



国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

2024

Interim Report



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. CHEN Yinglong (*Chairman*)

Non-executive Directors

Mr. CHENG Xueren
Mr. YANG Wenming
Ms. LI Ru
Mr. YANG Binghua
Mr. WANG Kan
Mr. MENG Qingxin

Independent Non-executive Directors

Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

JOINT COMPANY SECRETARIES

Mr. ZHAO Dongji
Ms. NG Sau Mei

AUDIT COMMITTEE

Mr. XIE Rong (*Chairman*)
Mr. YU Tze Shan Hailson
Mr. QIN Ling
Mr. LI Weidong

REMUNERATION AND EVALUATION COMMITTEE

Mr. QIN Ling (*Chairman*)
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LI Weidong

NOMINATION COMMITTEE

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

STRATEGIC COMMITTEE

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

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STOCK CODE

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

Stock code: 00570

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

WEBSITE

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MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The board (the “Board”) of directors (the “Directors”) of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) prepared under Hong Kong Financial Reporting Standards for the six months ended 30 June 2024 (the “Reporting Period”, the “Period”), together with comparative figures for the corresponding period of 2023 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 RMB8,385,473,000, representing a decrease of 9.9% compared with approximately RMB9,302,957,000 for the same period last year. Among them, revenue from Chinese medicinal herbs integration business was approximately RMB754,277,000, representing 9.0% of the total revenue. Revenue from TCM decoction pieces business was approximately RMB1,576,914,000, representing 18.8% of the total revenue. The concentrated TCM granules business contributed a revenue of approximately RMB3,479,735,000, representing 41.5% of the total revenue. Revenue from the TCM finished drugs business was approximately RMB2,418,349,000, representing 28.8% of the total revenue. Revenue from the TCM great health business was approximately RMB156,198,000, representing 1.9% of the total revenue.

Gross profit was approximately RMB4,061,254,000, representing a decrease of 14.6% compared with approximately RMB4,757,976,000 for the same period last year. Gross profit margin was 48.4%, representing a decrease of 2.7 percentage points compared with 51.1% for the same period last year, which was mainly due to the decrease in the sales price of concentrated TCM granules after centralized procurement and the increase in raw material procurement costs.

BUSINESS REVIEW

During the Reporting Period, the Group anchored the vision of “all-round construction of a sustainable, mutually synergistic, and jointly developed TCM healthcare industry chain to create an industry-leading TCM healthcare industry group”, completed the mid-term adjustment of the “14th Five-Year” strategic plan, and determined the five business sectors of “Chinese medicinal herbs integration business, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, TCM great health”. The Group strengthened the advantages of overall coordination and resource integration, implemented in-depth actions to deepen the reform and enhancement, gave full play to the leading role of technological innovation to accelerate the nurturing of new quality productive forces, and comprehensively improved the level of compliance governance. The development of the whole TCM healthcare industry chain has thus become more resilient with sustainable growth capabilities.



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The Group focused on promoting the major brand strategy of “Sino-TCM”. The “Sino-TCM” brand and the core TCM finished drug product “Yu Ping Feng Granules” (玉屏風顆粒) made a prominent debut on CCTV-1 and CCTV-8 during the evening prime time. The “Sino-TCM” branded series of great health products were unveiled at the 110th Sugar and Wine Festival. The above has created brand consensus with “Central State-owned Enterprise Quality · Sino-TCM”, and effectively shaped and improved brand value and influence. During the Reporting Period, “China Traditional Chinese Medicine” and “Zhonglian” brands were recognized by the PRC as “Chinese Time-honored Brands”.

On 30 June 2024, 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” again, ranking 25th in the overall list and still first in the pharmaceutical companies. The Group was also selected as the “Typical Case of Social Responsibility of Rural Revitalization Enabling Plan” (鄉村振興賦能計劃社會責任典型案例) in the 3rd Rural Revitalization Brand Festival.

I. Refine and Adjust Strategic Goals to Consolidate the Competitive Advantages of the Whole Industry Chain

(I) *Chinese medicinal herbs integration business*

TCM resources are the foundation and guarantee for the sustainable development of TCM industry. While expanding the scale of base construction and maintaining its leadership in the industry, the Group focuses on the quality and sustainability of Chinese medicinal herbs, and continues to promote the construction of Good Agricultural Practice for Chinese medicinal herbs (the “Chinese medicinal herbs GAP”) bases that meet policy requirements and the Company’s development needs. The Group integrates and creates a multi-level base guarantee system to address problems such as industrial support, common technical bottlenecks, and seed sources guarantee. The Group has jointly built a total of 178 production bases for Chinese medicinal herbs in 23 provinces (regions and municipalities) across the country, covering an area of 415,000 mu, of which 98 varieties achieved traceability; it has built a total of 23 breeding bases, covering an area of 4,688.53 mu. As of 30 June 2024, the Group’s honeysuckle, lonicera japonica, gardenia, cinnamon, cassia twig and rhizoma sparganii varieties have passed the compliance inspection of new version of the Chinese medicinal herbs GAP, ranking first in China in terms of the number of varieties. The bases of two varieties cinnamon and cassia twig have been recognized as “provincial Chinese medicinal herbs industrialization bases” simultaneously. 10 varieties including magnolia officinalis have passed the “Three Nos and One Whole” (三無一全) brand variety review of the National Innovation Alliance for Standardization and Quality Evaluation of Medicine Material (“Three Nos and One Whole” refers to the four standards that must be met during the planting and processing of Chinese medicinal herbs, namely no sulfur processing, no excessive aflatoxin, no pollution (including no excessive pesticide residues, no excessive heavy metals, no use of growth regulators to promote the growth of harvested organs) and whole process traceability). Bases standardized production technology of 10 varieties including fritillaria thunbergii have achieved outstanding results, successfully breeding 5 excellent new varieties, and forming 108 technical standards and patents.



MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group and the Traditional Chinese Medicine Plantation and Breeding Professional Committee of the China Association of Traditional Chinese Medicine (中國中藥協會中藥材種植養殖專業委員會) jointly organized the “Chinese Medicinal Herbs Source in Action – High-quality Authentic Medicinal Herbs Base in China TCM & Chinese Medicinal Herbs Contributing to Rural Revitalization” (中藥源頭在行動－優質道地藥材基地走進中藥控股暨中藥材助力鄉村振興) event to build an industry communication platform and a production and marketing docking platform, promoting high-quality development of the source of Chinese medicinal herbs industry.

(II) *TCM decoction pieces*

During the Reporting Period, the Group focused on the expansion of terminals for TCM decoction pieces to empower business growth. Leading enterprises, such as Shanghai Tongjitang Pharmaceutical Co., Ltd. and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd., have strengthened support and played well in growth-driving.

The Group fully leveraged the competitive advantages of its characteristic business of “Share of TCM · Intelligent Distribution Centers”. During the Reporting Period, driven by its two main businesses TCM decoction and ointment production, revenue of the Foshan Center increased by more than 31.7% year-on-year; the Zhongshan Center developed pharmaceutical services in multiple dimensions, with revenue increasing by more than 31.3% year-on-year; the Beijing Center developed special decoction pieces varieties and “distribution to home” convenient services, with revenue increasing by 27% year-on-year. The Group continued to replicate and promote the “Share of TCM · Intelligent Distribution Centers” model. As of 30 June 2024, the Group directly operates 27 centers in 12 provinces, regions and municipalities across China. In the first half of 2024, the revenue from decoction, distribution and supporting services amounted to RMB60.52 million in total, representing an increase of 42.8% year-on-year, further expanding the accessibility of convenient TCM services.

Fresh cutting in the place of origin is a process of giving medicinal materials special medicinal properties and quality, and is a key link in ensuring the quality of TCM decoction pieces. The Group leveraged the advantages of its base layout of Chinese medicinal herbs to commence researches on the process of fresh cutting in the place of origin. During the Reporting Period, 4 newly added varieties of Chinese medicinal herbs have completed the qualification certification for fresh cutting in the place of origin, and a total of 47 varieties successfully obtained the qualification for fresh cutting in the place of origin.



MANAGEMENT DISCUSSION AND ANALYSIS

(III) Concentrated TCM granules

As an important carrier for the standardization and modernization of TCM, concentrated TCM granules can meet the demand for TCM substances in modern life and is a major practical achievement in the inheritance and innovative development of TCM. Since the reform on TCM decoction pieces carried out by the National Administration of Traditional Chinese Medicine in 1993, concentrated TCM granules have developed rapidly under the guidance and support of national policies. Guangdong Yifang Pharmaceutical Co., Ltd. (“Guangdong Yifang”) and Jiangyin Tianjiang Pharmaceutical Co., Ltd. under the Group are the earliest companies in China to carry out the research and production of concentrated granules, enjoying rich industry experience and first-mover advantages. The “Announcement on the End of Pilot Work of Chinese Medicine Formula Granules” (《關於結束中藥配方顆粒試點工作的公告》) implemented in November 2021 has repositioned the concentrated TCM granules industry in multiple aspects such as management methods, medicinal herbs requirements, production requirements, production standards, sales locations, and medical insurance payment. The concentrated TCM granules industry has entered a new stage of high-quality development with high standards, strict supervision and fierce competition.

Since the first publication of “Announcement on Centralized Procurement of the Procurement Alliance of Concentrated TCM Granules” (《中藥配方顆粒採購聯盟集中採購公告》) by the Shandong Public Resources Trading Center, the centralized procurement of concentrated TCM granules (national drug standards) has been rapidly promoted, with the price of 200 varieties of concentrated TCM granules reduced by more than 50% on average. However, significant price deduction for varieties in the centralized procurement area brought about frequent price adjustment in the non-centralized procurement area, and the expected quantity effect of centralized procurement failed to appear, leaving the concentrated TCM granules industry in a sustained period of deep adjustment. During the Reporting Period, affected by the price reduction of centralized procurement, rising costs and intensified market competition, the revenue of the Group’s concentrated TCM granules retreated and the gross profit margin fell. With an increase in the number of national drug standards for concentrated TCM granules, more regions are expected to join the centralized procurement for concentrated TCM granules, and the range of varieties of concentrated TCM granules to be included in centralized procurement will continue to expand, bringing greater market capacity and competitive pressure.



Centralized purchasing unit	Commencement time	Coverage
Shandong "14+1" Inter-provincial Alliance of Concentrated TCM Granules	September 2023	Shandong, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Anhui, Jiangxi, Hainan, Yunnan, Tibet, Shaanxi, Qinghai, Xinjiang and Xinjiang Production and Construction Corps
Beijing-Tianjin-Hebei "3+N" Pharmaceutical Purchasing Alliance	March 2024	Mainly Beijing, Tianjin and Hebei, and covering Jiangsu, Zhejiang, Henan, Hubei, Hunan, Guangdong, Chongqing, Guizhou, Sichuan, etc.
Gansu Provincial Fifth Batch of Drugs Volume-Based Procurement of Concentrated TCM Granules	April 2024	Gansu

Under the trend of growing industry competition, the Group firmly upholds the awareness of "compliance, win-win and sustainability", and continues to play an industry-leading role. The Group actively adapts to the trend of centralized procurement, strengthens policy research and judgment and analysis of response measures, promotes the transformation and upgrading of business models and marketing systems, and formulates differentiated product prescription strategies. Such multiple measures have built high-quality competitive advantages on the supply side.

The Group recognizes the importance of terminal coverage, strives to consolidate its market share and actively enhances its market development and guaranteed supply capabilities. During the Reporting Period, the Group accelerated the marketing and filing of National Standards varieties, and expanded the catalog of available varieties. The number of national and provincial standards as approved maintained first in China.



MANAGEMENT DISCUSSION AND ANALYSIS

(IV) TCM finished drugs

The Group strives to give play to and leverage its advantages of terminal coverage and channel management system, so as to continuously strengthen the production and sales synergy of TCM finished drugs, refine and adjust marketing strategies, and strengthen its brand promotion and marketing activities, thus further manifesting its core competitive advantages. During the Reporting Period, in the prescription drug business, the Group's project of "One Person, One Hospital, One Benchmark" (一人一院一標桿) achieved positive results as the number of high-output benchmark terminals continued to grow, and the coverage of medical institutions continued to expand. In the OTC business, the layout of national chain customers was further improved. The consumption of cooperative stores improved against the downward trend, and the terminal sales of nine major products such as Biyankang Tablets (鼻炎康片), Chongcao Qingfei Capsules (蟲草清肺膠囊) and Yaoshen Paste increased by 14.2% compared with the same period.

The Group focuses on the cultivation of key varieties of TCM finished drugs, and strives to caring out work related to post-marketing basic researches and clinical researches on key products and inclusion of key products in the essential drugs list. During the Reporting Period, 15 new documents such as guidelines, consensus statements and textbooks were formed and released, which promoted the steady increase in sales of 29 key varieties, with sales revenue increasing by 32.5% year-on-year. Among them, sales of nine varieties including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒) and Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊) exceeded RMB100 million, showing market potential.

(V) TCM great health

As the level of economy and society development and people's living standards continue to improve, the general public places greater emphasis on the quality of life and health safety. The Group seizes the new opportunities of upgraded health needs by optimizing and upgrading "TCM great health products" and "TCM medical institutions" to form "TCM great health" business segment, which unleashes the resource synergy advantages in the healthcare sector, striving for enhanced core competitiveness.

In terms of TCM great health products, the Group keenly captured dynamics of the offline consumer market, and continuously optimized the product and customer structure. A total of 24 products were newly developed, with a total of more than 400 products launched, covering categories such as food, functional food, agricultural products and cosmetics. The overall gross profit increased by 21.6% year-on-year.

In terms of TCM medical institutions, the "Yachao Digital TCM medical institutions" (亞潮數字國醫館) system was updated and iterated, whereby customer management capabilities and operational efficiency were effectively boosted with the roll out of standardized construction and integrated operation. Nearly 120,000 outpatient customers were served, representing a year-on-year increase of 18%. The service capabilities of TCM products continued to improve, and customer stickiness was greatly enhanced.



II. Integrate and gather scientific and technological innovation elements and resources to continuously strengthen scientific and technological innovation capabilities

The Group is firmly driven by scientific and technological innovation, actively strengthens the investment intensity in research and development for scientific and technological innovation, and strives to gather new quality productive forces in the TCM industry. During the Reporting Period, Sinopharm Group Beijing Huamiao Pharmaceutical Co., Limited was newly qualified as the CNAS laboratory, accumulating 7 CNAS laboratories; an article on Guizhou's roxburgh rose, by Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") and the team of Professor Ding Zhuhong from School of liquor and food engineering of Guizhou University, was published on Nature, a top international journal. The "High-tech Enterprise Innovation Alliance for Safety Evaluation of Exogenous Harmful Substances in Traditional Chinese Medicines" (中藥外源性有害物質安全性評價高新技術企業創新聯盟) jointly established by 6 subsidiaries including Guangdong Yifang has been inspected and qualified, which improved the evaluation system of exogenous harmful substances in TCM, and improved the quality control of the whole industry chain.

Breakthroughs have been made in researches on Chinese medicinal materials resources. In the formulation of standards, the "TCM – Epimedium" quality standardization project jointly proposed by Tongjitang Pharmaceutical and professor Yin Hang's TCM team of Tsinghua University School of Pharmaceutical Sciences was approved by ISO/TC249 International Standards, promoting epimedium and its TCM products to the international market. In terms of new variety breeding, the new variety of epimedium pubescens Maxim. "Guitong Roumao No. 1" (貴同柔毛1號) was announced as a new variety by the Ministry of Agriculture and Rural Affairs of the PRC.

The research on concentrated TCM granules has stayed ahead of the industry. During the Reporting Period, the Chinese Pharmacopoeia Commission (國家藥典委員會) (the "Chinese Pharmacopoeia Commission") announced 31 new national drug standards for concentrated TCM granules, 19 of which were completed by the Group, accounting for 61%. As of 30 June 2024, the Chinese Pharmacopoeia Commission has issued a total of 296 national drug standards for concentrated TCM granules, 157 of which were completed by the Group, accounting for 53%.

The Group focuses on intellectual property management and integrated scientific research control, and is committed to the management of intellectual property rights throughout the entire life cycle of drugs. The research on key projects of new TCM and classical formulae has achieved fruitful results. During the Reporting Period, 64 patents were authorized, including 39 invention patents and 24 utility model patents; 13 scientific and technological projects were approved, including 1 national project and 4 provincial and ministerial-level projects; 7 new scientific and technological project awards were added.



MANAGEMENT DISCUSSION AND ANALYSIS

III. Comprehensively improve the modern management and control system to promote high-quality development

(I) Strive to advance in-depth actions to deepen the reform and enhancement, and shape the new drivers and strength for high-quality development

The Group fully implements the overall deployment of in-depth actions to deepen the reform and enhancement, and accelerates the cultivation and development of strategic emerging industries. It actively strengthens the dominant position of scientific and technological innovation, focuses on improving the bottom-line guarantee capabilities in the medical and pharmaceutical field, and is committed to playing the role of “state-owned enterprises team” in the TCM industry in terms of scientific and technological innovation, industrial control and security support in the construction of a modern TCM industry system. During the Reporting Period, the Group focused on the two major goals of improving core competitiveness and enhancing core functions, improved the modern corporate governance system, and strived to optimize the investment layout of TCM industry. The Group explored the implementation of professional integration and strategic restructuring, continuously built high-level scientific research platforms, continuously enhanced the breakthrough of key and core technologies, accelerated the digital and green transformation and upgrading, and activated the new quality productive forces of TCM industry.

(II) Optimize construction of talent resources and activate the intrinsic production capacity of organizational value creation

The Group has implemented the strategic measures to strengthen enterprises through talents, deeply optimized talent resources construction and management, improved the standardized cadre management mechanism, and established a distinctive talent cultivation system. Focusing on key core talents, the Group has actively explored the training and cultivation mechanism of talents with TCM characteristics, and iteratively upgraded the training system of advanced classes for talents of Chinese medicinal herbs integration business to cultivate high-end and versatile talents with “professionalism + management”. The Group has improved the talent development system of “Five-Element & Great-Plan”, built a team of internal lecturers with TCM characteristics, and the number of certified internal lecturers has reached 477, representing a year-on-year increase of 8.7%, including 192 senior and specially-appointed internal lecturers. The Group has built an internal training course library, realized internal sharing of 739 experience courses and focused on cultivating the competitive advantage of professional talents.

The Group has been building a three-dimensional employer brand, actively carrying out human efficiency improvement actions, and accelerating the construction of a talent base in the TCM industry through further promoting intelligent talent management and control. During the Reporting Period, the Group won the “Human Resources Management Excellence Award in 2024” (2024人力資源管理傑出獎) from 51job and was listed in the “Employer Brand Favored by Chinese College Students in 2024” (2024中國大學生喜愛的僱主品牌) from 51job for the first time.



(III) Promote intelligence transformation and upgrade to consolidate the foundation of “digital TCM” construction

Focusing on the “strategy + operation” management and control model, the Group has deeply implemented the “digital TCM” strategy, promoted the construction of industrial digitization and control digitization in an orderly manner, so as to consolidate the capabilities of information infrastructure base. In terms of industrial digitization, the construction of “quality traceability data platform for the whole TCM industry chain” has entered a critical stage, and the construction of the self-developed “digital TCM medical institutions 2.0” has been fully launched. Guangdong Yifang’s “Industrial Internet Identification Resolution Application for Quality Control and Traceability of TCM” was successfully selected as the Industrial Internet Pilot Demonstration Project in 2023 of the MIIT, becoming the only concentrated TCM granule enterprise that has been selected to apply the identification resolution platform. In terms of management and control digitization, a number of digital management systems have entered the construction stage, realizing the mobile visualization of the main operating data on the financial intelligent reporting platform. In terms of network security system construction, the emergency response capabilities of infrastructure have been effectively enhanced, the annual network security construction plan has been gradually implemented, and the network technology protection capabilities have been consolidated accordingly.

(IV) Strengthen safety and environmental awareness and accelerate the construction of a green and low-carbon future

The Group strictly implements the work of addressing the root causes and bottlenecks of production safety, continuously explores and practices innovative safety management models, and strives to consolidate safety and environmental awareness. With focus on fundamental remediation of major accident hazards, the Group orderly implements various special work on production safety management. 10 subsidiaries including Sinopharm Group Zhonglian Pharmaceutical Co., Ltd. have carried out intrinsic safety transformation actions to effectively increase the intrinsic safety. During the Reporting Period, a total of 864 safety trainings on equipment, fire, hazardous chemical, etc. were organized, 154 emergency drills were conducted, and zero production safety accident occurred. The Group also firmly planned and deployed the “Dual-Carbon Action” working plan, steadily promoted the green and low-carbon transformation work, successfully carried out 78 internal trainings on energy conservation and environmental protection, and actively improved the professional and technical level of energy conservation and environmental protection.



MANAGEMENT DISCUSSION AND ANALYSIS

(V) Improve the internal control system of compliance management and strive to build a tight risk prevention and control network

The Group adheres to the concept of compliance management, strengthens the construction of the internal control system, and decomposes and implements responsibilities by levels. During the Reporting Period, the Group continued to consolidate the quality of the “fundamentals” of assets, and thoroughly checked the results of cleanup of inefficient and invalid assets, and no major risk events occurred. The Group also fully implemented special anti-corruption rectification work in the medical and pharmaceutical field. It established and improved the marketing compliance system, legal compliance risk monitoring mechanism and supervision department cooperation and coordination mechanism, connected the internal cross-departmental collaborative supervision work, effectively improved the transformation of problem rectification results, and comprehensively improved the level of compliance governance, empowering high-quality development of the enterprise.

(VI) Deepen the quality and efficiency enhancement actions in multiple dimensions and vigorously implement lean management

The Group actively deepened the special actions of improving quality, reducing costs and enhancing efficiency in multiple dimensions, such as optimizing the data management platform, strengthening the standard manufacturing cost system, enhancing fund planning, and leveraging the economics of scale of centralized procurement. In line with the “project-based, quantifiable and assessable” principles, the Group effectively released the intrinsic value of lean management.

IV. Policy Analysis

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 January 2024, the Ministry of Commerce, the Ministry of Science and Technology revised and issued the “Catalogue of Technologies Prohibited and Restricted from Export of China” (《中國禁止出口限制出口技術目錄》), which stipulates that some types of Chinese medicinal herbs resources and production technologies, processing technology of TCM decoction pieces, extraction and processing technology of medicinal ingredients of precious and endangered plants in China, TCM medical technology, and the formula and production technology of TCM are prohibited or restricted from export. The restricted export of TCM medical technology includes medical theory design and effective prescriptions of famous or veteran doctors of TCM, as well as of the disease diagnosis and treatment systems that have won the first and second prizes of scientific and technological progress at the provincial or ministerial level or above.



MANAGEMENT DISCUSSION AND ANALYSIS

On 12 January 2024, the National Healthcare Security Administration issued the “Notice on Strengthening the Supply Guarantee of Selected Products in Centralized Pharmaceutical Procurement” (《關於加強醫藥集中帶量採購中選產品供應保障工作的通知》), which requires the medical insurance bureaus of all provinces, autonomous regions and municipalities directly under the central government to attach great importance to the supply guarantee of selected products in centralized procurement, effectively assume the responsibilities of supply monitoring, supervision and rectification and handling breach of contract, and refine and improve specific policies and measures to ensure that the public continues to enjoy the results of the centralized procurement reform from six aspects: timely organizing and signing purchase agreements, clearing channels for feedback from medical institutions, active coordinating to response to short-term surges in demand, monitoring the supply of selected products, exploring the establishment of a supply evaluation mechanism and strengthening the application of supply evaluation results.

On 5 February 2024, the General Department of the NMPA publicly solicited opinions on the “Special Provisions on the Administration of Standards of Traditional Chinese Medicines (Draft for Comments)” (《中藥標準管理專門規定(徵求意見稿)》), which will further strengthen the management of TCM standards, establish a TCM standard system that conforms to the TCM characteristics, and promote the inheritance and innovation development of TCM.

On 27 February 2024, the Center for Drug Evaluation of the NMPA officially issued the “Technical Guidelines for the Research of Characteristic Spectra of Traditional Chinese Medicine Preparations (Trial)” (《中藥製劑特徵圖譜研究技術指導原則(試行)》) and the “Technical Guidelines for the Research of Stability of Traditional Chinese Medicine Preparations (Trial)” (《中藥製劑穩定性研究技術指導原則(試行)》), which clarified the basic principles, main contents, and test methods of the characteristic spectra and stability research technologies of TCM preparations respectively.

On 7 March 2024, the NATCM issued the “Key Points of China’s Medical Administration Work in 2024” (《2024年中國醫政工作要點》) (the “Key Points”). Based on the “Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Inheritance, Innovation, and Development of Traditional Chinese Medicine” (《中共中央國務院關於促進中醫藥傳承創新發展的意見》), the Key Points further implemented the inheritance and innovation of TCM, by adhering to the principle of maintaining integrity and innovation, promoting deepening reform and strengthening connotation construction, so as to continue to give play to unique advantages, and promote the high-quality development of TCM medical services.



MANAGEMENT DISCUSSION AND ANALYSIS

On 29 March 2024, the NMPA issued the “Principles and Procedures for Exploratory Research on Drug Sampling ” (《藥品抽檢探索性研究原則及程序》) (the “Procedures”), which summarized the key points of exploratory research on some chemical drugs, TCM finished drugs, TCM decoction pieces, biological products, pharmaceutical excipients and pharmaceutical packaging materials, and put forward suggestions on key concerns and inspection contents. The Procedures further standardized drug sampling, and guided local drug regulatory departments and drug inspection institutions to conduct exploratory research scientifically, giving better play to the actual effectiveness of drug sampling in serving drug supervision. In addition, the Procedures would allow enterprises to pay more attention to drug quality control during the production process to ensure the safety and efficacy of drugs, and promote self-improvement of enterprises.

On 22 April 2024, the Center for Drug Evaluation of the NMPA issued the “Guiding Principles for Compiling Pharmaceutical Application Information for Traditional Chinese Medicine Compound Preparations Managed According to the Catalogue of Ancient Classic Formulas (Trial)” (《按古代經典名方目錄管理的中藥復方製劑藥學申報資料撰寫指導原則(試行)》) to promote the research and development and registration of TCM compound preparations managed according to the catalogue of ancient classic formulas.

On 11 May 2024, the Office of the Inter-ministerial Joint Conference on the Building of a Strong Intellectual Property Country (國家知識產權強國建設工作部際聯席會議辦公室) issued the “2024 Plan for Promoting the Building of a Strong Intellectual Property Country” (《2024年知識產權強國建設推進計劃》), proposing to advance the legislative process of the “Regulations on the Protection of Traditional Chinese Medicine Traditional Knowledge” (《中醫藥傳統知識保護條例》) this year; carry out the collection and arrangement of TCM traditional knowledge projects and the screening and evaluation of TCM traditional knowledge application projects; accelerate the formulation of the “Interim Measures for the Entry of the National Traditional Chinese Medicine Traditional Knowledge Protection Database and the Release of Representative Lists” (《國家中醫藥傳統知識保護數據庫入庫及代表姓名錄發佈暫行辦法》); promote the effective operation of the early resolution mechanism for pharmaceutical patent disputes; and continue to strengthen the protection of intellectual property rights in the seed industry.

On 13 May 2024, the Center for Drug Evaluation of the NMPA issued the “Technical Guidelines for Research of New Improved Traditional Chinese Medicines (Trial)” (《中藥改良型新藥研究技術指導原則(試行)》), which clarified the direction of TCM improvement, injected new impetus into the development of the TCM industry, and opened up a new pattern for the inheritance and innovation and the enhancement of the quality and safety of TCM products.



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On 14 May 2024, the NMPA and the NATCM jointly issued the newly revised “Management Measures for Regional Folk Medicinal Materials” (《地區性民間習用藥材管理辦法》), which clarified that regional folk medicinal materials should, in principle, be used within the administrative area of the provincial-level drug supervision and administration department of the place where they originate. If there is a real need for clinical use, they can be used across provinces (autonomous regions, municipalities directly under the central government).

On 20 May 2024, the NHTA issued the “Notice on Strengthening Regional Coordination for Improving the Quality and Expanding the Scope of Centralized Medical Procurement in 2024” (《關於加強區域協同·做好2024年醫藥集中採購提質擴面的通知》), requiring continued efforts to promote the centralized and volume-based procurement of medicines, strengthening regional coordination, improving the scale and standardization of alliance procurement, clarifying industry expectations, and continuously consolidating reform results.

On 24 May 2024, the NHTA issued the “Notice on Further Promoting the Experience of Sanming Medical Reform and Continuously Advancing the Innovation and Development of Medical Insurance Work” (《關於進一步推廣三明醫改經驗持續推動醫保工作創新發展的通知》), which clarified the continuous consolidation and implementation of the institutional achievements of Sanming Medical Reform, and specified the “task list” to be carried out in six aspects, including accelerating the reform progress of centralized procurement of drug and medical consumables, increasing medical insurance support for grassroots medical institutions, and striving to improve the level of medical insurance payment management by focusing on the coordinated development and governance of “medical care, medical insurance and pharmaceuticals”. This means that the procurement of drugs and medical equipment will be more transparent and efficient, the competition landscape of the pharmaceutical industry will be reshaped, which will promote the concentration and fairness of the industry, encourage pharmaceutical manufacturers to increase scientific and technological innovation and technology upgrades, effectively improve the competitiveness of products and services, and facilitate the win-win and sustainable development of the entire medical and healthcare system.

On 27 May 2024, fourteen departments including the NHC issued the “Notice on the Key Points for the Rectification of Unethical Practices in the Field of Pharmaceutical Purchasing and Sales and Medical Services in 2024” (《2024年糾正醫藥購銷領域和醫療服務中不正之風工作要點的通知》) (the “Notice”). The Notice clearly proposed to coordinate and promote the centralized rectification of corruption in the pharmaceutical field nationwide, the centralized rectification of unethical practices and corruption among the people, and to deepen the coordinated promotion of institutional construction in the field of pharmaceutical purchasing and sales.



MANAGEMENT DISCUSSION AND ANALYSIS

On 27 May 2024, the NATCM issued a notice on the issuance of the “Administrative Measures on the Registration of Scientific and Technological Achievements in Traditional Chinese Medicine (Revised)” (《中醫藥科技成果登記管理辦法(修訂)》), which further clarified the registration scope of scientific and technological achievements in TCM, and optimized the registration process to promote the transformation and application of scientific and technological achievements in TCM. The revised Administrative Measures apply to the registration and management of scientific and technological achievements in TCM generated by various scientific and technological plans and projects (including special projects) and non-fiscal investment.

On 29 May 2024, the General Office of the National Health Commission, the General Department of the NATCM, and the General Department of the National Disease Control and Prevention Administration issued the “Three-Year Action Plan to Further Raise Health Literacy for All Citizens (2024-2027)” (《全民健康素養提升三年行動方案(2024-2027年)》) to further advance the transformation of healthcare from “treatment-centered” to “health-centered”, drive TCM to become the cultural awareness of the people in promoting health, improve the health literacy of residents in a more comprehensive and systematic manner, and educate and guide residents to truly become the “first responsible person” for their own health.

On 30 May 2024, the National Administration of Traditional Chinese Medicine issued the “Notice on Further Strengthening the Construction of Rehabilitation Departments in Traditional Chinese Medicine Hospitals” (《關於進一步加強中醫醫院康復科建設的通知》), giving full play to the unique advantages of TCM rehabilitation services, expanding service supply, improving service quality, and accelerating the high-quality development of rehabilitation departments in traditional Chinese medicine hospitals, so as to meet the growing demand for TCM rehabilitation services of the people.

On 6 June 2024, the General Office of the State Council issued the “Key Tasks for Deepening the Reform of the Medical and Health System in 2024” (《深化醫藥衛生體制改革2024年重點工作任務》), proposing to promote the inheritance and innovation development of TCM. It is required to facilitate the construction of national TCM inheritance and innovation centers, as well as “flagship” hospitals for integrating traditional Chinese and Western medicine. In addition, measures should be taken to support the layout of the whole industry chain of leading enterprises in the TCM industry, and accelerate the establishment of the traceability system of the whole industry chain of TCM. In terms of government reform of medical insurance, it is proposed to carry out a pilot project of payment for TCM dominant diseases.

On 26 June 2024, the National Healthcare Security Administration promulgated the “Work Plan for the Adjustment of the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2024)” (《2024年國家基本醫療保險、工傷保險和生育保險藥品目錄調整工作方案》). In 2024, the procedures are still divided into five stages: preparation, application, expert review, negotiation, and announcement of results. The application was officially launched on 1 July 2024, and the negotiation will be completed and the results will be announced in November 2024. In 2024, more attention will be paid to the monitoring and management of drug supply security to improve the accessibility of reimbursement drugs.



V. Work Arrangement for the Next Step

The TCM industry in the new era has ushered in a new journey driven by multiple TCM reform policies. In the second half of 2024, the Group will adhere to its strategic determination, consolidate and develop the advantages of the coordinated layout of the whole TCM industry chain, and focus on improving the effectiveness of reform and innovation, so as to promote high-quality development, accelerate the formation of new quality productivity, act as the main force for the construction of a modern TCM industry system, and empower the inheritance and innovation development of TCM. Specific measures include:

Firstly, make steady progress in implementing the five strategic business goals. Steadily improve the efficiency of Chinese medicinal herbs integration business, accelerate the construction of GAP bases, promote the industrial application and achievement transformation of planting technology, and enhance the ability to ensure the supply of Chinese medicinal herbs; accelerate the expansion of the market scale of TCM decoction pieces, strengthen the synergy between TCM decoction pieces business and Chinese medicinal herbs resources, concentrated TCM granules and other businesses, and promote the fresh-cutting in the place of origin of bulk and special varieties; strive to achieve the transformation and upgrading of the business model and marketing system of concentrated TCM granules, reasonably reduce production costs, continue to carry out research on national and provincial standards, expand the sales scope of new standard varieties on file, and realize the increase of terminal sales volume; gradually establish the brand effect of large varieties of TCM finished drugs, create tiered terminals and benchmark chains, strengthen the research on the evidence-based medical and academic promotion of TCM finished drugs, enhance compliance marketing awareness, and promote business breakthroughs; coordinate and promote the development of TCM great health business, create a brand matrix of great health products through multiple channels, explore new great health business models, accelerate the investment layout process of TCM medical institutions, and promote the in-depth integration of third-line and three-dimensional businesses in a coordinated manner, using “digital TCM medical institutions” as support to deeply enhance customer service capabilities.

Secondly, comprehensively implement the action for deepening reforms and upgrading. Grapse the work in action deployment and implementation, focus on the three key directions of scientific and technological innovation, industrial control, and security support, strive to build a modern industrial system, continuously improve core competitiveness, and create a vibrant modern central enterprise.



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Thirdly, deepen the collaborative strategic system. With value creation as the guide, focus on the strategic development direction, refine the goals in detail, and focus on the key control points of the whole value chain to improve the efficiency of control and lay a solid foundation for high-quality development management; with digital management and control projects as the support, carry out special actions for “quality and efficiency improvement” in depth, establish a normalized mechanism for production, supply and marketing coordination and a demand-oriented resource co-construction and sharing mechanism, and take multiple measures to ensure the implementation of strategic planning.

Fourthly, solidly carry out the legal compliance review. Focus on cultivating compliance culture and early warning of compliance risks, establish a normalized mechanism for compliance education, strengthen risk identification and compliance review of business, deepen the marketing compliance management and operation mechanism, promote the establishment of an effective marketing compliance supervision and prevention mechanism, and improve the long-term mechanism for problem rectification.

Fifthly, integrate and concentrate domestic and foreign scientific and technological resources. Improve the scientific research and innovation system for the deep integration of the TCM industry and the resource industry, continue to promote key scientific research work such as innovative TCM, classical formulae, concentrated TCM granules, secondary development of large varieties of TCM, processing of TCM decoction pieces, and breeding of seeds and seedlings of Chinese medicinal herbs, explore the development and transformation of in-hospital preparations, strengthen the layout of forward-looking scientific research projects, actively explore business opportunities in the modern TCM industry, and cultivate and develop the second growth curve.

Sixthly, strengthen human resource development in multiple dimensions. Continue to build a three-dimensional TCM holding employer brand, enhance the efficiency of talent management and the comprehensive quality of cadres, improve the talent cultivation model of the “Five Key Aspects of Development Plan” and echelon development system, perfect the diversified incentive mechanism of “1+4+N”, and deepen the application of the results of the human efficiency improvement action.

Seventhly, deeply implement the “Sino-TCM” big brand strategy. Strengthen the synergy between brand communication and business promotion, build an industry benchmark brand; proactively integrate into the global market, explore overseas business layout, strengthen international registration and overseas certification of products, and promote and facilitate the international development of TCM products.



BUSINESS ANALYSIS

During the Reporting Period, the Group's revenue was approximately RMB8,385,473,000, representing a decrease of 9.9% from approximately RMB9,302,957,000 for the same period last year. Revenue and cost of sales of each business segment are as follows:

Business segments	Six months ended 30 June					
	2024	2023	Change	2024	2023	Change
	Revenue RMB'000	Revenue RMB'000		Cost of sales RMB'000	Cost of sales RMB'000	
Chinese medicinal herbs integration business	754,277	880,585	-14.3%	690,575	809,913	-14.7%
TCM decoction pieces	1,576,914	1,305,191	20.8%	1,244,087	1,019,270	22.1%
Concentrated TCM granules	3,479,735	4,930,591	-29.4%	1,421,554	1,769,373	-19.7%
TCM finished drugs	2,418,349	2,034,759	18.9%	853,221	828,630	3.0%
TCM great health	156,198	151,831	2.9%	114,782	117,795	-2.6%
Total	8,385,473	9,302,957	-9.9%	4,324,219	4,544,981	-4.9%

1. Chinese medicinal herbs integration business

	Six months ended 30 June		
	2024	2023	Change
	Revenue RMB'000	Revenue RMB'000	
Revenue	754,277	880,585	-14.3%
Cost of sales	690,575	809,913	-14.7%
Gross profit	63,702	70,672	-9.9%
Gross profit margin	8.4%	8.0%	0.4pp

During the Reporting Period, the revenue of the Chinese medicinal herbs integration business segment was approximately RMB754,277,000, representing a decrease of 14.3% compared with the revenue of approximately RMB880,585,000 for the same period last year and accounting for 9.0% of the total revenue, which was mainly due to: (1) the optimization of resource allocation and reduction of some low-margin businesses during the Period; and (2) the fluctuations in the market price of some medicinal materials and a decrease in sales orders.

The gross profit margin during the Period was 8.4%, representing an increase of 0.4 percentage point compared with 8.0% for the same period last year, which was mainly attributed to the optimization of the sales structure.

MANAGEMENT DISCUSSION AND ANALYSIS

2. TCM decoction pieces

	Six months ended 30 June		Change
	2024	2023	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	1,576,914	1,305,191	20.8%
Cost of sales	1,244,087	1,019,270	22.1%
Gross profit	332,827	285,921	16.4%
Gross profit margin	21.1%	21.9%	-0.8pp

During the Reporting Period, the revenue of the TCM decoction pieces business segment was approximately RMB1,576,914,000, representing an increase of 20.8% compared with the revenue of approximately RMB1,305,191,000 for the same period last year and accounting for 18.8% of the total revenue. TCM decoction pieces business segment showed a sound development momentum, which was mainly due to: (1) the continued efforts in the field of medical terminals, which resulted in steady growth in revenue from existing customers and growth in the intelligent decoction distribution center business; and (2) further improvement in the ability to develop incremental customers of decoction pieces by continuously leveraging advantage of the specialty decoction piece varieties.

The gross profit margin for the Period was 21.1%, representing a decrease of 0.8 percentage point compared with 21.9% for the same period last year, which was mainly due to the increase of the cost of Chinese medicinal materials.

3. Concentrated TCM granules

	Six months ended 30 June		Change
	2024	2023	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	3,479,735	4,930,591	-29.4%
Cost of sales	1,421,554	1,769,373	-19.7%
Gross profit	2,058,181	3,161,218	-34.9%
Gross profit margin	59.1%	64.1%	-5.0pp

During the Reporting Period, the revenue of the concentrated TCM granules business segment was approximately RMB3,479,735,000, representing a decrease of 29.4% compared with the revenue of approximately RMB4,930,591,000 for the same period last year and accounting for 41.5% of the total revenue, which was mainly due to: (1) the significant decline in sales revenue as a result of the substantial decrease in the selling price of the varieties under centralized procurement after the implementation of centralized procurement policy on concentrated TCM granules; and (2) the decrease in sales volume during the Period as a result of insufficient market expansion during the Period.

The gross profit margin during the Period was 59.1%, representing a decrease of 5.0 percentage points compared with 64.1% for the same period last year, which was mainly due to the significant decrease in the selling price of the varieties of concentrated TCM granules under centralized procurement, and also due to the decrease in gross profit margin as a result of the increase in procurement costs of raw materials.



4. TCM finished drugs

	Six months ended 30 June		
	2024	2023	Change
	RMB'000	RMB'000	
Revenue	2,418,349	2,034,759	18.9%
Cost of sales	853,221	828,630	3.0%
Gross profit	1,565,128	1,206,129	29.8%
Gross profit margin	64.7%	59.3%	5.4pp

During the Reporting Period, the revenue of the TCM finished drugs business segment was approximately RMB2,418,349,000, representing an increase of 18.9% compared with the revenue of approximately RMB2,034,759,000 for the same period last year and accounting for 28.8% of the total revenue. The sound development of the TCM finished drugs business segment was mainly attributed to the continuous cultivation and promotion of prescription products blockbuster, as well as active brand promotion and channel construction during the Period. Among them, the sales of our key products such as Zaoren Anshen Capsules (棗仁安神膠囊), Trionycis Bolus (鱉甲煎丸) and Biyankang Tablets (鼻炎康片) increased by over 50%.

The gross profit margin during the Period was 64.7%, representing an increase of 5.4 percentage points compared with 59.3% for the same period last year, which was mainly attributed to the increase in selling prices of some varieties and the decrease in products cost during the Period.

5. TCM great health

	Six months ended 30 June		
	2024	2023	Change
	RMB'000	RMB'000	
Revenue	156,198	151,831	2.9%
Cost of sales	114,782	117,795	-2.6%
Gross profit	41,416	34,036	21.7%
Gross profit margin	26.5%	22.4%	4.1pp

During the Reporting Period, the revenue of TCM great health business segment was approximately RMB156,198,000, representing an increase of 2.9% compared with the revenue of approximately RMB151,831,000 for the same period last year and accounting for 1.9% of the total revenue. TCM great health business segment registered a stable performance with good momentum for growth, which was mainly attributed to the continuous improvement in capability to provide TCM specialty services of TCM medical institutions in various regions and the further enhancement of customer stickiness.

The gross profit margin during the Period was 26.5%, representing an increase of 4.1 percentage points compared with 22.4% for the same period last year, which was mainly attributed to the increase in the proportion of high-margin business as a result of the optimization of business structure.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Other income

For the six months ended 30 June 2024, the Group's other income was approximately RMB79,597,000, representing a decrease of 4.2% from approximately RMB83,130,000 for the same period last year. Such decrease was mainly because interest income received by the Group amounted to approximately RMB16,320,000 during the Reporting Period, representing a decrease of 47.9% from approximately RMB31,301,000 for the same period last year.

Other gains and losses

For the six months ended 30 June 2024, the Group's other losses were approximately RMB64,768,000 (six months ended 30 June 2023: other losses of approximately RMB14,004,000). During the Reporting Period, the changes in other gains and losses were mainly due to the fact that: (1) penalty interests during the Period was approximately RMB52,708,000, representing a significant increase compared with approximately RMB312,000 for the same period last year; and (2) foreign exchange gain during the Period was approximately RMB920,000, compared with foreign exchange loss for the same period last year.

Impairment losses under expected credit loss model, net of reversal

For the six months ended 30 June 2024, in accordance with the Group's credit impairment loss provision policy, the provision for credit impairment loss was approximately RMB158,768,000 for the Period, representing a significant increase compared with approximately RMB47,768,000 for the same period last year. As at 30 June 2024, the balance of trade receivables of the Group increased by 6.7% from the beginning of the period and the ageing structure of trade receivables has lengthened from the beginning of the period.

Selling and distribution costs

For the six months ended 30 June 2024, the Group's selling and distribution costs were approximately RMB2,752,658,000 (six months ended 30 June 2023: approximately RMB3,186,920,000). Selling and distribution costs decreased by 13.6% as compared with the same period last year, which was mainly because the sales composition changed and the income from concentrated TCM granules decreased year-on-year, resulting in a decrease in relevant selling expenses during the Period.

Administrative expenses

For the six months ended 30 June 2024, the Group's administrative expenses were approximately RMB512,150,000 (six months ended 30 June 2023: approximately RMB464,754,000), representing an increase of 10.2% compared with the same period last year, which was mainly because the number of management members grew and so as their remuneration for the expansion of operation scale of productive enterprises with the national layout.



Research and development expenses

For the six months ended 30 June 2024, the Group's research and development expenses amounted to approximately RMB267,925,000, representing a decrease of 14.6% from approximately RMB313,614,000 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 returns, focusing on research and development 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 2024, the Group's finance costs were approximately RMB84,274,000 (six months ended 30 June 2023: RMB105,438,000), representing a year-on-year decrease, which was mainly due to the year-on-year decrease in the Group's interest-bearing liabilities during the Period. During the Reporting Period, the Group's effective loan interest rate was 2.8% (six months ended 30 June 2023: 2.7%). 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 2024, the Group recorded share of loss from investment in associates of approximately RMB874,000, and recorded share of loss of approximately RMB1,796,000 last year. During the Period, it was mainly attributed to the recognition of investment losses regarding the Group's investment in certain associates.

Profit for the Period

For the six months ended 30 June 2024, the Group's profit for the Period was approximately RMB214,143,000, representing a decrease of 65.3% as compared with approximately RMB616,960,000 for the same period last year, with a significant year-on-year decrease in revenue and profit for the Period. The net profit margin (defined as profit divided by revenue for the period) was 2.6%, representing a decrease of 4.0 percentage points from 6.6% for the same period last year, which was mainly attributed to: (1) the declines in scale of sales and profitability of the concentrated TCM granules business affected by multiple factors such as the decrease of prices as a result of the centralized procurement and the intensified market competition; (2) a year-on-year increase in credit impairment loss as a result of the increase in trade receivables with long ageing during the Period; and (3) the remedial tax in certain subsidiaries of the Company, which affected the net profit of the Group during the Period to a larger extent.



MANAGEMENT DISCUSSION AND ANALYSIS

Earnings per share

For the six months ended 30 June 2024, basic earnings per share were RMB4.19 cents, representing a decrease of 63.5% from RMB11.49 cents for the same period last year. The decrease in basic earnings per share was because profit attributable to equity holders of the Company during the Reporting Period decreased by 63.5% to approximately RMB210,979,000 (six months ended 30 June 2023: RMB578,742,000).

Liquidity and financial resources

As at 30 June 2024, the Group's current assets amounted to approximately RMB20,552,746,000 (31 December 2023: RMB19,799,846,000), which included cash, cash equivalents and bank deposits of approximately RMB3,771,999,000 (31 December 2023: RMB3,267,276,000), of which the pledged bank deposits amounted to approximately RMB168,178,000, mainly for bills payable security (31 December 2023: RMB249,958,000). Trade and other receivables amounted to approximately RMB10,258,088,000 (31 December 2023: RMB9,686,644,000). Current liabilities amounted to approximately RMB9,888,531,000 (31 December 2023: RMB9,332,600,000). Net current assets aggregated to approximately RMB10,664,215,000 (31 December 2023: RMB10,467,246,000). The Group's current ratio was 2.1 (31 December 2023: 2.1). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity holders of the Company) increased from 23.9% as at 31 December 2023 to 24.4%. The increase in gearing ratio was mainly due to an increase in the Group's bank and other loans.

Bank and other loans and pledge of assets

As at 30 June 2024, the balance of bank and other loans of the Group was approximately RMB4,009,484,000 (31 December 2023: RMB3,034,020,000), of which approximately RMB1,232,747,000 was secured borrowings (31 December 2023: RMB535,783,000). Out of the balance of bank and other loans, approximately RMB3,293,149,000 and RMB716,335,000 were repayable within one year and over one year respectively (31 December 2023: approximately RMB2,120,207,000 and RMB913,813,000, respectively).

As at 30 June 2024, the Group's bank deposits of RMB168,178,000, land use rights with carrying values of RMB61,727,000, investment property and property, plant and equipment with carrying values of RMB680,226,000 and bills receivable with carrying values of RMB221,610,000 were pledged to secure certain borrowings and bill financing of the Group (31 December 2023: bank deposits of RMB249,958,000, land use rights of RMB91,902,000, investment property and property, plant and equipment of RMB672,502,000 and bills receivable of RMB213,481,000 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 initiated a bank loan of RMB800 million in the first quarter of 2024 to succeed the super & short-term commercial paper of RMB800 million due in the second quarter of 2024, and initiated a short-term bank loan of RMB400 million for phased liquidity replenishment. Apart from the above, no major financing activity has been carried out by the Group. As at 30 June 2024, the Group had sufficient working capital and a stable financial position, as it had an unutilised bank loan facility of approximately RMB10,035,352,000.

Capital expenditure

For the six months ended 30 June 2024, the Group's fixed asset and intangible asset investment expense was approximately RMB209,351,000, compared with approximately RMB356,700,000 for the same period last year. During the Reporting Period, the capital expenditure was mainly used for the capacity expansion expenditure of some business segments such as concentrated TCM granules and TCM decoction pieces.

Financing capacity

As at 30 June 2024, capital commitments which the Group has entered into but were outstanding and not provided for in the financial statements were approximately RMB112,628,000 (31 December 2023: approximately RMB152,870,000). 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 2024 (31 December 2023: 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 2024, the Group had no Hong Kong Dollar bank borrowings. As at 30 June 2024, 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.



MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policies

As at 30 June 2024, the Group had a total of 17,716 (30 June 2023: 17,373) employees, including the Directors, of which 5,814 were sales staff, 6,511 were manufacturing staff, and 5,391 were engaged in research and development, 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 RMB1,174,466,000 (six months ended 30 June 2023: RMB1,119,553,000).

Pre-conditional Proposal for the Privatisation of the Company

On 21 February 2024, Sinopharm Common Wealth Company Limited (the "Offeror") and the Company jointly published an announcement (the "Joint Announcement"). As disclosed in the Joint Announcement, the Offeror requested the Board to put forward to the Scheme Shareholders a pre-conditional proposal for the privatisation of the Company by the Offeror by way of a scheme of arrangement under section 673 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) which, if approved, would result in the withdrawal of listing of the shares of the Company on the Stock Exchange. For details, please refer to the Joint Announcement. Unless otherwise defined, capitalised terms used in this section shall have the same meanings as those defined in the Joint Announcement.

As stated in the Joint Announcement, subject to and after satisfaction of the Pre-Condition(s), a Scheme Document including further details of the Proposal and the Scheme, an explanatory statement of the Scheme, the expected timetable relating to the Proposal, the recommendations of the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee, notices of the Court Meeting and the EGM as well as other particulars required by the Takeovers Code will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Takeovers Code and the Applicable Laws. As additional time is required for satisfying the Pre-Conditions, an application was made to the Executive pursuant to Note 2 to Rule 8.2 of the Takeovers Code for, and the Executive has granted consent for, the extension of the latest date for despatching the Scheme Document to (i) a date no later than seven (7) days after the fulfilment of all Pre-Conditions; or (ii) 25 October 2024, being the date which is seven (7) days after 18 October 2024, the current Pre-Condition Long Stop Date, whichever is earlier. For further details of the Proposal, please refer to the joint announcements dated 11 March 2024, 11 April 2024, 13 May 2024, 13 June 2024, 15 July 2024 and 15 August 2024 jointly issued by the Offeror and the Company.



OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2024, none of the Directors and chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2024, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows:

OTHER INFORMATION

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hongkong	Beneficial owner	1,634,705,642 (long position) (Note 1)	32.46%
CNPGC	Interest of controlled corporations	1,634,705,642 (long position) (Note 1)	32.46%
Ping An Life	Beneficial owner	604,296,222 (long position) (Note 2)	12.00%
Ping An Group	Interest of controlled corporations	604,296,222 (long position) (Note 2)	12.00%
UBS Group AG	Interest of controlled corporations	305,976,595 (long position) 144,022,000 (short position)	6.08% 2.86%

Notes:

- The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.
- The 604,296,222 shares are held by Ping An Insurance Company of China, Ltd. ("Ping An Life") which is a subsidiary of Ping An (Group) Company of China, Ltd. ("Ping An Group"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under the SFO.

Save as disclosed above, the register which was required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions of the shareholders (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as at 30 June 2024.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

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

During the six months ended 30 June 2024, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares (if any)).

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules throughout the six months ended 30 June 2024.

Model Code for Securities Transactions

The Company has adopted the Model Code set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Specific enquiry has been made with all Directors and the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the Reporting Period. Furthermore, senior management who are likely to be in possession of inside information are also required to comply with the provisions of the Model Code.

CHANGE IN DIRECTORS' AND SENIOR MANAGEMENT'S INFORMATION

Subsequent to the date of the Annual Report 2023 of the Company (21 March 2024) and as of the date of this interim report, there is no change of information about the Directors and senior management of the Company which is required to be disclosed pursuant to 13.51B(1) of the Listing Rules.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2024, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2024 of the Company. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board

CHEN Yinglong
Chairman

Hong Kong, 28 August 2024



INDEPENDENT REVIEW REPORT

Independent review report

To the board of directors of China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 58, which comprises the condensed consolidated statement of financial position of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2024 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

28 August 2024



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

For the six months ended 30 June 2024

	Notes	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
REVENUE	4	8,385,473	9,302,957
Cost of sales		(4,324,219)	(4,544,981)
Gross profit		4,061,254	4,757,976
Other income	5	79,597	83,130
Other gains and losses	6	(64,768)	(14,004)
Impairment losses under expected credit loss model, net of reversal		(158,768)	(47,768)
Selling and distribution expenses		(2,752,658)	(3,186,920)
Administrative expenses		(512,150)	(464,754)
Research and development expenses		(267,925)	(313,614)
Operating Profits		384,582	814,046
Finance costs	7	(84,274)	(105,438)
Share of profits and losses of associates		(874)	(1,796)
PROFIT BEFORE TAX	8	299,434	706,812
Income tax expense	9	(85,291)	(89,852)
PROFIT FOR THE PERIOD		214,143	616,960
OTHER COMPREHENSIVE INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent period:			
Change in fair value on debt instruments measured at fair value through other comprehensive income		(109)	6,842
Impairment loss recognised for debt instruments at fair value through other comprehensive income included in profit or loss		17	870
Income tax relating to items that may be reclassified to profit or loss		(93)	91
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(185)	7,803
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		213,958	624,763
Profit for the period attributable to:			
Owners of the Company		210,979	578,742
Non-controlling interests		3,164	38,218
		214,143	616,960
Total comprehensive income for the period attributable to:			
– Owners of the Company		210,962	582,552
– Non-controlling interests		2,996	42,211
		213,958	624,763
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
– Basic and Diluted (RMB cents)	11	4.19	11.49

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024

	<i>Notes</i>	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	6,672,228	6,813,539
Right-of-use assets	12	1,159,101	1,146,048
Investment properties		74,579	75,743
Goodwill	13	3,457,903	3,457,903
Other intangible assets	13	5,299,363	5,486,365
Investments in associates		10,997	11,847
Deposits and prepayments		85,877	57,577
Deferred tax assets		233,627	219,480
Total non-current assets		16,993,675	17,268,502
CURRENT ASSETS			
Inventories	14	5,585,654	5,959,149
Trade and other receivables	15	10,258,088	9,686,644
Debt instruments at fair value through other comprehensive income ("FVTOCI")	17	937,005	886,777
Pledged bank deposits	18(a)	168,178	249,958
Cash and cash equivalents	18(b)	3,603,821	3,017,318
Total current assets		20,552,746	19,799,846
CURRENT LIABILITIES			
Trade and other payables	19	6,321,035	6,049,707
Lease liabilities		26,014	18,593
Contract liabilities		163,375	210,506
Interest-bearing bank and other borrowings	20	3,293,149	2,120,207
Unsecured notes	21	3,998	830,540
Tax liabilities		80,960	103,047
Total current liabilities		9,888,531	9,332,600
NET CURRENT ASSETS		10,664,215	10,467,246
TOTAL ASSETS LESS CURRENT LIABILITIES		27,657,890	27,735,748

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2024



	<i>Notes</i>	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants		407,131	421,291
Deferred tax liabilities		1,094,310	1,187,045
Unsecured notes	21	1,197,694	1,197,112
Interest-bearing bank and other borrowings	20	716,335	913,813
Lease liabilities		91,844	79,869
Total non-current liabilities		3,507,314	3,799,130
Net assets		24,150,576	23,936,618
EQUITY			
Equity attributable to owners of the Company			
Share capital	22	11,982,474	11,982,474
Reserves		9,388,623	9,177,661
		21,371,097	21,160,135
Non-controlling interests		2,779,479	2,776,483
Total equity		24,150,576	23,936,618

Approved and authorised for issue by the board of directors on 28 August 2024.

CHEN Yinglong
Executive Director

SHEN Lixin
Vice President and Financial Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2024

	Attributable to owners of the Company								
	Share capital	Translation reserve	Statutory surplus reserve	FVTOCI reserve	Other reserves	Accumulated profits	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2024 (audited)	11,982,474	(165,183)	882,550	(6,703)	(71,180)	8,538,177	21,160,135	2,776,483	23,936,618
Profit for the period	-	-	-	-	-	210,979	210,979	3,164	214,143
Other comprehensive loss for the period	-	-	-	(17)	-	-	(17)	(168)	(185)
Total comprehensive income for the period	-	-	-	(17)	-	210,979	210,962	2,996	213,958
At 30 June 2024 (unaudited)	11,982,474	(165,183)	882,550	(6,720)	(71,180)	8,749,156	21,371,097	2,779,479	24,150,576
At 1 January 2023 (restated)	11,982,474	(165,183)	874,107	(3,652)	(60,060)	7,540,441	20,168,127	2,779,988	22,948,115
Profit for the period	-	-	-	-	-	578,742	578,742	38,218	616,960
Other comprehensive income for the period	-	-	-	3,810	-	-	3,810	3,993	7,803
Total comprehensive income for the period	-	-	-	3,810	-	578,742	582,552	42,211	624,763
Disposal of a subsidiary	-	-	-	-	-	-	-	930	930
Final 2022 dividend declared	-	-	-	-	-	(235,995)	(235,995)	-	(235,995)
Acquisition of a subsidiary	-	-	-	-	-	-	-	4,473	4,473
Change in other reserve arisen from an associate	-	-	-	-	(375)	-	(375)	-	(375)
At 30 June 2023 (unaudited)	11,982,474	(165,183)	874,107	158	(60,435)	7,883,188	20,514,309	2,827,602	23,341,911

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



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2024

	<i>Note</i>	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Net cash flows from/(used in) operating activities		569,701	(618,895)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of subsidiaries, net of cash acquired		–	501
Purchase of items of property, plant and equipment and payment for construction in progress		(226,193)	(264,138)
Proceeds from disposal of items of property, plant and equipment		876	1,193
Purchase of other intangible assets		–	(1,297)
Payments for right-of-use assets		(1,319)	(65)
Asset-related government grants received		583	2,502
Placement of time deposits		–	(465,000)
Capital injection to an associate		(24)	(350)
Decrease/(increase) in pledged bank deposits		44,503	(129,249)
Interest received		16,320	31,301
Net cash flows used in investing activities		(165,254)	(824,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of unsecured notes		–	2,200,000
Issue cost of unsecured notes		–	(4,148)
New bank borrowings and other borrowings raised		3,189,434	2,860,903
Repayment of unsecured notes		(800,000)	(2,200,000)
Repayment of bank and other borrowings		(2,216,596)	(888,414)
Principal portion of lease payments		(14,437)	(12,417)
Dividend paid		–	(239,996)
Interest paid		(108,721)	(106,975)
Dividend paid to non-controlling interests of subsidiaries		(2,608)	(181)
Net cash flows from financing activities		47,072	1,608,772
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		2,986,819	2,879,563
Effect of foreign exchange rate changes		95	402
CASH AND CASH EQUIVALENTS AT END OF PERIOD		3,438,433	3,045,240
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash as stated in the interim condensed consolidated statement of financial position		3,603,821	3,273,781
Restricted cash	<i>18(b)</i>	(165,388)	(228,541)
Cash and cash equivalents as stated in the interim condensed consolidated statement of cash flows		3,438,433	3,045,240



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2024 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 2023.

The financial information relating to the year ended 31 December 2023 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 2023 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 2023. 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 2023, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the "2020 Amendments")</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the "2022 Amendments")</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

3. OPERATING SEGMENTS INFORMATION (continued)

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

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

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 2024					
	Yifang RMB'000 (Unaudited)	Tian Jiang RMB'000 (Unaudited)	Tong Ji Tang RMB'000 (Unaudited)	Medi-World RMB'000 (Unaudited)	Elimination RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 4)						
External customers	2,861,789	1,913,739	1,242,853	2,367,092	-	8,385,473
Intersegment sales	102,381	114,789	180,740	858,141	(1,256,051)	-
Total segment revenue	2,964,170	2,028,528	1,423,593	3,225,233	(1,256,051)	8,385,473
Segment results	155,035	(200,054)	163,585	98,804	-	217,370
Reconciliation:						
Other unallocated head office and corporate expenses						(3,227)
Profit for the period						214,143
Other segment information:						
Interest income	3,226	1,610	1,332	10,152	-	16,320
Finance cost	(24,572)	(29,997)	8,650	(38,355)	-	(84,274)
Share of profits and losses of associates	-	1	-	(875)	-	(874)
Depreciation and amortisation	(238,697)	(189,179)	(48,838)	(84,763)	-	(561,477)
Write-down of inventories	(16,588)	(11,245)	(7,646)	(4,290)	-	(39,769)
Impairment losses under the expected credit loss model, net of reversal	(69,848)	(78,949)	(9,646)	(325)	-	(158,768)



3. OPERATING SEGMENTS INFORMATION (continued)

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

	Six months ended 30 June 2024					
	Yifang RMB'000 (Unaudited)	Tian Jiang RMB'000 (Unaudited)	Tong Ji Tang RMB'000 (Unaudited)	Medi-World RMB'000 (Unaudited)	Elimination RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
As at 30 June 2024 (Unaudited)						
Segment assets	16,276,214	11,538,265	6,112,492	8,884,523	-	42,811,494
Elimination of intersegment receivables						(6,013,616)
Deferred tax assets						233,627
Corporate and other unallocated assets						514,916
Total assets						37,546,421
Segment liabilities	5,369,781	4,262,074	1,395,903	6,907,916	-	17,935,674
Elimination of inter-segment payables						(6,013,616)
Tax liabilities						80,960
Deferred tax liabilities						1,094,310
Corporate and other unallocated liabilities						298,517
Total liabilities						13,395,845

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

3. OPERATING SEGMENTS INFORMATION (continued)

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

	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)
Segment revenue (note 4)						
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)	-
Total segment revenue	3,695,197	2,871,158	1,168,589	2,768,006	(1,199,993)	9,302,957
Segment results	267,020	218,104	83,720	70,320	-	639,164
Reconciliation:						
Other unallocated head office and corporate expenses						(22,204)
Profit for the period						616,960
Other segment information:						
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)



3. OPERATING SEGMENTS INFORMATION (continued)

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

	Yifang RMB'000	Tian Jiang RMB'000	Tong Ji Tang RMB'000	Medi-World RMB'000	Elimination RMB'000	Total RMB'000
As at 31 December 2023 (Audited)						
Segment assets	15,836,717	12,160,190	5,855,965	7,577,820	–	41,430,692
Elimination of intersegment receivables						(5,097,060)
Deferred tax assets						219,480
Corporate and other unallocated assets						515,236
Total assets						37,068,348
Segment liabilities	5,001,209	4,646,332	1,309,704	5,688,360	–	16,645,605
Elimination of inter-segment payables						(5,097,060)
Tax liabilities						103,047
Deferred tax liabilities						1,187,045
Corporate and other unallocated liabilities						293,093
Total liabilities						13,131,730

(ii) Geographical information and information about major customers

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

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2024

4. REVENUE

(i) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Types of goods or services		
Concentrated TCM granules	3,479,735	4,930,591
TCM finished drugs	2,418,349	2,034,759
TCM decoction pieces	1,576,914	1,305,191
Chinese medicinal herbs integration business	754,277	880,585
TCM great health	156,198	151,831
Total	8,385,473	9,302,957

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Geographical markets		
Chinese Mainland	8,341,715	9,256,673
Hong Kong, China	26,287	19,600
Overseas and others	17,471	26,684
Total	8,385,473	9,302,957
Timing of revenue recognition		
At point in time	8,385,473	9,302,957



4. REVENUE (continued)

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue from contracts with customers		
External customers	8,385,473	9,302,957
Intersegment sales	1,256,051	1,199,993
Subtotal	9,641,524	10,502,950
Intersegment adjustments and eliminations	(1,256,051)	(1,199,993)
Total	8,385,473	9,302,957

5. OTHER INCOME

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Government grants		
Unconditional subsidies (note i)	39,669	30,040
Conditional subsidies (note ii)	20,097	18,088
Interest income on bank deposits	16,320	31,301
Rental income from investment properties	3,511	3,701
Total other income	79,597	83,130

Notes:

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Penalty interests (note i)	(52,708)	(312)
Donation	(13,114)	(12,386)
(Loss)/gain on disposal of property, plant and equipment	(1,752)	48
Net exchange gain/(loss)	920	(1,547)
Others	1,886	193
Total	(64,768)	(14,004)

Note:

- (i) Penalty interests mainly represented the penalty interest in relation to the under provision in income taxes in prior periods as disclosed in note 9 Income Tax Expense.

7. FINANCE COSTS

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Interest on bank borrowings	56,181	52,889
Interest on lease liabilities	2,928	2,464
Effective interest expense on unsecured notes	24,213	50,085
Factoring of trade receivables	952	–
Total	84,274	105,438



8. PROFIT BEFORE TAX

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

	Notes	Six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Cost of inventories sold		4,324,219	4,544,981
Included: Write-down/(reversal) of inventories to net realisable value*		39,769	(11,053)
Depreciation			
– property, plant and equipment		338,963	339,709
– investment properties		2,299	3,619
– right-of-use assets		24,794	23,136
Amortisation of other intangible assets		195,421	200,706
Total depreciation and amortisation		561,477	567,170
Research and development costs		267,925	313,614
Foreign exchange (gain)/loss, net	6	(920)	1,547
Loss/(gain) on disposal of property, plant and equipment	6	1,752	(48)
Loss on disposal of other intangible assets	6	11	222
Impairment losses recognised in respect of			
– trade receivables	16	156,817	46,776
– other receivables	16	1,934	122
– debt instruments at FVTOCI	16	17	870

* The write-down/(reversal) 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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9. INCOME TAX EXPENSE

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. 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.

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Current		
PRC EIT	114,262	164,902
Under/(over) provision in prior periods (note i)	78,004	(12,561)
Deferred	(106,975)	(62,489)
Total tax charge for the period	85,291	89,852

Note:

- (i) During the six months ended 30 June 2024, certain subsidiaries of the Group have been inspected by local tax bureaus, or have conducted self-inspection following the tax audit notices issued by local tax bureaus, respectively. These subsidiaries have made provisions based on the best estimate of under provision on relevant income tax during the respective periods ranging from year 2017 to year 2023.

10. DIVIDENDS

No dividend was proposed for the six months ended 30 June 2024 and year ended 31 December 2023 (six months ended 30 June 2023: Nil).



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 RMB210,979,000 (six months ended 30 June 2023: RMB578,742,000), and the weighted average number of ordinary shares of 5,035,801,000 (2023: 5,035,801,000) in issue during the period.

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company	210,979	578,742

	Number of shares	
	Six months ended 30 June	
	2024	2023
Shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand)	5,035,801	5,035,801

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

During the six months ended 30 June 2024, the Group incurred approximately RMB48,931,000 (six months ended 30 June 2023: RMB89,144,000), and RMB160,389,000 (six months ended 30 June 2023: RMB266,259,000) on acquisition of property, plant and equipment and construction in process, respectively.

Assets with a net book value of RMB2,133,000 were disposed of by the Group during the six months ended 30 June 2024 (30 June 2023: RMB2,581,000), resulting in a net loss on disposal of RMB1,752,000 (30 June 2023: gain of RMB48,000).

Certain of the Group's buildings and equipment with carrying values of RMB680,226,000 (2023: RMB672,502,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

The Group has lease contracts for various items of buildings and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 30 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 1 to 10 years. Other equipment generally has lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. On lease commencement date, the Group recognized right-of-use assets of RMB42,160,000 (six months ended 30 June 2023: RMB2,704,000) and lease liabilities of RMB40,841,000 (six months ended 30 June 2023: RMB2,792,000), respectively.

Certain of the Group's right-of-use assets with carrying values of RMB61,727,000 (2023: RMB91,902,000) were pledged to secure certain bank borrowings and bills payables granted to the Group.

13. GOODWILL AND INTANGIBLE ASSETS

	Goodwill RMB'000	Intangible assets RMB'000
Cost and carrying amount:		
At 1 January 2024 (audited)	3,457,903	5,486,365
Additions	–	31
Transfer from construction in progress	–	8,400
Amortisation for the period	–	(195,421)
Disposals	–	(12)
At 30 June 2024 (unaudited)	3,457,903	5,299,363



14. INVENTORIES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Raw materials	1,568,556	1,754,470
Work in progress	1,699,140	1,834,172
Finished goods	2,317,958	2,370,507
Total	5,585,654	5,959,149

The inventories are net of a write-down of approximately RMB164,095,000 at 30 June 2024 (31 December 2023: RMB125,485,000).

15. TRADE AND OTHER RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	9,910,697	9,289,650
Less: allowance for credit losses	(274,975)	(118,367)
	9,635,722	9,171,283
Deposits and prepayments	83,923	133,641
Advance tax payments	178,589	203,094
Other receivables	393,023	209,861
Less: allowance for credit losses and impairment losses	(33,169)	(31,235)
	622,366	515,361
Total	10,258,088	9,686,644

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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15. TRADE AND OTHER RECEIVABLES (continued)

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
0 to 90 days	4,608,347	5,371,081
91 to 180 days	2,104,256	1,941,711
181 to 365 days	2,495,530	1,893,764
Over 365 days	702,564	83,094
Total	9,910,697	9,289,650

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Impairment losses recognised in respect of		
– trade receivables	(156,817)	(46,776)
– other receivables	(1,934)	(122)
– debt instruments at FVTOCI	(17)	(870)
Total	(158,768)	(47,768)

The basis of the determination of the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2023.



17. DEBT INSTRUMENTS AT FVTOCI

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Bills receivable	937,005	886,777

The amounts represent the bills receivables that were held under the “hold to collect and sell” business model. As at 30 June 2024, the Group’s debt instruments at FVTOCI amounted to RMB221,610,000 (31 December 2023: RMB213,481,000) were pledged as security for bank facilities of bills payables and bank borrowings granted to the Group.

18. PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

(a) Pledged bank deposits

The amounts represent the guarantee deposits for bills payables and carry interest at market rates ranging from 0.2% to 1.85% per annum (2023: 0.20% to 1.80%).

(b) Bank balances and cash

Included in bank balances and cash is RMB3,438,433,000 (2023: RMB2,986,819,000) which represents cash held by the Group and short-term deposits carried interest at prevailing market rates ranging from 0.2% to 1.65% per annum (2023: 0.10% to 2.00% per annum) with original maturity of three months or less as at 30 June 2024.

The remaining of bank balances were restricted cash of RMB165,388,000 (2023: RMB30,499,000), in which RMB153,656,000 (2023: RMB19,661,000) represents the cash collected on behalf of factoring institutions under the non-recourse factoring arrangement of trade receivables with the Group.

Included in pledged bank deposits/bank balances and cash are RMB10,495,000 (2023: RMB13,789,000) and RMB2,730,000 (2023: RMB1,813,000), which are denominated in HK\$ and US\$ respectively, the currencies other than functional currency of the relevant group entities.

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



NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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19. TRADE AND OTHER PAYABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade payables	1,959,718	1,689,929
Bills payable	866,903	1,052,727
Deposits	1,230,112	1,083,413
Salaries and welfare payables	344,771	459,795
Other tax payables	151,565	168,947
Accrual of operating expenses	1,048,691	962,296
Dividend payable	62,606	65,204
Payable under the non-recourse factoring arrangement	153,656	19,661
Other payables	503,013	547,735
Total	6,321,035	6,049,707

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
0 to 90 days	2,096,074	2,129,680
91 to 180 days	469,311	458,940
181 to 365 days	198,298	107,337
Over 365 days	62,938	46,699
Total	2,826,621	2,742,656

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new bank and other borrowings amounting to RMB3,199,149,000 (six months ended 30 June 2023: RMB2,896,277,000), repaid bank and other borrowings amounting to RMB2,216,596,000 (six months ended 30 June 2023: RMB888,414,000). The loans carried interest at fixed market rates ranging from 0.9% to 4.75% and were repayable in instalments over a period of 6 years.



21. UNSECURED NOTES

On 17 July 2023, the Company issued the short-term commercial papers in an aggregate amount of RMB800,000,000, with a maturity of 270 days and a coupon rate of 2.32% per annum, which was fully repaid on 14 April 2024.

On 18 May 2023, the Company issued the medium-term notes in an aggregate amount of RMB1,200,000,000, with a maturity of three years and a coupon rate of 3.04% per annum.

22. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2024 '000	31 December 2023 '000	30 June 2024 RMB'000	31 December 2023 RMB'000
Authorised	Unlimited number of ordinary shares with no par value			
Issued and fully paid	5,035,801	5,035,801	11,982,474	11,982,474

23. CONTINGENT LIABILITIES

During the period, the Group endorsed certain bills receivable for the settlement of trade and other payables. In the opinion of the directors of the Company, the Group has transferred the significant risks and rewards relating to these bills receivable, and the Group's obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of the default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by reputable PRC banks. As a result, the relevant assets and liabilities were not recognized on the consolidated financial statements. The maximum exposure to the Group that may result from the default of these endorsed and discounted bills receivable at the end of the reporting period are as follows:

	30 June 2024 RMB'000	31 December 2023 RMB'000
Outstanding endorsed and discounted bills receivable with recourse	148,887	195,229



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24. PLEDGED ASSETS

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Property, plant and equipment and Investment properties	680,226	672,502
Right-of-use assets	61,727	91,902
Debt instruments at FVTOCI	221,610	213,481
Pledged bank deposits	168,178	249,958
Total	1,131,741	1,227,843

25. CAPITAL COMMITMENTS

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
– Investments in PRC entity	1,873	–
– Acquisition of other intangible assets	601	5,613
– Acquisition of property, plant and equipment	110,154	147,257
Total	112,628	152,870



26. RELATED PARTY TRANSACTIONS

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

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

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
(i) Sale of finished goods to CNPGC's subsidiaries other than the Group	712,468	661,259
(ii) Purchase of raw materials from CNPGC's subsidiaries other than the Group	75,222	44,173
(iii) Other purchase from CNPGC's subsidiaries other than the Group	2,949	2,441
(iv) Rental income from CNPGC's subsidiaries other than the Group	1,672	1,250
(v) Interest income from CNPGC's subsidiaries other than the Group	666	291
(vi) Interest income from Ping An Bank	15	65
(vii) Interest expense to Ping An Bank	7	–



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26. RELATED PARTY TRANSACTIONS (continued)

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

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
(i) Trade and other receivables due from CNPGC's subsidiaries other than the Group	508,663	787,903
(ii) Trade and other payables due to CNPGC's subsidiaries other than the Group	27,596	42,385
(iii) Bank deposits placed in CNPGC's subsidiaries other than the Group as included in bank balances and cash set out in note 18	302,915	586,714
(iv) Bank deposits placed in Ping An Bank as included in bank balances and cash set out in note 18	1,933	7,046

- (d) Key management remuneration

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

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Short-term employee benefits	3,648	3,062
Post-employment benefits	386	248
Total compensation paid to key management personnel	4,034	3,310



26. RELATED PARTY TRANSACTIONS (continued)

Transactions/balances with other state-controlled entities

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

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

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs
	30 June 2024 RMB'000	31 December 2023 RMB'000		
Financial assets at FVTOCI				
Bills receivable	937,005	886,777	Level 3	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

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

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

Unsecured notes

	30 June 2024 RMB'000	31 December 2023 RMB'000
Carrying amount	1,201,692	2,027,652
Fair value under Level 2 fair value hierarchy	1,221,036	2,018,958

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

28. APPROVAL OF THESE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 28 August 2024.