

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



**国药集团**  
SINOPHARM

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

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

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2023  
AND  
RESIGNATION OF NON-EXECUTIVE DIRECTOR**

The board (the “Board”) of directors of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2023 (the “Reporting Period”, the “Period”) as follows:

	Period ended 30 June		Change
	2023	2022	
	RMB'000	RMB'000	
<b>Revenue</b>			
Chinese medicinal herbs integration business	<b>880,585</b>	431,175	104.2%
TCM decoction pieces	<b>1,305,191</b>	841,372	55.1%
Concentrated TCM granules	<b>4,930,591</b>	2,761,603	78.5%
TCM finished drugs	<b>2,034,759</b>	1,765,649	15.2%
TCM great health products	<b>94,243</b>	48,321	95.0%
TCM medical institutions	<b>57,588</b>	63,518	-9.3%
<b>Total</b>	<b>9,302,957</b>	5,911,638	57.4%
<b>Gross profit</b>	<b>4,757,976</b>	2,951,871	61.2%
<b>Profit for the period</b>	<b>616,960</b>	421,535	46.4%
<b>Profit attributable to equity holders of the Company</b>	<b>578,742</b>	413,588	39.9%
<b>Basic earnings per share (RMB cents)</b>	<b>11.49</b>	8.21	40.0%

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

*For the six months ended 30 June 2023*

	<i>Notes</i>	<b>2023</b> <b>(Unaudited)</b> <b>RMB'000</b>	2022 (Unaudited) RMB'000
REVENUE	4	<b>9,302,957</b>	5,911,638
Cost of sales		<u><b>(4,544,981)</b></u>	<u>(2,959,767)</u>
Gross profit		<b>4,757,976</b>	2,951,871
Other income	5	<b>83,130</b>	94,596
Other gains and losses	6	<b>(14,004)</b>	(3,411)
Impairment losses under expected credit loss model, net of reversal		<b>(47,768)</b>	(36,935)
Selling and distribution expenses		<b>(3,186,920)</b>	(1,717,006)
Administrative expenses		<b>(464,754)</b>	(401,610)
Research and development expenses		<u><b>(313,614)</b></u>	<u>(317,534)</u>
Operating Profits		<b>814,046</b>	569,971
Finance costs	7	<b>(105,438)</b>	(98,565)
Share of profits and losses of associates		<u><b>(1,796)</b></u>	<u>(1,640)</u>
PROFIT BEFORE TAX	8	<b>706,812</b>	469,766
Income tax expense	9	<u><b>(89,852)</b></u>	<u>(48,231)</u>
PROFIT FOR THE PERIOD		<u><b>616,960</b></u>	<u>421,535</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent period:</i>			
Fair value gain on debt instruments measured at fair value through other comprehensive income		<b>6,842</b>	1,761
Reclassification of loss for debt instruments at fair value through other comprehensive income included in profit or loss		<b>870</b>	(140)
Income tax relating to items that may be reclassified to profit or loss		<u><b>91</b></u>	<u>(367)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u><b>7,803</b></u>	<u>1,254</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><b>624,763</b></u>	<u>422,789</u>

	<i>Notes</i>	<b>2023</b> <b>(Unaudited)</b> <b>RMB'000</b>	2022 (Unaudited) RMB'000
Profit for the period attributable to:			
Owners of the Company		<b>578,742</b>	413,588
Non-controlling interests		<b>38,218</b>	7,947
		<b><u>616,960</u></b>	<b><u>421,535</u></b>
 Total comprehensive income for the period attributable to:			
– Owners of the Company		<b>582,552</b>	414,905
– Non-controlling interests		<b>42,211</b>	7,884
		<b><u>624,763</u></b>	<b><u>422,789</u></b>
 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and Diluted (RMB cents)	<i>11</i>	<b><u>11.49</u></b>	<b><u>8.21</u></b>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

		<b>30 June 2023</b>	31 December 2022
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>6,786,541</b>	6,764,445
Right-of-use assets		<b>1,162,165</b>	1,159,821
Investment properties		<b>80,087</b>	89,751
Goodwill		<b>3,456,313</b>	3,456,313
Other intangible assets		<b>5,677,759</b>	5,874,634
Investments in associates		<b>13,532</b>	15,353
Deposits and prepayments		<b>82,130</b>	107,919
Deferred tax assets		<b>200,321</b>	185,029
		<u>17,458,848</u>	<u>17,653,265</u>
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories	<i>12</i>	<b>5,625,330</b>	6,039,880
Trade and other receivables	<i>13</i>	<b>10,290,844</b>	8,141,891
Debt instruments at fair value through other comprehensive income (“FVTOCI”)		<b>1,057,702</b>	605,122
Time deposits		<b>465,000</b>	–
Pledged bank deposits		<b>243,978</b>	114,729
Bank balances and cash		<b>3,273,781</b>	3,065,054
		<u>20,956,635</u>	<u>17,966,676</u>
Total current assets			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>14</i>	<b>5,780,359</b>	5,232,179
Lease liabilities		<b>19,068</b>	16,764
Contract liabilities		<b>122,522</b>	290,677
Interest-bearing bank and other borrowings		<b>2,823,272</b>	1,255,268
Unsecured notes		<b>2,018,861</b>	3,241,610
Tax liabilities		<b>112,399</b>	66,286
		<u>10,876,481</u>	<u>10,102,784</u>
Total current liabilities			
<b>NET CURRENT ASSETS</b>		<u><b>10,080,154</b></u>	<u>7,863,892</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><b>27,539,002</b></u>	<u>25,517,157</u>

		<b>30 June 2023</b>	31 December 2022
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred government grants		<b>426,983</b>	437,839
Deferred tax liabilities		<b>1,556,496</b>	1,603,784
Unsecured notes		<b>1,196,527</b>	–
Interest-bearing bank and other borrowings		<b>942,862</b>	466,060
Lease liabilities		<b>75,736</b>	62,872
		<u><b>4,198,604</b></u>	<u>2,570,555</u>
<b>Total non-current liabilities</b>		<u><b>4,198,604</b></u>	<u>2,570,555</u>
<b>Net assets</b>		<u><b>23,340,398</b></u>	<u>22,946,602</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	<i>15</i>	<b>11,982,474</b>	11,982,474
Reserves		<b>8,530,428</b>	8,184,246
		<u><b>20,512,902</b></u>	<u>20,166,720</u>
<b>Non-controlling interests</b>		<u><b>2,827,496</b></u>	<u>2,779,882</u>
<b>Total equity</b>		<u><b>23,340,398</b></u>	<u>22,946,602</u>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2023

## 1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 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 2022.

The financial information relating to the year ended 31 December 2022 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 2022 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 2022. 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 2022, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKFRS 17	<i>Insurance Contracts</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

### 3. OPERATING 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 CTCMG, 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. 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.

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.

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 2023	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)
<b>Segment revenue (note 4)</b>						
External customers	3,511,333	2,741,988	1,018,009	2,031,627	–	9,302,957
Intersegment sales	183,864	129,170	150,580	736,379	(1,199,993)	–
	<u>3,695,197</u>	<u>2,871,158</u>	<u>1,168,589</u>	<u>2,768,006</u>	<u>(1,199,993)</u>	<u>9,302,957</u>
<b>Segment results</b>	<u>267,020</u>	<u>218,104</u>	<u>83,720</u>	<u>70,320</u>	<u>–</u>	<u>639,164</u>
<i>Reconciliation:</i>						
<b>Other unallocated head office and corporate expenses</b>						(22,204)
<b>Profit for the period</b>						<u>616,960</u>
<b>Other segment information:</b>						
Interest income	5,149	1,517	2,314	22,321	–	31,301
Finance cost	(43,389)	(35,447)	13,649	(40,251)	–	(105,438)
Share of profits and losses of associates	–	4	–	(1,800)	–	(1,796)
Depreciation and amortisation	(234,728)	(189,701)	(53,142)	(89,599)	–	(567,170)
Reversal of inventories	2,427	2,878	1,535	4,213	–	11,053
Impairment losses under the expected credit loss model, net of reversal	(25,743)	(11,724)	(5,910)	(4,391)	–	(47,768)
Impairment losses recognised in respect of - property, plant and equipment	–	–	–	–	–	–
<b>As at 30 June 2023 (Unaudited)</b>						
<b>Segment assets</b>	<u>18,059,355</u>	<u>12,394,732</u>	<u>5,551,106</u>	<u>7,772,004</u>	<u>–</u>	<u>43,777,197</u>
Elimination of intersegment receivables						(6,554,655)
Deferred tax assets						200,321
Corporate and other unallocated assets						<u>992,620</u>
Total assets						<u>38,415,483</u>
<b>Segment liabilities</b>	<u>7,256,286</u>	<u>4,544,912</u>	<u>1,157,820</u>	<u>5,907,854</u>	<u>–</u>	<u>18,866,872</u>
Elimination of inter-segment payables						(6,554,655)
Tax liabilities						112,399
Deferred tax liabilities						1,556,496
Corporate and other unallocated liabilities						<u>1,093,973</u>
Total liabilities						<u>15,075,085</u>

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)
<b>Segment revenue (note 4)</b>						
External customers	1,952,544	1,624,058	716,831	1,618,205	–	5,911,638
Intersegment sales	<u>144,108</u>	<u>200,819</u>	<u>168,653</u>	<u>697,106</u>	<u>(1,210,686)</u>	<u>–</u>
	<u>2,096,652</u>	<u>1,824,877</u>	<u>885,484</u>	<u>2,315,311</u>	<u>(1,210,686)</u>	<u>5,911,638</u>
<b>Segment results</b>	<u>189,403</u>	<u>133,785</u>	<u>64,390</u>	<u>54,089</u>	<u>–</u>	<u>441,667</u>
<i>Reconciliation:</i>						
<b>Other unallocated head office and corporate expenses</b>						(20,132)
<b>Profit for the period</b>						<u>421,535</u>
<b>Other segment information:</b>						
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	<u>–</u>	<u>(401)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(401)</u>
<b>As at 31 December 2022 (Audited)</b>						
<b>Segment assets</b>	<u>16,480,031</u>	<u>11,831,102</u>	<u>5,418,427</u>	<u>6,787,526</u>	<u>–</u>	<u>40,517,086</u>
Elimination of intersegment receivables						(6,242,297)
Deferred tax assets						185,029
Corporate and other unallocated assets						<u>1,160,123</u>
Total assets						<u>35,619,941</u>
<b>Segment liabilities</b>	<u>5,951,364</u>	<u>4,188,718</u>	<u>1,105,203</u>	<u>5,002,874</u>	<u>–</u>	<u>16,248,159</u>
Elimination of inter-segment payables						(6,242,297)
Tax liabilities						66,286
Deferred tax liabilities						1,603,784
Corporate and other unallocated liabilities						<u>997,407</u>
Total liabilities						<u>12,673,339</u>



- (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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
External customers	9,302,957	5,911,638
Intersegment sales	<u>1,199,993</u>	<u>1,210,686</u>
Total	<u><u>10,502,950</u></u>	<u><u>7,122,324</u></u>
Intersegment adjustments and eliminations	<u>(1,199,993)</u>	<u>(1,210,686)</u>
Total	<u><u>9,302,957</u></u>	<u><u>5,911,638</u></u>

## 5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants		
Unconditional subsidies ( <i>note i</i> )	30,040	33,656
Conditional subsidies ( <i>note ii</i> )	18,088	27,148
Interest income on bank deposits	31,301	26,997
Rental income from investment properties	<u>3,701</u>	<u>6,795</u>
	<u><u>83,130</u></u>	<u><u>94,596</u></u>

### 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.

## 6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Impairment losses of property, plant and equipment	–	(401)
Gain on disposal of property, plant and equipment	48	647
Loss on disposal of other intangible assets	(222)	–
Net exchange (loss)/gain	(1,547)	1,111
Gain on disposal of a subsidiary	2,168	1,306
Donation	(12,386)	(7,892)
Others	(2,065)	1,818
	<u>(14,004)</u>	<u>(3,411)</u>
Total	<u>(14,004)</u>	<u>(3,411)</u>

## 7. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	52,889	38,819
Interest on lease liabilities	2,464	2,277
Effective interest expense on unsecured notes	50,085	59,062
	<u>105,438</u>	<u>100,158</u>
Total borrowing costs	105,438	100,158
Less: amounts capitalised in the cost of qualifying assets	–	(1,593)
	<u>105,438</u>	<u>98,565</u>

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

## 8. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Cost of inventories sold		<b>4,544,981</b>	2,959,767
Included: (Reversal of)/Write-down of inventories to net realisable value*		<b>(11,053)</b>	5,876
Depreciation			
– property, plant and equipment		<b>339,709</b>	312,219
– investment properties		<b>3,619</b>	8,162
– right-of-use assets		<b>23,136</b>	24,299
Amortisation of other intangible assets		<b>200,706</b>	199,194
Total depreciation and amortisation		<b>567,170</b>	543,874
Research and development costs		<b>313,614</b>	317,534
Foreign exchange loss/(gain), net	6	<b>1,547</b>	(1,111)
Gain on disposal of property, plant and equipment	6	<b>(48)</b>	(647)
Loss on disposal of other intangible assets	6	<b>222</b>	–
Impairment losses recognised/(reversed) in respect of			
– trade receivables		<b>46,776</b>	36,799
– other receivables		<b>122</b>	276
– debt instruments at FVTOCI		<b>870</b>	(140)

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

## 9. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made in the 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. Certain subsidiaries of the Group were qualified enterprises located in the western region of the PRC or recognised as advanced and new technology enterprises and, accordingly, enjoyed a preferential enterprise income tax rate of 15%. Certain subsidiaries of the Group were qualified enterprise with operation of medicinal plants primary processing business in the PRC and enjoys a full enterprise income tax exemption.

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Current</b>		
PRC EIT	<b>164,902</b>	99,479
(Over)/under provision in prior periods	<b>(12,561)</b>	5,493
<b>Deferred</b>	<b>(62,489)</b>	<b>(56,741)</b>
<b>Total tax charge for the period</b>	<b><u>89,852</u></b>	<b><u>48,231</u></b>

## 10. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

The proposed 2022 final dividend of HK5.18 cents per ordinary share, amounting to a total of HK\$260,855,000 (approximately RMB235,995,000), was approved by the Company's shareholders at the annual general meeting on 30 May 2023.

## 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 RMB578,742,000 (six months ended 30 June 2022: RMB413,588,000), and the weighted average number of ordinary shares of 5,035,801,000 (2022: 5,035,801,000) in issue during the period.

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Earnings</b>		
Profit for the period attributable to the owners of the Company	<b><u>578,742</u></b>	<b><u>413,588</u></b>

**Number of shares**  
**Six months ended 30 June**  
**2023**                      **2022**

**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.

**12. INVENTORIES**

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Raw materials	<b>1,590,970</b>	1,785,310
Work in progress	<b>1,602,530</b>	1,963,450
Finished goods	<u><b>2,431,830</b></u>	<u>2,291,120</u>
	<u><b>5,625,330</b></u>	<u><b>6,039,880</b></u>

The inventories are net of a write-down of approximately RMB108,270,000 at 30 June 2023 (31 December 2022: RMB126,599,000).

**13. TRADE AND OTHER RECEIVABLES**

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Trade receivables	<b>9,452,884</b>	7,729,974
Less: allowance for credit losses	<u><b>(156,432)</b></u>	<u>(110,297)</u>
	<u><b>9,296,452</b></u>	<u>7,619,677</u>
Deposits and prepayments	<b>448,154</b>	150,250
Advance tax payments	<b>174,451</b>	164,473
Other receivables	<b>404,639</b>	240,424
Less: allowance for credit losses and impairment losses	<u><b>(32,852)</b></u>	<u>(32,933)</u>
	<u><b>994,392</b></u>	<u>522,214</u>
	<u><b>10,290,844</b></u>	<u><b>8,141,891</b></u>

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

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

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
0 to 90 days	<b>4,413,938</b>	5,235,952
91 to 180 days	<b>2,847,093</b>	1,366,199
181 to 365 days	<b>2,002,758</b>	1,038,373
Over 365 days	<b>189,095</b>	89,450
	<b><u>9,452,884</u></b>	<u>7,729,974</u>

#### 14. TRADE AND OTHER PAYABLES

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
Trade payables	<b>1,635,492</b>	1,386,867
Bills payable	<b>765,224</b>	502,104
Deposits	<b>1,148,648</b>	1,022,284
Salaries and welfare payables	<b>273,907</b>	403,140
Other tax payables	<b>191,489</b>	318,425
Accrual of operating expenses	<b>847,209</b>	796,847
Dividend payable	<b>98,551</b>	98,923
Consideration payable for acquisitions of subsidiaries	<b>3,717</b>	3,717
Payable under the non-recourse factoring arrangement	<b>219,375</b>	166,475
Other payables	<b>596,747</b>	533,397
	<b><u>5,780,359</u></b>	<u>5,232,179</u>

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

	<b>30 June 2023 RMB'000 (Unaudited)</b>	31 December 2022 RMB'000 (Audited)
0 to 90 days	<b>1,635,040</b>	1,366,448
91 to 180 days	<b>437,586</b>	330,655
181 to 365 days	<b>216,167</b>	112,123
Over 365 days	<b>111,923</b>	79,745
	<b><u>2,400,716</u></b>	<u>1,888,971</u>

## 15. SHARE CAPITAL

	<b>Number of shares</b>		<b>Share capital</b>	
	<b>30 June 2023 '000</b>	31 December 2022 '000	<b>30 June 2023 RMB'000</b>	31 December 2022 RMB'000
<b>Authorised</b>	Unlimited number of ordinary shares with no par value			
<b>Issued and fully paid</b>	<b><u>5,035,801</u></b>	<u>5,035,801</u>	<b><u>11,982,474</u></b>	<u>11,982,474</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INTRODUCTION**

The Board is pleased to announce the unaudited consolidated results of the Group prepared under Hong Kong Financial Reporting Standards for the six months ended 30 June 2023, together with comparative figures for the corresponding period of 2022 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 RMB9,302,957,000, representing an increase of 57.4% compared with approximately RMB5,911,638,000 for the same period last year. Among them, revenue from Chinese medicinal herbs integration business was approximately RMB880,585,000, representing a year-on-year increase of 104.2% and 9.5% of the total revenue. Revenue from TCM decoction pieces business was approximately RMB1,305,191,000, representing a year-on-year increase of 55.1% and 14.0% of the total revenue. The concentrated TCM granules business contributed approximately RMB4,930,591,000 or a year-on-year increase of 78.5% and 53.0% of the total revenue. Revenue from the TCM finished drugs business was approximately RMB2,034,759,000, representing a year-on-year increase of 15.2% and 21.9% of the total revenue. Revenue from the TCM great health products business was approximately RMB94,243,000, representing a year-on-year increase of 95.0% and 1.0% of the total revenue. Revenue from TCM medical institutions business was approximately RMB57,588,000, representing a year-on-year decrease of 9.3% and 0.6% of the total revenue.

Gross profit was approximately RMB4,757,976,000, representing an increase of 61.2% compared with approximately RMB2,951,871,000 for the same period last year. Gross profit margin was 51.1%, representing an increase of 1.2 percentage points compared with 49.9% for the same period last year. This was mainly because: benefiting from the significant recovery in revenue of the concentrated TCM granules business, which increased by 78.5% as compared with the same period of last year, the increase in revenue led to a decrease in unit costs and a slight increase in the overall gross profit margin.

### **BUSINESS REVIEW**

With "practicing national TCM development strategy, leading the high-quality development of TCM industry" as its mission, and focusing on the six major business sectors of "Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health products, TCM medical institutions", the Group has consolidated the competitive edges of the industrial chain by exploring the potential for further development, continuously improved the corporate governance effectiveness and operational efficiency, enhanced risk prevention capability, so as to promote the high-quality development of the whole TCM healthcare industrial chain.

During the Reporting Period, the Group focused on industrial exchanges and innovation highlands, strengthened the dissemination and promotion of its brand culture, undertook the First Science and Innovation Conference of the TCM Industry, established the Professional Committee of Concentrated TCM granules under the China Association of Traditional Chinese Medicine, hosted the third World Chinese Medicine Forum, participated in national events such as the China Conference on the High-quality Development of Traditional Chinese Medicine, the China-Africa Forum on the Cooperation of Traditional Chinese Medicine, and the First Dunhuang International Forum on the Development of Traditional Chinese Medicine, the Forum on “Understanding China• Greater Bay Area Dialogue” and the 17th Annual Conference of Chinese Hospital Presidents.

On 13 June 2023, the Annual ESG Action Report was jointly released by the Financial Program Center of China Media Group with the State-owned Assets Supervision and Administration Commission of the State Council, the All-China Federation of Industry and Commerce, the Institute of Economics of the Chinese Academy of Social Sciences, the China Enterprise Reform and Development Society and other authoritative institutions and departments. The Group was selected as one of the “China ESG Listed Companies Pioneer 100”, ranking 26th in the overall list and first in the pharmaceutical manufacturing category.

On 16 June 2023, the 2023 Conference on High Quality Development of Great Health Industry and the Eighth China Pharmaceutical Research and Development Innovation Summit released the “2023 China Chinese Medicine Research and Development Strength Ranking” list, on which the Group’s strength in pharmaceutical research and development was significantly enhanced and rose to No. 3.

## ***I. Deeply Cultivate the Six Major Business Segments and Make Every Effort to Consolidate the Competitive Advantage***

### ***(I) Chinese medicinal herbs integration business***

In recent years, the national and provincial drug supervision and management departments have successively issued a number of policies and regulatory documents on the production quality management standards of Chinese medicinal herbs, which required Chinese medicinal herbs manufacturers to standardize the whole production process of Chinese medicinal herbs and establish a production quality traceability system for Chinese medicinal herbs, to guide TCM manufacturers to use materials in compliance with the Good Agricultural Practice (“GAP”) for Chinese medicinal herbs. In response to the call of national policies, following the development trend of the industry, and in view of its own development needs in midstream and downstream industries, the Group formulated a catalogue of varieties for the construction of production bases for Chinese medicinal herbs, established standards for the construction of production bases, built demonstration bases for standardized production techniques, and set up a system for the quality management and traceability of the whole process of planting, production and circulation, so as to make way for Chinese medicinal herbs resources development, guarantee supply of high-quality medicinal materials, and lead the standardized development of the industry.

As of 30 June 2023, the Group has jointly built a total of 218 production bases for Chinese medicinal herbs in 20 provinces (regions and municipalities) across the country, involving a total of 87 varieties, of which 74 varieties entered the traceability system of Chinese medical herbs.

(II) *TCM decoction pieces*

With the full recovery of the national economy, the production, trading and medical end demand for TCM decoction pieces have all experienced resurgence. During the Reporting Period, the Group capitalized on its advantages in the construction of medicinal herb bases in the industrial parks, fresh processing capability and production cost control to expand the market incrementally. The Group has developed more than 1,000 medical end customers of various types for TCM decoction pieces business, showing robust growth momentum.

Certain subsidiaries such as Shanghai Tongjitang Pharmaceutical Co., Ltd. (“Shanghai Tongjitang”), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. and Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited insisted on focusing on medical end customers, explored the development potential of the regional market of decoction pieces, and continued to make efforts through multiple business channels, leading to constant increase in the varieties of decoction pieces and their supply scale. With the steady recovery of the procurement demand from industrial customers and large-scale pharmacy chains, subsidiaries in various regions took advantage of their regional layout to expand their business scale rapidly. With the robust development momentum of Share of TCM · Intelligent Distribution Centers in various regions, the business growth reached a record high, driving terminal sales to a new level.

Shanghai Tongjitang actively participated in “the whole process traceability clinical application pilot work on TCM decoction pieces in Shanghai”, developed traceable decoction pieces business, tapped high-quality business to improve product’s gross margin, and drove steady profit growth.

At the same time, the Group actively participated in the first inter-provincial alliance procurement of TCM decoction pieces across the country. Relying on the Group’s advantages in upstream and downstream synergies covering 15 core elements, such as the ability to supply varieties of medicinal herbs, plantation (cultivation) bases, traceability systems, production management capabilities, quality control capabilities and authentic medicinal herbs, decoction piece specifications from multiple subsidiaries were selected, demonstrating the Group’s advantage of the industrial layout for the centralized bulk-buying of drugs.

### *(III) Concentrated TCM granules*

During the Reporting Period, the Group, based on its advantages in industrial synergy, large-scale production and leading scientific research capability and taking market demand as its starting point, made all-round and multi-dimensional efforts to actively promote the steady recovery of the concentrated TCM granules business.

On the filing side, the Group continued filing of concentrated TCM granules products, and promoted the transition from the former standards to the new ones as well as other key tasks in an orderly manner. As of the end of the Reporting Period, the Group has cumulatively completed the marketing filing of 523 varieties, ranking first in the industry. On the production side, the Group systematically launched production technology and quality research on difficult varieties and special varieties to enhance product supply ability, and explored technological optimization to reduce costs and increase efficiency, thereby enhancing the competitiveness of the products in the market. On the sales side, the Group actively developed medical end customers at all levels, strengthened the development of TCM specialties, enhanced knowledge and awareness of the clinical application of the new standard products at medical ends, and increased the application proportion of concentrated TCM granules at medical ends.

During the Reporting Period, the “Yifang Pharmaceutical Industry Design Center” of Guangdong Yifang Pharmaceutical Co., Ltd. (“Guangdong Yifang”) was accredited by Guangdong Industrial Design Center. The center has basically realized the transformation of the production process from traditional production mode to automated and digitalized production mode through the construction of intelligent and digitalized production workshops for concentrated TCM granules with cross-regional, large-scale and refined control and the establishment of a product traceability system for concentrated TCM granules; and has realized intelligent TCM pharmacies integrating data storage, prescription identification, weighing, sub-packaging, packaging, prescription printing and warehouse management through the research and development of an automatic concentrated TCM granules dispensing system with independent intellectual property rights, providing green, low-carbon, network-connected, and intelligent TCM dispensing services for medical institutions.

### *(IV) TCM finished drugs*

The Group grasped the new opportunities in the post-pandemic era and accelerated the development of medical terminals. During the Reporting Period, more than 1,000 medical institutions at level 2 and above were newly developed for the TCM finished drugs business, opening up a new situation for terminal sales. The sales amount of eight varieties, including Xianling Gubao Capsules (仙靈骨葆膠囊) and Yu Ping Feng Granules (玉屏風顆粒), exceeded RMB100 million, while the sales amount of several varieties, including Jinye Baidu Granules (金葉敗毒顆粒), Huashi Baidu Granules (化濕敗毒顆粒) and Chongcao Qingfei Capsules (蟲草清肺膠囊), increased by more than 50% year-on-year.

During the Reporting Period, the Group initiated the grid-based management of sales regions, and established databases of commerce, chain, single terminal and key customer information to form a traceable business data chain, thus promoting the sustained positive sales of its main products and core chains; continued to carry out research on the evidence-based medical evidence chain, and built a more professional market access and academic promotion system on three levels, namely, the excavation of product value, the development of the clinical evidence chain and the dissemination of medical value. The Group has established 41 diagnostic and treatment guidelines and expert consensus for key varieties, while building 37 national and regional hospital affairs and pharmaceutical affairs management platforms in total to expand terminal promotion coverage and strengthen the service capacity of graded hospitals.

*(V) TCM great health products*

The Group continues to focus on the three main lines of functional products, medicine homologous food products and food for special dietary uses, enrich the product library of TCM great health products, and strengthen product promotion and supply, striving to meet the extensive needs of consumers.

During the Reporting Period, Guangdong Qifeng Health Industry Co., Ltd. enhanced the influence of its own brand products by optimizing the product matrix and introducing an online operation team; focusing on the store expansion and supply chain construction of “Yifang Seasons”, effectively improved operational capabilities of the chain tea business; continued to consolidate the core OEM business, and explored product models in line with the needs of key customers, achieving a substantial increase in revenue year-on-year. Sinopharm Group Guizhou Healthcare Industry Development Co., Ltd. has established a variety library by product classification, innovated the business line of “roxburgh rose + medicine food homology great health”, and built a diversified development model with a clear business model. Shandong Zhongping Pharmaceutical Co., Ltd., facilitated resource advantage as the origin of honeysuckle, focused on large single products of honeysuckle pure fresh flower dew, integrated and optimized product structure, expanded multi-form marketing channels, and continued to expand product influence. Based on the theoretical basis of basic prescriptions of the TCM masters and experts, Jiangyin Tianjiang Pharmaceutical Co., Ltd. (“Jiangyin Tianjiang”) expanded medicine homologous food sub-health conditioning products.

*(VI) TCM medical institutions*

With the positioning of effectively supplementing public medical care and providing differentiated supply for public health needs, TCM medical institutions establish presence in core cities, innovate characteristic businesses, promote customer development, and enhance its capability to provide specialty services of TCM.

In terms of industrial deployment, during the Reporting Period, the Group accelerated its presence in key cities by introducing TCM masters in Beijing and acquiring Beijing Xiao Chengcong Chinese Medicine Clinic Company Limited (北京肖承棕中醫診所有限公司), which enabled the Group to connect its business resources with the Chinese medicine business system in Beijing, and to carry out medical cooperation, project crossover, technology sharing, and product innovation, so as to enhance the overall value of the TCM medical institutions segment. In terms of business development, the Group optimized and upgraded its physical therapy and rehabilitation technology projects, developed treatment projects with medical and disease characteristics; launched a variety of health-specific customer service activities, and created the complex of “TCM medical institutions + Shared Pharmacy + Life Experience Area” to improve the quality and efficiency of its medical services, and to enhance customers’ satisfaction and sense of well-being.

## ***II. Adhere to the Strategy of Strengthening the Enterprise with Science and Technology, and Enhance the Stamina of Enterprise Development***

During the Reporting Period, the Group organized the first Science and Technology Innovation Conference of the Traditional Chinese Medicine Industry, the workstation of Academician Tong Xiaolin in Guangdong Yifang was officially unveiled and established, laying a foundation for the construction of the Guangdong-Hong Kong-Macao Greater Bay Area Chinese Medicine Integration and Innovation Center; the studio of Ding Ying, a master of Chinese medicine, was set up in Jiangyin Tianjiang, and the studio of Mei Guoqiang, a master of Chinese medicine, was set up in Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. (“Zhonglian Pharmaceutical”); Guangdong Yifang was approved by the Ministry of Industry and Information Technology as a national industrial technology foundation public service platform, and became the only enterprise in the TCM manufacturing industry to be recognized as such service platform.

During the Reporting Period, the Group’s technical research and promotion of Chinese medicinal herbs resources achieved good results. The Group innovated the breeding mode of pinellia varieties, and achieved a value-added rate of more than 3 times through the cultivation of hydroponic systems; completed the construction of technology demonstration bases for 6 species of fritillaria thunbergii, fuzi, epimedium (arrow leaves, pilose hair), pinellia ternata, epimedium (heart leaves) and honeysuckle. The Group innovatively proposed a four-season cyclical planting economic model, realizing the goal of building a Chinese medicinal herbs production base of 10,000 mu of six Shandong local varieties.

The standardization level of processing (fresh-cutting) technology in the place of origin of Chinese medicinal herbs has been improved. The Group has completed the technology research on the fresh-cutting process in the place of origin of local herbs such as *Lonicera japonica*, *Salvia miltiorrhiza*, *Scutellaria baicalensis*, Hawthorn, *Platycodon grandiflorum*, etc., improved the fresh-cutting process and quality control standards in the place of origin and has been granted the first batch of processing qualification for fresh-cutting of Chinese medicinal herbs in the place of origin in Shandong Province.

New progress has been made in research on drug standards of concentrated TCM granules. During the Reporting Period, the National Pharmacopoeia Committee (國家藥典委員會) announced 48 national drug standards for concentrated TCM granules, 27 of which were completed by the Group, accounting for 56.25%. At the same time, the national standards for two animals (including ground beetle and vinegar turtle) formula granule drugs whose research was completed by the Group were approved for publicization, achieving a breakthrough of zero national standards for animal formula granule drugs.

More efforts have been made on patent application, and the influence and core competitiveness has been strengthened through intellectual property rights, laying a foundation for the “going global” of TCM. During the Reporting Period, 95 patents were applied, including 3 PCT patents, 56 invention patents and 36 utility model patents, and 48 patents were authorized, including 25 invention patents and 22 utility model patents.

Breakthroughs can be seen in scientific and technological R&D projects. During the Reporting Period, three new provincial and ministerial sci-tech advancement awards were added: the research project “Key Technology Innovation and Application of Traditional Chinese Medicine for Prevention and Treatment of Metabolic Diseases” participated by Zhonglian Pharmaceutical won the second prize of Sci-Tech Advancement Award of Hubei Province; the research project “Active Ingredients and Quality Control Technology and Application of Radix Sophorae Subprostratae and Other Zhuang and Yao Nationality Medicines” participated by Guangxi Yifang Tianjiang Pharmaceutical Co., Ltd. won the second prize of Sci-Tech Advancement Award of Guangxi Zhuang Autonomous Region; the research project “Key Technologies and Applications of Quality Control in Miao Nationality Medicine Manufacturing Process Represented by Xianling Gubao Capsule” participated by Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. won the 2022 Higher Education Outstanding Scientific Research Output Awards (Science and Technology) from the Ministry of Education— Second Prize of Sci-Tech Advancement Award.

### ***III. Improve Comprehensive Management Efficiency and Promote the Steady Development***

#### ***(I) Improve operation capability and promote reform and development of the Group***

The Group's action for deepening reforms and upgrading focuses on core competitiveness improvement and core functions enhancement. The core competitiveness of the Group comes from the complete sustainable, synergistic and common development of the whole TCM healthcare industry chain; the core function and mission is to "implement the national development strategy of TCM and lead the high-quality development of the TCM industry". Based on this, the Group focuses on comprehensively promoting the synergistic development of the whole TCM healthcare industry chain, firmly serves the national strategy, and implements the reform of the market-oriented operation mechanism. Fully leveraging the construction of the board of directors, the Company introduces an excellent performance management system to systematically improve its operations management capabilities, continually enhances the control and influence in the modern TCM industry chain, key links, core technologies and industry standards, accelerates the modernization, standardization and industrialization development procedure of TCM, and promotes the revitalization and development of TCM.

#### ***(II) Optimize human resource system and strengthen support force of talents***

The Group comprehensively builds a new operating responsibility system, strictly implements the tenure system and contractual management, and realizes "performance improvement with salary increase, performance deterioration with salary decrease"; continuously improves the standardized and efficient income distribution mechanism, focuses on key core, scientific research and high-skilled talents, improves the talent incentive and guarantee mechanism, and strengthens the external competitiveness of the enterprise's remuneration.

During the Reporting Period, the Group strengthened exchanges and cooperation with universities and won the title of "Foshan-Hong Kong Enterprise Talent Recruitment Demonstration Base", becoming an important window for Foshan to recruit talents in Hong Kong. It highlighted the introduction and motivation of core talents, and introduced key core personnel. The Group honored special talent incentive bonuses for research and development to fully mobilize the innovation enthusiasm of scientific and technological personnel. The Group organized and carried out training courses for talents of Chinese medicinal herbs integration business segment, and continued to expand its internal talent team.

*(III) Accelerate digital construction and inject new impetus into high-quality development*

The Group promotes the construction of industrial digitization and control digitization projects in an orderly manner, so as to consolidate the information base. In terms of industrial digitization, the Chinese medicine quality traceability management platform was further optimized and iterated, and the software copyright registration certificate was obtained; the intelligent distribution center system continued to be promoted, and the number of medical institutions connected to it steadily increased; and main functions construction of the digital TCM medical institution system has been completed. In terms of control digitization, we launched the “Unified Portal Platform” project to integrate and effectively share the information of various business systems; initiated the Talent Intelligent Management System project to further the refined control of human resources; and launched investigation on project establishment of the TCM finished drugs marketing digitization system to form a new planning blueprint.

*(IV) Implement the concept of production safety and the requirements of energy conservation and environmental protection*

The Group continues with special actions for production safety and energy conservation and environmental protection, emphasizing dynamic control through the whole process. The first is to establish a standard operating procedure database for high-risk positions, build a co-learning, sharing and co-creation platform, improve safety awareness, and organize over 300 times of trainings on equipment safety, fire safety, hazardous chemical safety, electricity safety, and special emergency rescue plans, with more than 14,000 participants. The second is to implement energy conservation and environmental protection. Seven companies including Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. have passed the clean production review, and 20 companies including Jiangyin Tianjiang have completed the certification of environmental management system and energy management system, and seven companies including Zhonglian Pharmaceutical have obtained the recognition of national and provincial green factory.

*(V) Further the quality and efficiency improvement and increase financial management efficiency*

The Group continues to optimize the special work of improving quality and efficiency, through enriching and innovating project types. During the Reporting Period, more than 500 projects were filed, promoting all-level replicable projects, and improving the quality of business development. The Group leveraged the window period of policy and market changes, and with flexible use of financial tools to reduce finance cost and optimize the portfolio of financing structures.

*(VI) Consolidate the construction of compliance management with a focus on the prevention and control of legal risks*

As a leading enterprise in China's TCM industry with a whole industrial chain and a national layout, the Group firmly believes that compliant operations are not only the red line and bottom line that should be followed, but also an important source to ensure the sustainable development of an enterprise and strengthen its core competitiveness. The Group has always adhered to the law-based governance of enterprise, improved the compliance organization and operation mechanism comprehensively, set up a chief compliance officer to strengthen the construction of specialized legal compliance organizations, carried out in-depth special compliance management work for marketing, procurement and branding, and extended the construction of compliance organizations and the implementation of compliance responsibilities to subsidiaries at all levels. The Group carried out law popularization and legal training activities to enhance compliance awareness and legal literacy, conducted compliance risk investigations, strengthened legal risk control and made sure cases be done under supervision. By doing so, the Group further optimized and upgraded the compliance system of state-owned central enterprises in the TCM field comprehensively.

#### ***IV. Policy Update***

During the Reporting Period, various national departments issued multiple policies related to the development of TCM. The industry policies related to the Group are as follows:

On 10 February 2023, the National Medical Product Administration (the “NMPA”) issued the “Special Provisions on the Administration of Registration of Traditional Chinese Medicines” (《中藥註冊管理專門規定》) (the “Special Provisions”), which came into force on 1 July 2023. The Special Provisions has 11 chapters and 82 articles, including general principles, registration classification and marketing approval of TCM, rational application of empirical evidence for human use, innovative TCM, new improved TCM, TCM compound preparations based on ancient classical formulae, medicines with the same name and prescription, post-marketing changes, TCM registration standards, drug names and instructions, etc. The Special Provisions has, organically connecting with the newly revised “Drug Administration Law” (《藥品管理法》) and “Measures for the Administration of Drug Registration” (《藥品註冊管理辦法》), further refined relevant requirements for the R&D of TCM, and strengthened the management of new drug R&D and registration of TCM, on the basis of general regulations on drug registration management.

On 28 February 2023, the General Office of the State Council issued the “Implementation Plan for Major Projects of the Revitalization and Development of Traditional Chinese Medicine” (《中醫藥振興發展重大工程實施方案》), which specified the goals, tasks, supporting measures and departmental division for eight major projects. It has set up goals that by 2025, the construction of a high-quality and efficient TCM service system will be accelerated, the level of TCM disease prevention and treatment will be significantly improved, the technological innovation capability of TCM will be significantly increased, the quality of TCM will be continuously improved, TCM culture will be vigorously promoted, the international influence of TCM will be further enhanced, a significant progress will be made in the revitalization and development of TCM, and TCM will become an important support to promote the construction of the healthy China in an all-round way, etc.

On 1 March 2023, the Office of the National Healthcare Security Administration (“NHSA”) issued the “Notice on Carrying out Centralized Medicine Procurement and Price Administration in 2023” (《關於做好2023年醫藥集中採購和價格管理工作的通知》) (the “Notice”). The Notice further improved the medicine price formation mechanism, and promoted the coordinated development and governance of medical insurance, medical care and medicine from six aspects, including promoting the centralized bulk-buying of drug and medical consumables, increasing the level of refined management of centralized procurement, strengthening the comprehensive control of drug prices, and focusing on optimizing the price and administration of medical services, aggregating to sixteen items. The Notice pointed out that in terms of promoting the centralized bulk-buying of drugs and medical consumables, the first is to continue to expand the coverage of centralized procurement of drugs, and the second is to promote the centralized bulk-buying of medical consumables.

On 19 April 2023, the National Administration of Traditional Chinese Medicine, the Propaganda Department of the CPC Central Committee, the Ministry of Education, the Ministry of Commerce, the Ministry of Culture and Tourism, the National Health Commission, the National Radio and Television Administration and the National Cultural Heritage Administration jointly issued the “Implementation Plan of 14th Five-Year Traditional Chinese Medicine Cultural Promotion Project” (《「十四五」中醫藥文化弘揚工程實施方案》) (the “Plan”) to promote the deployment of TCM cultural construction during the 14th Five-Year period. The Plan pointed out that by 2025, the supply of TCM cultural products and services will be more high-quality and abundant, TCM museums related business will accelerate its development, the TCM cultural communication system will be improved, and the level of citizens’ TCM health and cultural literacy will increase to about 25%. The Plan further clarified the supporting measures and departmental division in the “14th Five-Year Plan for the Development of Traditional Chinese Medicine” (《「十四五」中醫藥發展規劃》), with the aim of increasing support and promotion for the development of TCM and striving to promote the revitalization and development of TCM.

On 5 May 2023, the General Department of the NMPA issued the “Notice on the Formation of GAP Expert Working Panel for Chinese Medicinal Herbs” (《關於組建中藥材GAP專家工作組的通知》), pointing out that in order to promote the standardized development of Chinese medicinal herbs and the orderly implementation of the “Good Agricultural Practice for Chinese Medicinal Herbs” (《中藥材生產質量管理規範》), strengthen the quality control of TCM, push forward the construction of a traceability system for Chinese medicinal herbs, improve the quality of TCM from the source, and further give play to the guiding and supporting role of technical experts in the industry, the NMPA decided to establish a GAP expert working panel for Chinese medicinal herbs, specifying inclusion criteria, selection, addition and replacement of expert panel members, as well as work responsibilities, work requirements and other related contents, and publishing the list of the first batch of expert working panel members.

On 30 May 2023, the General Office of the State Council issued the “Implementation Opinions on Strengthening the Normalized Supervision of the Use of Healthcare Security Fund” (《關於加強醫療保障基金使用常態化監管的實施意見》), proposing three policy measures: first, enhance the supervision responsibility of medical insurance administrative department by strengthening supervision over the signing and performance of medical insurance agreements by medical insurance agencies; second, make a good use of supervisory means such as unannounced inspections, special rectifications and daily supervision to systematically promote fund supervision; third, further improve the regulatory system and mechanism, and strengthen the comprehensive application of agreement, administration and justice to address regulatory problems.

On 29 June 2023, the Center for Food and Drug Inspection of the NMPA issued the “Technical Guidelines for GAP Implementation of Chinese Medicinal Herbs” (《中藥材GAP實施技術指導原則》) (the “Technical Guidelines”) and “Guide for GAP Inspection of Chinese Medicinal Herbs” (《中藥材GAP檢查指南》) (the “Inspection Guide”). The Technical Guidelines provided important guidance and assistance for relevant TCM companies to implement the new GAP for Chinese medicinal herbs. It required companies to formulate unified management measures and technical procedures for relevant aspects, and implement such unified measures and procedures to the production and construction of bases through training and other means. The Inspection Guide clarified the inspection standards and key points of the GAP review for Chinese medicinal herbs, and provided reference for the self-inspection of enterprises, experts or third-party inspections.

On 21 July 2023, the National Health Commission, jointly with the Ministry of Education, the Ministry of Public Security, the National Audit Office, the SASAC of the State Council, the State Administration for Market Regulation, NHSA, the State Administration of Traditional Chinese Medicine, the National Bureau of Disease Control and Prevention and the NMPA held a video meeting, deploying and launching a year-long centralized rectification of corruption in China’s medical and pharmaceutical field. The meeting emphasized that the state should resolutely punish corruption with a “zero tolerance” attitude, and vigorously create a clean environment for the development of medical and pharmaceutical field. Focusing on key areas such as production, supply, sales, use and reimbursement in the medical and pharmaceutical field and “key minorities”, the state will adhere to addressing both symptoms and root causes, and taking measures in both correction and construction, to carry out in-depth systematic governance of the whole pharmaceutical industry and the entire chain with a full coverage.

## ***V. Work Arrangement for the Next Step***

With the orderly recovery of China’s economy, the demand for TCM has grown steadily with a good momentum for the TCM industry. At the same time, under the influence of multiple pharmaceutical reform and development policies, the market environment is complex and changeable, and industry competition is becoming increasingly fierce. In the second half of 2023, the Group will complete the mid-term revision of the “14th Five-Year” plan, and accelerate the decomposition and implementation thereof. Taking full advantages of the whole industry chain and national industrial layout of TCM, the Group will fully implement the coordinated development strategy to build core competitiveness, grasp market opportunities, and achieve high-quality development. Specific measures include:

**Firstly**, continue to promote balanced development of the six major business segments, expand the scale of production and operation business of Chinese medicinal herbs, increase the number of varieties planted in the base of Chinese medicinal herbs, promote the construction and management of Chinese medicinal herbs production bases of authentic large varieties, strengthen the internal supply guarantee of Chinese medicinal herbs and secure internal bulk medicinal materials supply; strengthen internal synergy of the production and operation of TCM decoction pieces, steadily expand the scale of production and synergy, and continue to develop the business of processing medicinal herbs while they are fresh; accelerate the research and formulation of national and provincial standards for key varieties of concentrated TCM granules, strengthen the cost and quality control of varieties, and take multiple measures to continue to promote the sales growth; establish a pricing model for production and sales coordinated settlement of TCM finished drugs, strengthen the linkage effect of production and sales, focus on management innovation and team building, and start advertising for some key product brands; maintain TCM great health products platform channels, increase efforts on market investment and promotion, improve the e-commerce operation model, vigorously deploy and develop new retail business, select superior varieties to seek key breakthroughs; continue to improve the investment project layout and operation management system of TCM medical institutions, push forward the implementation of mergers and acquisitions projects, introduce and cultivate professional talents, empower the development value of platform, and put into use the information system of “digital TCM medical institutions”.

**Secondly**, build an internal synergy system in an all-round manner, strengthening internal synergy in upstream and downstream of the industrial chain, business integration and management, and continue to promote the production synergy, synergy of production and marketing and market synergy of concentrated TCM granules, TCM decoction pieces and TCM finished drugs.

**Thirdly**, enhance the supporting role of technological innovation, integrate and utilize scientific research resources of the whole industry chain, overcome scientific research difficulties in major fields such as concentrated granules and classical formulae, and accelerate the research of TCM innovative drugs and the secondary development of large varieties.

**Fourthly**, strengthen brand building of “Sino-TCM”, establish a systematic brand communication system, and form a brand promotion mechanism with the help of product advertisements, professional agents, retail channels and industry exchanges.

**Fifthly**, continue to propel digital transformation, promote the application of projects such as digital TCM medical institutions, decoction and distribution center system, and intelligent talent management system, and carry out an in-depth and solid overall goal planning of “digital TCM”.

**Sixthly**, launch a new round of reform, deepening and upgrading actions to improve the corporate governance structure as a modern enterprise with Chinese characteristics and the construction of enterprise systems, and to strengthen enterprise value creation capabilities and market competitiveness.

## BUSINESS ANALYSIS

During the Reporting Period, the Group's revenue was approximately RMB9,302,957,000, representing an increase of 57.4% from approximately RMB5,911,638,000 for the same period last year. Revenue and cost of sales of each business segment is as follows:

Business segments	2023		Six months ended 30 June		2022	
	Revenue RMB'000	Revenue RMB'000	Change	Cost of sales RMB'000	Cost of sales RMB'000	Change
Chinese medicinal herbs integration business	<b>880,585</b>	431,175	104.2%	<b>809,913</b>	403,768	100.6%
TCM decoction pieces	<b>1,305,191</b>	841,372	55.1%	<b>1,019,270</b>	681,297	49.6%
Concentrated TCM granules	<b>4,930,591</b>	2,761,603	78.5%	<b>1,769,373</b>	1,059,231	67.0%
TCM finished drugs	<b>2,034,759</b>	1,765,649	15.2%	<b>828,630</b>	737,457	12.4%
TCM great health products	<b>94,243</b>	48,321	95.0%	<b>81,572</b>	38,506	111.8%
TCM medical institutions	<b>57,588</b>	63,518	-9.3%	<b>36,223</b>	39,508	-8.3%
<b>Total</b>	<b><u>9,302,957</u></b>	<u>5,911,638</u>	<u>57.4%</u>	<b><u>4,544,981</u></b>	<u>2,959,767</u>	<u>53.6%</u>

### 1. Chinese medicinal herbs integration business

	Six months ended 30 June		Change
	2023 RMB'000	2022 RMB'000	
Revenue	<b>880,585</b>	431,175	104.2%
Cost of sales	<b>809,913</b>	403,768	100.6%
Gross profit	<b>70,672</b>	27,407	157.9%
Gross profit margin	<b>8.0%</b>	6.4%	1.6pp

During the Reporting Period, the revenue of the Chinese medicinal herbs integration business segment was approximately RMB880,585,000, representing an increase of 104.2% compared with the revenue of approximately RMB431,175,000 for the same period last year and accounting for 9.5% of the total revenue. The rapid growth trend of the Chinese medicinal herbs integration business segment was mainly because: (1) enterprises in various producing areas further enhanced the supply capacity of authentic Chinese medicinal herbs by leveraging on the localised resources strength and focusing on core varieties in industrial parks; and (2) the Chinese medicinal herbs operation business continued rapid growth due to the significant progress made in the acquisition of new customers during the Period.

The gross profit margin during the Period was 8.0%, representing an increase of 1.6 percentage points compared with 6.4% for the same period last year, which was mainly attributed to the fact that: (1) the upgraded scale effect came along with the improvement of GAP production and procurement system; and (2) the general increase in the market price of Chinese medicinal herbs had a positive impact on the growth of gross profit.

## 2. *TCM decoction pieces*

	<b>Six months ended 30 June</b>		Change
	<b>2023</b>	2022	
	<b>RMB'000</b>	RMB'000	
Revenue	<b>1,305,191</b>	841,372	55.1%
Cost of sales	<b>1,019,270</b>	681,297	49.6%
Gross profit	<b>285,921</b>	160,075	78.6%
Gross profit margin	<b>21.9%</b>	19.0%	2.9pp

During the Reporting Period, the revenue of the TCM decoction pieces business segment was approximately RMB1,305,191,000, representing an increase of 55.1% compared with the revenue of approximately RMB841,372,000 for the same period last year and accounting for 14.0% of the total revenue. TCM decoction pieces business segment showed a robust development momentum, which was mainly because: (1) the Group strengthened the production synergy of TCM decoction pieces during the Period, facilitating a rapid expansion of the coverage of medical terminals by decoction pieces enterprises; (2) the Group grasped the development trend of the industry and actively explored and launched the TCM decoction pieces traceability system, and the income from traceable decoction pieces showed a significant growth; and (3) the decoction and distribution business continuously grew due to an ever-increasing recognition of intelligent decoction and distribution service for TCM decoction pieces by our customers.

The gross profit margin during the Period was 21.9%, representing an increase of 2.9 percentage points compared with 19.0% for the same period last year. The increase in gross profit margin was mainly attributed to: (1) the benefit of traceable decoction pieces; and (2) further optimization of our product mix by taking advantage of the specialty decoction pieces varieties to promote profit growth.

### 3. Concentrated TCM granules

	Six months ended 30 June		Change
	2023	2022	
	RMB'000	RMB'000	
Revenue	<b>4,930,591</b>	2,761,603	78.5%
Cost of sales	<b>1,769,373</b>	1,059,231	67.0%
Gross profit	<b>3,161,218</b>	1,702,372	85.7%
Gross profit margin	<b>64.1%</b>	61.6%	2.5pp

During the Reporting Period, the revenue of the concentrated TCM granules business segment was approximately RMB4,930,591,000, representing an increase of 78.5% compared with the revenue of approximately RMB2,761,603,000 for the same period last year and accounting for 53.0% of the total revenue. The significant recovery of revenue from the concentrated TCM granules business segment was mainly attributed to the fact that: (1) the Group made continuous and enhanced efforts in tackling technical problems of the national and provincial standards for key difficult varieties during the Period, which resulted in a continuous increase in the number of standard varieties, while promoting the filing of varieties and replacement of end customer products; (2) the Group continued to explore and optimize processes of national and provincial standard products, so that product supply became more stable; and (3) the Group continued to strengthen marketing promotion, and sales volume of concentrated TCM granules rebounded steadily during the Period.

The gross profit margin during the Period was 64.1%, representing an increase of 2.5 percentage points compared with 61.6% for the same period last year, which was mainly driven by the scale effect.

### 4. TCM finished drugs

	Six months ended 30 June		Change
	2023	2022	
	RMB'000	RMB'000	
Revenue	<b>2,034,759</b>	1,765,649	15.2%
Cost of sales	<b>828,630</b>	737,457	12.4%
Gross profit	<b>1,206,129</b>	1,028,192	17.3%
Gross profit margin	<b>59.3%</b>	58.2%	1.1pp

During the Reporting Period, the revenue of the TCM finished drugs business segment was approximately RMB2,034,759,000, representing an increase of 15.2% compared with the revenue of approximately RMB1,765,649,000 for the same period last year and accounting for 21.9% of the total revenue. The sound development of the TCM finished drugs business segment was mainly attributed to the active cultivation of prescription products blockbuster and remarkable development at the medical ends during the Period, which led to the significant increase in the revenue of prescription products. Among them, the sales of our key prescription products such as Huashi Baidu Granules (化濕敗毒顆粒), Yu Ping Feng Granules (玉屏風顆粒) and Jinye Baidu Granules (金葉敗毒顆粒) increased by over 50%.

The gross profit margin during the Period was 59.3%, representing an increase of 1.1 percentage points compared with 58.2% for the same period last year, which was mainly due to further optimization of our product structure.

#### 5. *TCM great health products*

	<b>Six months ended 30 June</b>		Change
	<b>2023</b>	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	<b>94,243</b>	48,321	95.0%
Cost of sales	<b>81,572</b>	38,506	111.8%
Gross profit	<b>12,671</b>	9,815	29.1%
Gross profit margin	<b>13.4%</b>	20.3%	-6.9pp

During the Reporting Period, the revenue of TCM great health products business segment was approximately RMB94,243,000, representing an increase of 95.0% compared with the revenue of approximately RMB48,321,000 for the same period last year and accounting for 1.0% of the total revenue. TCM great health products business segment showed a rapid growth momentum, which was mainly because: (1) the Group focused on its self-owned brand products business, and actively expanded sales channels, which led to a significant increase in the sales of a series of characteristic products such as roxburgh rose; and (2) the Group strengthened product innovation, and achieved initial results in business exploration of functional products, Chinese medicine homologous food products, food for special dietary uses and other products.

The gross profit margin during the Period was 13.4%, representing a decrease of 6.9 percentage points compared with 20.3% for the same period last year, which was mainly due to the higher cost of new products and their benefits failing to show.

## 6. *TCM medical institutions*

	Six months ended 30 June		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	<b>57,588</b>	63,518	-9.3%
Cost of sales	<b>36,223</b>	39,508	-8.3%
Gross profit	<b>21,365</b>	24,010	-11.0%
Gross profit margin	<b>37.1%</b>	37.8%	-0.7pp

During the Reporting Period, the revenue of TCM medical institutions business segment was approximately RMB57,588,000, representing a decrease of 9.3% compared with the revenue of approximately RMB63,518,000 for the same period last year, which was mainly because some TCM medical institutions with low profitability were suspended to shape business structure. However, with the advancement of regional layout of the Group's TCM medical institutions business, the TCM medical institutions business segment will achieve incremental development.

The gross profit margin during the Period was 37.1%, representing a decrease of 0.7 percentage point compared with 37.8% for the same period last year, which was mainly due to the decline in high-margin business.

## **FINANCIAL REVIEW**

### **Other income**

For the six months ended 30 June 2023, the Group's other income was approximately RMB83,130,000, representing a decrease of 12.1% from approximately RMB94,596,000 for the same period last year. Such decrease was mainly because the Group received government grants of approximately RMB48,128,000 during the Reporting Period, representing a decrease of 20.8% from approximately RMB60,804,000 for the same period last year. Details can be found in Note 5 to "Interim Condensed Consolidated Financial Information".

### **Other gains and losses**

For the six months ended 30 June 2023, the Group's other losses were approximately RMB14,004,000 (six months ended 30 June 2022: other losses of approximately RMB3,411,000). During the Reporting Period, the changes in other gains and losses were mainly due to the fact that: (1) donation expenses for the Period was approximately RMB12,386,000, representing a significant increase compared with approximately RMB7,892,000 for the same period last year; and (2) net foreign exchange loss for the Period was approximately RMB1,547,000, as compared with net foreign exchange gain for the same period last year.

### **Impairment losses under expected credit loss model, net of reversal**

For the six months ended 30 June 2023, in accordance with the Group's credit impairment loss provision policy, the Group's provision for credit impairment loss was approximately RMB47,768,000 for the Period, representing an increase compared with approximately RMB36,935,000 for the same period last year, which was mainly because the balance of trade receivables as of 30 June 2023 increased by 22.3% compared with the beginning of this year as driven by the significant growth in the Group's revenue during the Reporting Period.

### **Selling and distribution expenses**

For the six months ended 30 June 2023, the Group's selling and distribution expenses were approximately RMB3,186,920,000 (six months ended 30 June 2022: approximately RMB1,717,006,000), representing an increase of 85.6% compared with the same period last year, which was mainly because: (1) during the previous period, being at the early stage of transition from the original standards to the new ones of concentrated TCM granules products, the investment in sales resources was reduced in stages subject to market conditions, whereas during the Period, in order to accelerate the promotion of concentrated TCM granules with national and provincial standard, promotional activities have been launched to explore market, resulting in a year-on-year increase in the expenses related to marketing and services; and (2) in order to cultivate the market for TCM finished drugs and TCM decoction pieces, the Group's expenses related to marketing, staff remuneration and business trips have increased as well during the Period.

## **Administrative expenses**

For the six months ended 30 June 2023, the Group's administrative expenses were approximately RMB464,754,000 (six months ended 30 June 2022: approximately RMB401,610,000), representing an increase of 15.7% compared with the same period last year, which was mainly attributed to that: (1) the number of management members grew and so as their remuneration for the expansion of operation scale of our subsidiaries, in particular the industrial parks; and (2) depreciation expenses increased during the Period.

## **Research and development expenses**

For the six months ended 30 June 2023, the Group's research and development expenses amounted to approximately RMB313,614,000, representing a decrease of 1.2% over approximately RMB317,534,000 for the same period last year. During the Reporting Period, 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; and (3) improve future operating efficiency, focusing on equipment development and improvement.

## **Finance costs**

For the six months ended 30 June 2023, the Group's finance costs were approximately RMB105,438,000 (six months ended 30 June 2022: RMB98,565,000), representing a year-on-year increase of 7.0%, which was mainly due to the adjustments to varieties of the Group's financing products during the Period. During the Reporting Period, capitalised finance costs of the Group were nil (six months ended 30 June 2022: RMB1,593,000). During the Reporting Period, the Group's effective loan interest rate was 2.7% (six months ended 30 June 2022: 2.8%). The Group will continue to closely monitor the changes in interest rate, 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.

## **Loss from investment in associates**

For the six months ended 30 June 2023, the Group recorded shared loss attributable to associates of approximately RMB1,796,000, and approximately RMB1,640,000 for the same period last year. During the Period, investment losses were recognized mainly regarding the Group's investments in Guangdong Haisikanger Rehabilitation Medical Co., Ltd. and Liaoxingtang (Foshan Nanhai) TCM Clinic Co., Ltd.

## **Profit for the Period**

For the six months ended 30 June 2023, the Group's profit for the Period was approximately RMB616,960,000, representing an increase of 46.4% as compared with approximately RMB421,535,000 for the same period last year, with a significant year-on-year increase in revenue and an increase in profit for the Period. The net profit margin (defined as profit for the period divided by revenue for the period) was 6.6%, representing a decrease of 0.5 percentage point from 7.1% for the same period last year, which was mainly attributed to: (1) the increase in selling and distribution expenses as compared with the same period last year as the Group strengthened the promotion of the national and provincial standard products for concentrated TCM granules during the Period; and (2) the increase in administrative expenses as a result of the expansion of operation scale of the Group's industrial parks during the Period.

## **Earnings per share**

For the six months ended 30 June 2023, basic earnings per share were RMB11.49 cents, representing an increase of 40.0% over RMB8.21 cents for the same period last year. The increase in basic earnings per share was because profit attributable to equity holders of the Company during the Reporting Period increased by 39.9% to approximately RMB578,742,000 (six months ended 30 June 2022: RMB413,588,000).

## **Liquidity and financial resources**

As at 30 June 2023, the Group's current assets amounted to approximately RMB20,956,635,000 (31 December 2022: RMB17,966,676,000), which included cash, cash equivalents and bank deposits of approximately RMB3,982,759,000 (31 December 2022: RMB3,179,783,000), of which the pledged bank deposits amounted to approximately RMB243,978,000, mainly for bills payable security (31 December 2022: RMB114,729,000). Trade and other receivables amounted to approximately RMB10,290,844,000 (31 December 2022: RMB8,141,891,000). Current liabilities amounted to approximately RMB10,876,481,000 (31 December 2022: RMB10,102,784,000). Net current assets aggregated to approximately RMB10,080,154,000 (31 December 2022: RMB7,863,892,000). The Group's current ratio was 1.9 (31 December 2022: 1.8). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity holders of the Company) increased from 24.6% as at 31 December 2022 to 34.0%. The increase in gearing ratio was mainly due to an increase in the Group's bank and other loans as compared with the beginning of the year.

## **Bank and other loans and pledge of assets**

As at 30 June 2023, the Group's balance of bank and other loans was approximately RMB3,766,134,000 (31 December 2022: RMB1,721,328,000), of which approximately RMB1,257,237,000 was secured borrowings (31 December 2022: RMB459,127,000). Out of the balance of bank and other loans, approximately RMB2,823,272,000 and RMB942,862,000 were repayable within one year and over one year respectively (31 December 2022: approximately RMB1,255,268,000 and RMB466,060,000, respectively).

As at 30 June 2023, the Group's bank deposits of RMB243,978,000, land use rights with carrying values of RMB93,023,000, investment property and property, plant and equipment with carrying values of RMB705,107,000 and bills receivable with carrying values of RMB224,366,000 were pledged to secure certain borrowings and bill financing of the Group (31 December 2022: bank deposits of RMB114,729,000, land use rights of RMB140,835,000, investment property and property, plant and equipment of RMB635,284,000 and bills receivable of RMB211,748,000 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 200-day Super & Short-term Commercial Paper of RMB1 billion and three-year medium-term notes of RMB1.2 billion in the second quarter of 2023 to succeed the three-year medium-term notes of RMB2.2 billion due in the second quarter of 2023. As the discount rate in the bills market continued to decline, the Group obtained bills discount finance of RMB429 million and used it as a reserve for the procurement of materials. Apart from the above, no major financing activity has been carried out. As at 30 June 2023, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB5,573,666,000.

## **Capital expenditure**

For the six months ended 30 June 2023, the Group's fixed asset and intangible asset investment expense was approximately RMB356,700,000, compared with approximately RMB290,047,000 for the same period last year. During the Reporting Period, the capital expenditure was mainly used for further construction of the production bases for certain concentrated TCM granules and TCM decoction pieces and expansion for extraction capacity improvement.

## **Financing capacity**

As at 30 June 2023, capital commitments which the Group has entered but were outstanding and not provided for in the financial statements were approximately RMB359,368,000 (31 December 2022: approximately RMB153,576,000). 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, the Group 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 2023 (31 December 2022: nil).

## **Financial risk**

The Group mainly operates in Chinese mainland, with most of its transactions originally denominated and settled in Renminbi, for which the foreign exchange risk is considered insignificant. As at 30 June 2023, the Group had no Hong Kong Dollar bank borrowings. As at 30 June 2023, the Group 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 2023, the Group had a total of 17,373 (30 June 2022: 17,361) employees, including the Directors, of which 5,849 were sales staff, 6,655 were manufacturing staff, and 4,869 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 RMB1,119,553,000 (six months ended 30 June 2022: RMB983,030,000).

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE**

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 Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) throughout the six months ended 30 June 2023.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Specific enquiry has been made with all Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the 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.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## **REVIEW OF INTERIM RESULTS**

The Audit Committee has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2023, including the accounting principles, treatments and practices adopted by the Group. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

## **PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the Company’s website ([www.china-tcm.com.cn](http://www.china-tcm.com.cn)) and the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The Company’s 2023 interim report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company (the “Shareholders”) and will be published on the Company’s website ([www.china-tcm.com.cn](http://www.china-tcm.com.cn)) and the HKExnews website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

## **RESIGNATION OF NON-EXECUTIVE DIRECTOR**

Mr. KUI Kaipin (“Mr. KUI”) has resigned as the non-executive Director, with effect from 29 August 2023 due to change of his work arrangement. Mr. KUI has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders and the Stock Exchange. The Board would like to express its sincere gratitude to Mr. KUI for his valuable contribution to the Company during his tenure of service.

By Order of the Board  
**China Traditional Chinese Medicine Holdings Co. Limited**  
**CHEN Yinglong**  
*Chairman*

Hong Kong, 29 August 2023

*As at the date of this announcement, the Board comprises eleven Directors, of which Mr. CHEN Yinglong, Mr. CHENG Xueren and Mr. YANG Wenming are executive Directors; Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. MENG Qingxin are non-executive Directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive Directors.*