the Group received government grants of approximately RMB60,804,000 during the Period, representing an increase of 37.7% from approximately RMB44,144,000 for the same period last year. Details can be found in Note 5 of "Notes to Interim Condensed Consolidated Financial Information".

Other gains and losses

For the six months ended 30 June 2022, the Group's other losses were approximately RMB3,411,000 (six months ended 30 June 2021: other gains of approximately RMB651,000). During the Reporting Period, the changes in other gains and losses were mainly due to the fact that (1) the gains on disposal of property, plant and equipment for the Period were approximately RMB647,000, representing a decrease from the gains of approximately RMB4,725,000 in the same period last year; and (2) donation expenses for the Period increased significantly as compared with that for the same period last year.

Impairment losses under expected credit loss model, net of reversal

For the six months ended 30 June 2022, in accordance with the Group's credit impairment loss provision policy, the Group's provision for credit impairment loss was approximately RMB36,935,000, representing a decrease compared with approximately RMB46,280,000 for the same period last year. During the Period, there was no material change in the credit patterns of the Group's customers, and the decrease in afore-mentioned provision for credit impairment losses was mainly because the balance of trade receivables as of 30 June 2022 decreased by 14.2% compared with the beginning of this year which was in line with the decline in the concentrated TCM granules.

Selling and distribution expenses

For the six months ended 30 June 2022, the Group's selling and distribution expenses were approximately RMB1,717,006,000 (six months ended 30 June 2021: RMB3,043,328,000).

During the Reporting Period, the Group's selling and distribution expenses decreased by 43.6% compared with the same period last year, higher than the decrease in revenue, which was mainly because (1) in view of concentrated TCM granules products being under transitional period from the original standards to the new ones, there are still many unresolved issues, such as insufficient market supplies for a full set of concentrated TCM granule products. Accordingly, the Group reduced its marketing investments since it was unable to carry out effective marketing activities under such prevailing market conditions during the Period; and (2) there were fewer business trips and meetings during the Period due to the outbreak of COVID-19 pandemic in many regions of China.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

For the six months ended 30 June 2022, the Group's administrative expenses were approximately RMB401,610,000 (six months ended 30 June 2021: RMB379,704,000), representing an increase of 5.8% compared with the same period last year. The increase in administrative expenses was mainly due to the fact that: (1) following the initiating business operation of the Group's several industrial parks, the relevant administrative expenses increased along with the Group's growing investments in fixed assets; (2) the amortization of intangible assets related to self-developed products increased; and (3) the investment in informatization construction increased during the Period in order to enhance the Group's digitalization.

Research and development expenses

For the six months ended 30 June 2022, the Group's research and development expenses amounted to approximately RMB317,534,000, representing an increase of 7.7% over approximately RMB294,703,000 for the same period last year. During the Reporting Period, the Company increased investment in scientific research, research and development expenses were mainly used to: (1) improve quality standards, focusing on standards for concentrated TCM granules; (2) improve future economic returns, focusing on R&D of innovative drugs as well as classical formulae for TCM products; and (3) improve operating efficiency, focusing on optimization of our production processes.

Finance costs

For the six months ended 30 June 2022, the Group's finance costs were approximately RMB98,565,000 (six months ended 30 June 2021: RMB109,929,000). During the Period, the decrease in the finance costs as compared with that for the same period last year was mainly due to the decrease in the effective interest rate for the Group's loans along with the optimization in the Group's financing products. During the Reporting Period, capitalised finance costs of the Group were RMB1,593,000 (six months ended 30 June 2021: RMB134,000). During the Reporting Period, the Group's effective loan interest rate was 2.83% (six months ended 30 June 2021: 3.18%). The Group will continue to closely monitor the changes in rate for interests, adjust its borrowing and fundraising mechanism as appropriate, and refinance or enter into new agreements for existing bank loans, when favourable opportunities for bargaining arose.

Income from investment in associates

For the six months ended 30 June 2022, the Group recorded shared loss attributable to associates of approximately RMB1,640,000 (six months ended 30 June 2021: RMB7,808,000). The significant decrease in shared loss during the Period as compared with the same period last year was mainly due to the recognition losses of approximately RMB5,180,000 regarding the Group's investment in Guangdong Baobaobao Healthy Soup Co., Ltd. in the same period last year, while no further losses were recognised during the Period.



MANAGEMENT DISCUSSION AND ANALYSIS

Profit for the Period

For the six months ended 30 June 2022, the Group's profit for the Period was approximately RMB421,535,000, representing a decrease of 58.1% as compared with approximately RMB1,006,679,000 for the same period last year. The net profit margin (defined as profit for the Period divided by revenue for the Period) was 7.1%, representing a decrease of 5.3 percentage points from 12.4% for the same period last year, which was mainly attributed to the decrease in the portion of revenue of the concentrated TCM granules business segment with higher gross profit margin than other products to total revenue by 19.9 percentage points and the decline in the gross profit margin in concentrated TCM granules business segment by 9.9 percentage points during the Period as compared with the same period last year due to the reasons as mentioned above.

Earnings per share

For the six months ended 30 June 2022, basic earnings per share were RMB8.21 cents, representing a decrease of 55.5% over RMB18.46 cents for the same period last year. The decrease in basic earnings per share was because profit attributable to equity holders of the Company during the Reporting Period decreased by 55.5% from RMB929,828,000 for the six months ended 30 June 2021 to approximately RMB413,588,000 for the Period.

Liquidity and financial resources

As at 30 June 2022, the Group's current assets amounted to approximately RMB19,954,907,000 (31 December 2021: RMB18,203,046,000), which included cash, cash equivalents and bank deposits of approximately RMB5,089,821,000 (31 December 2021: RMB3,014,461,000), of which the pledged bank deposits amounted to approximately RMB232,128,000, mainly for bills payable security (31 December 2021: RMB114,704,000). Trade and other receivables amounted to approximately RMB7,709,515,000 (31 December 2021: RMB8,904,939,000). Current liabilities amounted to approximately RMB12,553,595,000, representing an increase of approximately 43.2% compared with approximately RMB8,764,528,000 as at 31 December 2021, which was mainly due to (1) the addition of approximately RMB1.16 billion in short-term loans and approximately RMB1.0 billion in short-term unsecured notes during the Reporting Period, and (2) reclassification of approximately RMB2.2 billion of medium-term unsecured notes due within one year from non-current liabilities in the same period last year to current liabilities during the Period. As at 30 June 2022, the Group's net current assets and current ratio were approximately RMB7,401,312,000 (31 December 2021: RMB9,438,518,000) and 1.6 (31 December 2021: 2.1), respectively. The gearing ratio (defined as bank and other loans and unsecured notes divided by equity attributable to equity holders of the Company) increased from 25.2% as at 31 December 2021 to 35.7%. The increase in gearing ratio was mainly due to an increase in bank and other loans and unsecured notes.



MANAGEMENT DISCUSSION AND ANALYSIS

Bank and other loans and pledge of assets

As at 30 June 2022, the Group's balance of bank and other loans was approximately RMB2,852,927,000 (31 December 2021: RMB1,716,053,000), of which approximately RMB384,195,000 was secured borrowings (31 December 2021: RMB320,829,000). Out of the balance of bank and other loans, approximately RMB2,304,927,000 and RMB548,000,000 were repayable within one year and over one year respectively (31 December 2021: approximately RMB1,140,495,000 and RMB575,558,000, respectively).

As at 30 June 2022, the Group's bank deposits of RMB232,128,000, land use rights with carrying values of RMB158,050,000, investment property and property, plant and equipment with carrying values of RMB566,129,000 and bank acceptance bills with carrying values of RMB275,848,000 were pledged to secure certain borrowings and bill financing of the Group (31 December 2021: bank deposits of RMB114,704,000, land use rights of RMB123,654,000, investment property and property, plant and equipment of RMB557,035,000 and bank acceptance bills of RMB306,182,000 were pledged).

Capital sources

The Group meets its working capital needs mainly through its operating and external financing activities. During the Reporting Period, the Group issued new 270-day Super & Short-term Commercial Paper of RMB1 billion in the first quarter of 2022 to succeed 270-day Super & Short-term Commercial Paper of RMB1 billion that matured in the first quarter of 2022 and issued one tranche of new 210-day Super & Short-term Commercial Paper of RMB1 billion to be used for the repayment of bank borrowings to be due. As the discount rate in the bills market continued to decline, the Group obtained bills discount finance of RMB400 million and used it as a reserve for the procurement of materials. Apart from these, no major financing activity has been carried out during the Reporting Period. As at 30 June 2022, the Group had an unutilised bank loan facility of approximately RMB2,455,858,000.

Capital expenditure

For the six months ended 30 June 2022, the Group's fixed asset and intangible asset investment expense was approximately RMB290,047,000, compared with approximately RMB399,676,000 for the same period last year. During the Reporting Period, the capital expense was mainly used for later investment of the renewal project of the production base for certain concentrated TCM granules and TCM decoction pieces and expansion expense for increase of extraction capacity.



MANAGEMENT DISCUSSION AND ANALYSIS

Financing capacity

As at 30 June 2022, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB212,537,000 (31 December 2021: approximately RMB1,008,011,000). Such capital commitments were mainly used for the construction of plants and purchase of production facilities. The Group is of the view that with available cash balance, a stable cash inflow from operating activities, undrawn but already granted bank facilities, and recognition and 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 2022 (30 June 2021: 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 2022, the Group had no Hong Kong Dollar bank borrowings and did not enter 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 2022, the Group had a total of 17,361 (30 June 2021: 16,590) employees, including Directors, of which 6,232 were sales staff, 6,708 were manufacturing staff, and 4,421 were engaged in R&D, administration and senior management. Remuneration packages mainly consisted of salary and a discretionary bonus based on individual performance. The Group's total remuneration for the Reporting Period was approximately RMB983,030,000 (six months ended 30 June 2021: RMB902,942,000).



OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB5.54 cents per share (i.e. HK6.66 cents)).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2022, none of the Directors and chief executives of the Company had interests or short positions 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 on the Stock Exchange (the "Listing Rules") as adopted by the Company, to be notified to the Company and the Stock Exchange.

None of 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 2022.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2022, 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:

OTHER INFORMATION

Long positions and short positions in shares and underlying shares of the Company as at 30 June 2022:

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	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%

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 Insurance Company of China, Ltd. ("Ping An Life") which is a subsidiary of Ping An (Group) Company of China, Ltd. ("Ping An Group"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under the SFO.

Save as disclosed above, the register which was required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or 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 at 30 June 2022.

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.



OTHER INFORMATION

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

During the six months ended 30 June 2022, 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

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2022.

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 securities transactions by the Directors. Specific enquiry has been made with all Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Reporting Period. Furthermore, senior management who are likely to be in possession of inside information are also 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 2021 of the Company (25 March 2022), changes in information of the Directors and senior management of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are as follows:

- Mr. WU Xian ("Mr. WU") has reached retirement age and submitted to retire as an executive Director and chairman of the Board (the "Chairman") on 29 April 2022, with effect from 12 May 2022. Mr. WU has vacated from the office as chairman of each of the nomination committee (the "Nomination Committee") and the strategic committee (the "Strategic Committee") of the Board upon his retirement as an executive Director.
- Mr. CHEN Yinglong ("Mr. CHEN") has been appointed as an executive Director and the Chairman, with effect from 12 May 2022. Mr. CHEN has also been appointed as the chairman of each of the Nomination Committee and the Strategic Committee. The aggregate remuneration of Mr. CHEN as an executive Director and Chairman is RMB2,450,000 per annum.

Save as disclosed above, as at the date of this interim report, there is no other change of information about the Directors and senior management of the Company which is required to be disclosed pursuant to 13.51B(1) of the Listing Rules.



OTHER INFORMATION

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2022, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2022 of the Company. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board

CHEN Yinglong

Chairman

Hong Kong, 26 August 2022



REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Independent review report

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 interim financial information set out on pages 30 to 58, which comprises the condensed consolidated statement of financial position of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2022 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and 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 ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

26 August 2022

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

For the six months ended 30 June 2022

	Notes	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
REVENUE	4	5,911,638	8,149,351
Cost of sales		(2,959,767)	(3,146,587)
Gross profit		2,951,871	5,002,764
Other income	5	94,596	76,260
Other gains and losses	6	(3,411)	651
Impairment losses under expected credit loss model, net of reversal		(36,935)	(46,280)
Selling and distribution expenses		(1,717,006)	(3,043,328)
Administrative expenses		(401,610)	(379,704)
Research and development expenses		(317,534)	(294,703)
Operating Profits		569,971	1,315,660
Finance costs	7	(98,565)	(109,929)
Share of profits and losses of associates		(1,640)	(7,808)
PROFIT BEFORE TAX	8	469,766	1,197,923
Income tax expense	9	(48,231)	(191,244)
PROFIT FOR THE PERIOD		421,535	1,006,679
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent period:			
Fair value gain on debt instruments measured at fair value through other comprehensive income		1,761	3,258
Reclassification of loss for debt instruments at fair value through other comprehensive income included in profit or loss		(140)	(410)
Income tax relating to items that may be reclassified to profit or loss		(367)	(415)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		1,254	2,433
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		422,789	1,009,112
Profit for the period attributable to:			
Owners of the Company		413,588	929,828
Non-controlling interests		7,947	76,851
		421,535	1,006,679
Total comprehensive income for the period attributable to:			
– Owners of the Company		414,905	931,857
– Non-controlling interests		7,884	77,255
		422,789	1,009,112
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and Diluted (RMB cents)	11	8.21	18.46



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	6,634,882	6,659,985
Right-of-use assets	12	1,182,441	1,205,766
Investment properties		257,256	268,768
Goodwill	13	3,492,184	3,492,184
Other intangible assets	13	6,060,624	6,257,809
Investments in associates		16,541	18,006
Deposits and prepayments		119,553	96,235
Deferred tax assets		202,258	187,469
Total non-current assets		17,965,739	18,186,222
CURRENT ASSETS			
Inventories	14	6,013,953	5,042,890
Trade and other receivables	15	7,709,515	8,904,939
Debt instruments at fair value through other comprehensive income ("FVTOCI")	17	1,141,618	1,240,756
Time deposits		125,000	5,000
Pledged bank deposits	18(a)	232,128	114,704
Bank balances and cash	18(b)	4,732,693	2,894,757
Total current assets		19,954,907	18,203,046
CURRENT LIABILITIES			
Trade and other payables	19	5,757,550	6,236,167
Lease liabilities		16,760	14,996
Contract liabilities		153,920	204,079
Interest-bearing bank and other borrowings	20	2,304,927	1,140,495
Unsecured notes	21	4,214,715	1,015,226
Tax liabilities		105,723	153,565
Total current liabilities		12,553,595	8,764,528
NET CURRENT ASSETS		7,401,312	9,438,518
TOTAL ASSETS LESS CURRENT LIABILITIES		25,367,051	27,624,740

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants		376,987	390,695
Deferred tax liabilities		1,638,619	1,680,204
Unsecured notes	21	–	2,234,858
Interest-bearing bank and other borrowings	20	548,000	575,558
Lease liabilities		71,778	82,496
Total non-current liabilities		2,635,384	4,963,811
Net assets		22,731,667	22,660,929
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	11,982,474	11,982,474
Reserves		7,825,477	7,736,195
		19,807,951	19,718,669
Non-controlling interests		2,923,716	2,942,260
Total equity		22,731,667	22,660,929



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Translation reserve	Statutory surplus reserve	FVTOCI reserve	Other reserves	Accumulated profits	Subtotal		
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022 (audited)	11,982,474	(165,183)	719,329	(12,500)	(51,334)	7,245,883	19,718,669	2,942,260	22,660,929
Profit for the period	-	-	-	-	-	413,588	413,588	7,947	421,535
Other comprehensive income for the period	-	-	-	1,317	-	-	1,317	(63)	1,254
Total comprehensive income for the period	-	-	-	1,317	-	413,588	414,905	7,884	422,789
Disposal a subsidiary	-	-	-	-	-	-	-	1,547	1,547
Final 2021 dividend declared	-	-	-	-	-	(316,337)	(316,337)	-	(316,337)
Capital injection from non-controlling equity holder of a subsidiary	-	-	-	-	-	-	-	1,500	1,500
Acquisition of non-controlling equity holders of a subsidiary	-	-	-	-	(9,286)	-	(9,286)	(29,475)	(38,761)
At 30 June 2022 (unaudited)	11,982,474	(165,183)	719,329	(11,183)	(60,620)	7,343,134	19,807,951	2,923,716	22,731,667
At 1 January 2021 (audited)	11,982,474	(165,183)	588,363	(15,563)	(49,807)	5,723,802	18,064,086	2,832,335	20,896,421
Profit for the period	-	-	-	-	-	929,828	929,828	76,851	1,006,679
Other comprehensive income for the period	-	-	-	2,029	-	-	2,029	404	2,433
Total comprehensive income for the period	-	-	-	2,029	-	929,828	931,857	77,255	1,009,112
Acquisition of non-controlling interests	-	-	-	-	(1,527)	-	(1,527)	1,029	(498)
Capital injection from non-controlling equity holders of subsidiaries	-	-	-	-	-	-	-	8,000	8,000
At 30 June 2021 (unaudited)	11,982,474	(165,183)	588,363	(13,534)	(51,334)	6,653,630	18,994,416	2,918,619	21,913,035

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 boards 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Note	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Net cash flows from/(used in) operating activities		251,741	(98,284)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of a subsidiary		(12)	–
Purchase of items of property, plant and equipment and payment for construction in progress		(237,373)	(427,378)
Proceeds from disposal of items of property, plant and equipment		2,097	16,729
Payments for right-of-use assets		(448)	–
Placement of time deposits		(125,000)	–
Purchase of other intangible assets		(830)	(324)
Proceeds from disposal of other intangible assets		–	301
Asset-related government grants received		13,440	7,926
Capital injection to an associate		(175)	(2,549)
Interest received		23,238	24,354
(Increase)/decrease in pledged bank deposits		(117,424)	12,754
Decrease in time deposit		5,000	200,000
Cash consideration paid for the prior-year acquisition of subsidiaries		–	(13,830)
Net cash flows used in investing activities		(437,487)	(182,017)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank borrowings and other borrowings raised		2,919,081	2,337,343
Issue expenses of unsecured notes		(2,667)	(7,500)
Proceeds from issue of unsecured notes		2,000,000	1,000,000
Repayment of bank and other borrowings		(1,765,947)	(1,501,713)
Dividend paid to non-controlling interests of subsidiaries		(48,201)	(158)
Repayment of unsecured notes		(1,000,000)	(1,000,000)
Repayment of lease liabilities		(10,958)	(8,185)
Acquisition of non-controlling interests		(27,133)	(498)
Capital injection from non-controlling equity holders of subsidiaries		1,500	8,000
Interest paid		(131,793)	(158,332)
Net cash flows from financing activities		1,933,882	668,957
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,748,136	388,656
Cash and cash equivalents at beginning of period		2,717,684	3,185,627
Effect of foreign exchange rate changes		747	60
CASH AND CASH EQUIVALENTS AT END OF PERIOD		4,466,567	3,574,343
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash as stated in the interim condensed consolidated statement of financial position		4,732,693	4,092,388
Restricted cash	18(b)	(266,126)	(518,045)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows		4,466,567	3,574,343



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

The financial information relating to the year ended 31 December 2021 that is included in the interim condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance. The Company's auditors have reported on the financial statements for the year ended 31 December 2021. The auditor's report was unqualified; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance.

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

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to HKFRSs 2018-2020	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41</i>

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

3. OPERATING SEGMENTS INFORMATION

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

- i. Yi Fang segment mainly engages in the manufacture and sales of concentrated TCM granules ("CTCMG"), TCM healthcare products, and TCM decoction pieces under "Yi Fang" brand. Majority of the revenue of Yi Fang segment is derived from the sales of CTCMG.
- ii. Tian Jiang segment mainly engages in the manufacture and sales of CTCMG, TCM decoction pieces, and TCM healthcare products under "Tian Jiang" brand. The Tianjiang segment also provides a variety of Chinese medical related healthcare solutions, including Chinese medical consultation and diagnosis, TCM physiotherapy, and prescription with concentrated TCM granules, TCM decoction pieces and TCM healthcare product (the "TCM Healthcare Solutions"), through its offline medical institutions under "Tian Jiang" brand. Majority of the revenue of Tian Jiang segment is derived from the sales of CTCMG.
- iii. Tong Ji Tang segment mainly engages in the manufacture and sale of TCM decoction pieces and TCM finished drugs under "Tong Ji Tang" brand. The Tong Ji Tang segment also engages in the manufacture and sale of a wide range of healthcare products in great health industry.
- iv. Medi-World segment mainly engages in the manufacture and sales of TCM finished drugs under various brands, including but not limited to "Medi-world", "De Zhong" and "Feng Liao Xing"; and provision of a variety of TCM Healthcare Solutions through its offline medical institutions under "Feng Liao Xing" brand.

Management monitors the results of the Group's operating segments respectively for the purpose of making decisions about resource allocation and performance assessment. Following the Group's business restructure and changes in management team, the Group's CODM reallocated the Grouping of the operating segments as above with the aim to align more closely with the Group's strategic direction and streamline the financial performance of the Group's operating segments. For the purposes of assessing segment performance and allocating resources between segments, the CODM then monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit or loss from the continuing operations. Adjusted profit or loss from the continuing operations is measured consistently with the Group's profit after tax from continuing operations except that corporate expenses in head office are excluded from such measurement. Revenue, cost of sales, other gains and losses and all types of expenses are allocated to the reportable segments with reference to the transactions incurred by those segments or allocated on a reasonable basis.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

3. OPERATING SEGMENTS INFORMATION (continued)

Segment assets exclude financial assets at FVTPL, deferred tax assets and unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities and unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices. Intersegment sales are eliminated on consolidation.

Certain comparative amounts have been restated to conform with the above-mentioned presentation and disclosure in current period.

The following tables present revenue and other segment information for the Group's operating:

(i) Segment results, assets and liabilities

	Six months ended 30 June 2022					
	Yifang RMB'000 (Unaudited)	Tian Jiang RMB'000 (Unaudited)	Tong Ji Tang RMB'000 (Unaudited)	Medi-World RMB'000 (Unaudited)	Elimination RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 4)						
External customers	1,952,544	1,624,058	716,831	1,618,205	–	5,911,638
Intersegment sales	144,108	200,819	168,653	697,106	(1,210,686)	–
	2,096,652	1,824,877	885,484	2,315,311	(1,210,686)	5,911,638
Segment results	189,403	133,785	64,390	54,089	–	441,667
Reconciliation:						
Other unallocated head office and corporate expenses						(20,132)
Profit for the period						421,535
Other segment information:						
Interest income	9,995	1,432	2,275	13,295	–	26,997
Finance cost	(39,168)	(30,251)	9,244	(38,390)	–	(98,565)
Share of profits and losses of associates	–	118	–	(1,758)	–	(1,640)
Depreciation and amortisation	(227,036)	(184,038)	(52,295)	(80,505)	–	(543,874)
Write-down of inventories	(4,015)	(5,098)	623	2,614	–	(5,876)
Impairment losses under the expected credit loss model, net of reversal	(10,310)	(12,571)	(8,071)	(5,983)	–	(36,935)
Impairment losses recognised in respect of-property, plant and equipment	–	(401)	–	–	–	(401)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

3. OPERATING SEGMENTS INFORMATION (continued)

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

	Six months ended 30 June 2022					
	Yifang RMB'000 (Unaudited)	Tian Jiang RMB'000 (Unaudited)	Tong Ji Tang RMB'000 (Unaudited)	Medi-World RMB'000 (Unaudited)	Elimination RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 30 June 2022 (Unaudited)						
Segment assets	17,522,695	11,858,724	5,337,146	8,298,246	–	43,016,811
Elimination of intersegment receivables						(6,000,487)
Deferred tax assets						202,258
Corporate and other unallocated assets						702,064
Total assets						37,920,646
Segment liabilities	6,664,882	4,153,009	1,041,959	6,522,874	–	18,382,724
Elimination of inter-segment payables						(6,000,487)
Tax liabilities						105,723
Deferred tax liabilities						1,638,619
Corporate and other unallocated liabilities						1,062,400
Total liabilities						15,188,979



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

3. OPERATING SEGMENTS INFORMATION (continued)

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

	Six months ended 30 June 2021 (restated)					
	Yifang	Tian Jiang	Tong Ji Tang	Medi-World	Elimination	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Segment revenue (note 4)						
External customers	3,359,556	2,560,728	739,733	1,489,334	–	8,149,351
Intersegment sales	201,218	171,488	163,855	617,955	(1,154,516)	–
	3,560,774	2,732,216	903,588	2,107,289	(1,154,516)	8,149,351
Segment results	525,362	335,137	116,370	59,577	–	1,036,446
Reconciliation:						
Other unallocated head office and corporate expenses						(29,767)
Profit for the period						1,006,679
Other segment information:						
Interest income	10,621	2,278	2,250	9,205	–	24,354
Finance cost	(44,992)	(30,824)	5,939	(40,052)	–	(109,929)
Share of profits and losses of associates	–	(51)	–	(7,757)	–	(7,808)
Depreciation and amortisation	(141,376)	(117,483)	(47,384)	(83,620)	–	(389,863)
Write-down of inventories	(13,248)	(362)	280	320	–	(13,010)
Impairment losses under the expected credit loss model, net of reversal	(12,595)	(22,475)	(2,816)	(8,394)	–	(46,280)
Impairment losses recognised in respect of goodwill	–	–	–	(11,221)	–	(11,221)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

3. OPERATING SEGMENTS INFORMATION (continued)

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

	Six months ended 30 June 2021 (restated)					
	Yifang RMB'000 (Unaudited)	Tian Jiang RMB'000 (Unaudited)	Tong Ji Tang RMB'000 (Unaudited)	Medi-World RMB'000 (Unaudited)	Elimination RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 31 December 2021 (Audited)						
Segment assets	17,032,686	12,156,638	5,271,859	6,769,331	–	41,230,514
Elimination of intersegment receivables						(5,713,420)
Deferred tax assets						187,469
Corporate and other unallocated assets						684,705
Total assets						36,389,268
Segment liabilities	6,280,154	4,507,458	1,043,606	5,056,694	–	16,887,912
Elimination of inter-segment payables						(5,713,420)
Tax liabilities						153,565
Deferred tax liabilities						1,680,204
Corporate and other unallocated liabilities						720,078
Total liabilities						13,728,339

(ii) Geographical information and information about major customers

Analysis of the Group's non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in Mainland China, no geographical information as required by HKFRS 8 Operating Segments is presented.

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 periods.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Types of goods or services		
Concentrated TCM granules	2,761,603	5,424,327
TCM finished drugs	1,765,649	1,648,611
TCM decoction pieces	841,372	688,908
TCM great health products	48,321	21,271
Chinese medicinal herbs integration business	431,175	303,954
TCM medical institutions	63,518	62,280
Total	5,911,638	8,149,351

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Geographical markets		
Mainland China	5,864,389	8,106,144
Hong Kong	21,693	11,335
Overseas and others	25,556	31,872
Total	5,911,638	8,149,351
Timing of revenue recognition		
At point in time	5,911,638	8,149,351

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

4. REVENUE (continued)

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue from contracts with customers		
External customers	5,911,638	8,149,351
Intersegment sales	1,210,686	1,154,516
Total	7,122,324	9,303,867
Intersegment adjustments and eliminations	(1,210,686)	(1,154,516)
Total	5,911,638	8,149,351

5. OTHER INCOME

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Government grants		
Unconditional subsidies (note i)	33,656	29,064
Conditional subsidies (note ii)	27,148	15,080
Interest income on bank deposits	26,997	24,354
Rental income from investment properties	6,795	7,762
	94,596	76,260

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's acknowledgement 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.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Impairment losses recognised in respect of		
– goodwill	–	(11,221)
– property, plant and equipment	(401)	–
Gain on disposal of property, plant and equipment	647	4,725
Net exchange gain	1,111	75
Gain on disposal of a subsidiary	1,306	–
Others	(6,074)	7,072
Total	(3,411)	651

7. FINANCE COSTS

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Interest on bank borrowings	38,819	54,551
Interest on lease liabilities	2,277	2,512
Effective interest expense on unsecured notes	59,062	53,000
Total borrowing costs	100,158	110,063
Less: amounts capitalised in the cost of qualifying assets	(1,593)	(134)
	98,565	109,929

Borrowing costs capitalised during the current period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.25% (2021: 4.25%) per annum to expenditure on qualifying assets.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

8. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories sold		2,959,767	3,146,587
Included: Write-down of inventories to net realisable value *		5,876	13,010
Depreciation			
– property, plant and equipment		312,219	263,957
– investment properties		8,162	10,800
– right-of-use assets		24,299	22,916
Amortisation of other intangible assets		199,194	92,190
Total depreciation and amortisation		543,874	389,863
Research and development costs		317,534	294,703
Foreign exchange gain, net	6	(1,111)	(75)
Gain on disposal of property, plant and equipment	6	(647)	(4,725)
Impairment losses recognised (reversed) in respect of			
– trade receivables	16	36,799	42,218
– other receivables	16	276	4,472
– debt instruments at FVTOCI	16	(140)	(410)

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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9. INCOME TAX EXPENSE

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

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current		
PRC EIT	99,479	200,204
Under provision in prior periods	5,493	12,308
Deferred	(56,741)	(21,268)
Total tax charge for the period	48,231	191,244

10. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: HK6.66 cents per share).

The proposed 2021 final dividend of HK7.36 cents per ordinary share, amounting to a total of HK\$370,635,000 (approximately RMB316,337,000), was approved by the Company's shareholders at the annual general meeting on 24 June 2022.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

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

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of RMB413,588,000 (six months ended 30 June 2021: RMB929,828,000), and the weighted average number of ordinary shares of 5,035,801,000 (2021: 5,035,801,000) in issue during the period.

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company	413,588	929,828

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand)	5,035,801	5,035,801

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

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

During the six months ended 30 June 2022, the Group incurred approximately RMB77,384,000 (six months ended 30 June 2021: RMB82,288,000), and RMB211,024,000 (six months ended 30 June 2021: RMB316,009,000) on acquisition of property, plant and equipment and construction in process, respectively.

Assets with a net book value of RMB2,744,000 were disposed of by the Group during the six months ended 30 June 2022 (30 June 2021: RMB3,454,000), resulting in a net gain on disposal of RMB647,000 (30 June 2021: gain of RMB4,725,000).

Certain of the Group's buildings with carrying values of RMB566,129,000 (2021: RMB557,035,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

The Group has lease contracts for various items of buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 to 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. On lease commencement date, the Group recognized right-of-use assets of RMB5,456,000 (six months ended 30 June 2021: RMB8,233,000) and lease liabilities of RMB5,223,000 (six months ended 30 June 2021: RMB7,167,000), respectively.

Certain of the Group's right-of-use assets with carrying values of RMB158,050,000 (2021: RMB123,654,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

13. GOODWILL AND INTANGIBLE ASSETS

	Goodwill RMB'000	Intangible assets RMB'000
Cost and carrying amount:		
At 1 January 2022 (audited)	3,492,184	6,257,809
Additions	–	2,009
Amortisation for the period	–	(199,194)
Impairment of Goodwill	–	–
At 30 June 2022 (unaudited)	3,492,184	6,060,624

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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14. INVENTORIES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Raw materials	1,993,527	1,814,633
Work in progress	1,547,857	1,217,228
Finished goods	2,472,569	2,011,029
	6,013,953	5,042,890

The inventories are net of a write-down of approximately RMB114,213,000 at 30 June 2022 (31 December 2021: RMB111,814,000).

15. TRADE AND OTHER RECEIVABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables	7,241,692	8,442,834
Less: allowance for credit losses	(136,891)	(100,076)
	7,104,801	8,342,758
Deposits and prepayments	143,655	110,874
Advance tax payments	219,622	313,231
Other receivables	274,503	170,946
Less: allowance for credit losses and impairment losses	(33,066)	(32,870)
	604,714	562,181
	7,709,515	8,904,939

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

15. TRADE AND OTHER RECEIVABLES (continued)

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
0 to 90 days	3,410,568	5,805,014
91 to 180 days	1,139,814	1,501,015
181 to 365 days	2,557,108	1,062,472
Over 365 days	134,202	74,333
	7,241,692	8,442,834

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Impairment losses recognised/(reversed) in respect of		
– trade receivables	36,799	42,218
– other receivables	276	4,472
– debt instruments at FVTOCI	(140)	(410)
	36,935	46,280

The basis of the determination of the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

17. DEBT INSTRUMENTS AT FVTOCI

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Bills receivable	1,141,618	1,240,756

The amounts represent the bills receivables that were held under the “hold to collect and sell” business model. As at 30 June 2022, the Group’s debt instruments at FVTOCI amounted to RMB275,848,000 (31 December 2021: RMB306,182,000) were pledged as security for bank facilities of bills payables and bank borrowings granted to the Group.

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 0.30% to 1.80% per annum (2021: 0.30% to 1.55%).

(b) Bank balances and cash

Included in bank balances and cash is RMB4,466,567,000 (2021: RMB2,717,684,000) which represents cash held by the Group and short-term deposits carried interest at prevailing market rates ranging from 0.30% to 3.90% per annum (2021: 0.30% to 1.73% per annum) with original maturity of three months or less as at 30 June 2022.

The remaining of bank balances were restricted cash of RMB266,126,000 (2021: RMB177,073,000), in which RMB259,327,000 (2021: RMB136,660,000) represents the cash collected on behalf of factoring institutions under the non-recourse factoring arrangement of trade receivables with the Group.

Included in time deposits/pledged bank deposits/bank balances and cash are RMB15,356,000 (2021: RMB17,427,000) and RMB941,000 (2021: RMB580,000), which are denominated in HK\$ and US\$ respectively, the currencies other than functional currency of the relevant group entities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

19. TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	1,511,293	1,463,628
Deposits	1,054,487	1,000,397
Salaries and welfare payables	252,149	446,318
Other tax payables	204,135	127,281
Accrual of operating expenses	982,937	2,098,609
Bills payable	663,082	629,400
Dividend payable	362,529	93,706
Consideration payable for acquisitions of subsidiaries	15,178	3,550
Payable under the non-recourse factoring arrangement	259,327	136,660
Other payables	452,433	236,618
	5,757,550	6,236,167

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

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
0 to 90 days	1,675,962	1,168,564
91 to 180 days	273,436	428,416
181 to 365 days	99,249	359,509
Over 365 days	125,728	136,539
	2,174,375	2,093,028

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank and other borrowings amounting to RMB2,919,081,000 (six months ended 30 June 2021: RMB2,337,343,000). The loans carried interest at fixed market rates ranging from 1.20% to 5.00% and were repayable in instalments over a period of 7 years.

21. UNSECURED NOTES

On 5 June 2020, the Company issued medium-term notes in an aggregate amount of RMB2,200,000,000, with a maturity of three years and a coupon rate of 3.28% per annum.

On 16 February 2022, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 270 days and a coupon rate of 2.40% per annum.

On 18 March 2022, the Company issued the short-term commercial papers in an aggregate amount of RMB1,000,000,000, with a maturity of 210 days and a coupon rate of 2.32% per annum.

On 25 February 2022, the Company fully repaid the short-term commercial papers amounting to RMB1,000,000,000 which were issued on 31 May 2021.

22. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2022 '000	31 December 2021 '000	30 June 2022 RMB'000	31 December 2021 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. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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24. PLEDGED ASSETS

The following assets were pledged as securities for notes payable and interest-bearing bank and other borrowings:

	Carrying value	
	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Property, plant and equipment and Investment properties	566,129	557,035
Right-of-use assets	158,050	123,654
Debt instruments at FVTOCI	275,848	306,182
Pledged bank deposits	232,128	114,704
	1,232,155	1,101,575

25. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
– Investments in PRC entities	–	640,000
– Acquisition of property, plant and equipment	212,537	368,011
	212,537	1,008,011

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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26. RELATED PARTY TRANSACTIONS

- (a) Names of the Group's principal related parties and their relationship with the Group:

Name of related parties	Relationship
China National Pharmaceutical Group Corporation ("CNPGC")	Ultimate controlling party
CNPGC's subsidiaries other than the Group	Fellow subsidiaries of the Group
Ping An Bank	Fellow subsidiary of a substantial shareholder

- (b) During the current interim period, the Group had the following transactions with related parties during the period:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
(i) Sale of finished goods to CNPGC's subsidiaries other than the Group	506,903	461,856
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	28,183	37,635
(iii) Other purchase from CNPGC's subsidiaries other than the Group	3,821	–
(iv) Rental income from CNPGC's subsidiaries other than the Group	1,307	2,386
(v) Interest income from CNPGC's subsidiaries other than the Group	184	59
(vi) Interest income from Ping An Bank	4,580	6,780
(vii) Interest expense to Ping An Bank	4	711

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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26. RELATED PARTY TRANSACTIONS (continued)

- (c) Particulars of significant balances between the Group and the related parties are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
(i) Trade and other receivables due from CNPGC's subsidiaries other than the Group	535,256	627,688
(ii) Trade and other payables due to CNPGC's subsidiaries other than the Group	12,848	39,533
(iii) Bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 18	440,419	595,194
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 18	6,766	199,149

- (d) Key management remuneration

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Short-term employee benefits	4,039	3,391
Post-employment benefits	232	218
Total compensation paid to key management personnel	4,271	3,609



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2022

26. RELATED PARTY TRANSACTIONS (continued)

Transactions/balances with other state-controlled entities

The Group itself is part of a large 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 to the consolidated financial statements, 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 counterparty 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 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 year in which the directors of the Company 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.



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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 and key inputs
	30 June 2022 RMB'000	31 December 2021 RMB'000		
Financial assets at FVTOCI				
Bills receivable	1,141,618	1,240,756	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 current and prior periods.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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 interim condensed consolidated financial statements approximate their fair values at the end of the reporting period.

Unsecured notes

	30 June 2022 RMB'000	31 December 2021 RMB'000
Carrying amount	4,214,715	3,250,084
Fair value under Level 2 fair value hierarchy	4,217,736	3,273,327

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.

28. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 26 August 2022.