China Traditional Chinese Medicine Co. Limited

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

INTERIM REPORT **2014**

CONTENTS

Board of Directors	*Executive Directors* Mr. WU Xian *(Chairman)* Mr. YANG Bin *(Managing Director)* Mr. WANG Xiaochun *Non-executive Directors* Mr. LIU Cunzhou Mr. ZHANG Jianhui Mr. DONG Zenghe Mr. ZHAO Dongji *Independent Non-executive Directors* Mr. ZHOU Bajun Mr. XIE Rong Mr. FANG Shuting Mr. YU Tze Shan Hailson
Company Secretary	Mr. HUEN Po Wah
Audit Committee	Mr. XIE Rong *(Chairman)* Mr. ZHOU Bajun Mr. FANG Shuting
Remuneration Committee	Mr. ZHOU Bajun *(Chairman)* Mr. LIU Cunzhou Mr. XIE Rong Mr. FANG Shuting
Nomination Committee	Mr. WU Xian *(Chairman)* Mr. YANG Bin Mr. ZHOU Bajun Mr. XIE Rong Mr. FANG Shuting
Strategic Committee	Mr. LIU Cunzhou *(Chairman)* Mr. WU Xian Mr. YANG Bin Mr. WANG Xiaochun Mr. ZHOU Bajun Mr. YU Tze Shan Hailson
Registered Office	Room 1601, Emperor Group Building 288 Hennessy Road, Wanchai Hong Kong
Auditors	KPMG Certified Public Accountants Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shop 1712-16 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited Bank of China Limited Macau Branch Industrial and Commercial Bank of China Limited (Foshan Branch) China Merchants Bank Co., Ltd. (Foshan Branch) Guangdong Shunde Rural Commercial Bank Co., Ltd.
Stock Code	00570
Website	http://www.china-tcm.com.cn

INTRODUCTION

The board of directors ("Directors" or the "Board") of China Traditional Chinese Medicine 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 2014, together with the comparative figures for the corresponding periods in 2013 and the relevant explanatory notes. The consolidated results are unaudited, but have been reviewed by the Company's independent auditor, KPMG, and the Audit Committee of the Company (the "Audit Committee").

BUSINESS PERFORMANCE

During the period under review, despite the slowdown of the growth for the healthcare industry in China, the Group recorded satisfactory performance in both turnover and profit. With the consolidation of the financial results of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang"), the Group's turnover increased by 144.3% to approximately RMB1,263,114,000 from approximately RMB517,025,000 for the corresponding period of last year.

The Group also endeavored to control operating costs and improve operating efficiency via post-merger consolidation. Net profit attributable to shareholders of the Company was approximately RMB188,790,000, which was 199.5% higher than approximately RMB63,037,000 for the corresponding period of last year.

GROUP OVERVIEW

The Group is an integrated pharmaceutical corporation engaged in research and development ("R&D"), manufacturing and distribution of traditional Chinese medicines ("TCM") and other healthcare products. It is a major TCM manufacturer of China National Pharmaceutical Group Corporation ("CNPGC"). The Group operates under its well-known brands, including Tongjitang (同濟堂), Xianling (仙靈), Dezhong (德眾) and Fengliaoxing (馮了性). It has over 500 TCM, chemical medicine and bio-medicine, including over 60 national exclusive products. The Group has over 100 products being listed on the National Essential Drugs List, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊/片), Yu Ping Feng Granule (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granule (頸舒顆粒), Moisturizing & Anti-Itching Capsule (潤燥止癢膠囊), Zaoren Anshen Capsule (棗仁安神膠囊) and Fengshi Gutong Capsule (風濕骨痛膠囊).

The Group has been advocated for TCM manufacturing for over 400 years, and is in possession of a range of TCM secret formulas, many of which are national famous products, such as Po Chai Pills (保濟丸), Da Huo Luo Pills (大活絡丸), Yuanjilin Herbal Tea (源吉林甘和茶), etc. It also owns a number of products originated from minority medicine in China, including Miao medicine and Tibetan medicine. The Group has accumulated extensive technical experience in the extraction of Chinese medicine, manufacturing of modern Chinese medicine, sustained or controlled release preparation, and enhancement of quality.

The Group has manufacturing facilities in Guangdong, Guizhou, Anhui, Shandong and Qinghai, with an annual production capacity of 5.5 billion tablets, 3 billion capsules, 880 million packs of granules, 14 million bottles of medical wine, 100 million jabs of antibiotic and oncology powder for injection, and 22,000 tonnes of Chinese medicine preprocessing and extraction.

During the period of review, sales of TCM, chemical medicine and bio-medicine accounted for approximately 87.1%, 11.0% and 1.9% of the turnover of the Group respectively. The Group's sustainable development in the future is closely related to the implementation of the reform of national healthcare system and the development of Chinese medicine industry.

INDUSTRY OVERVIEW

Reform of National Healthcare System

On 11 February 2014, National Health and Family Planning Commission (the "Commission") launched "Key Points of Health and Family Planning Work in 2014" (2014年衛生計生工作要點), drawing up further reform of healthcare system in six aspects, namely, carrying forward with the reform of public hospital, raising the level of protection under the New Rural Cooperative Medical System, enhancing the essential drugs system and its application at grass-roots level, progressively promoting impartiality in public service of healthcare and family planning, accelerating the establishment of private hospital and accelerating the construction of information technology infrastructure. On 4 April 2014, the Commission issued "Opinions on Promoting Comprehensive Reform of Public Hospital at County Level" (推進縣級公立醫院綜合改革意見), claiming to intensify the overall reform of public hospitals at county level, while naming 700 counties in 26 provinces, municipalities and autonomous regions for the second pilot scheme of the reform.

On 28 May 2014, the General Office of State Council promulgated the "Notice of Key Tasks in Intensifying Reform of Healthcare System in 2014" (深化醫藥衛生體制改革2014年重點工作任務的通知). It highlighted the comprehensive reform of public hospital at county level and initiated the second pilot scheme of the reform, aiming to cover 50% of the counties and 500 million rural residents in China. It also asserted to expand the pilot scheme of reform of urban public hospitals, map out the implementation plan for such pilot scheme, formulate development strategies of Chinese medicine industry and propose policies to encourage TCM.

The Group's business strategy is in perfect match with the government's emphasis on reform of healthcare system. The Group has allocated significant portion of its resources to develop business with primary healthcare institutions, including county level hospitals, particularly focusing on promoting the 7 exclusive products on the National Essential Drug List. Furthermore, the Group will benefit from the government's support to TCM as 87.1% of the revenues is generated from TCM products.

Reform of Pricing System of Drugs

On 15 April 2014, the Commission and 7 other ministries jointly issued "Opinions on Ensuring the Supply of Low-Price Drugs in Common Use" (關於做好常用低價藥品供應保障工作的意見), confirming to launch policies to ensure supply of low-price drugs, remove the retail price cap of such drugs and improve the purchasing and stocking mechanism of low-price drugs. On 8 May 2014, National Development and Reform Commission ("NDRC") released the "Notice of the Issues Related to Improving the Pricing System of Low-Price Drugs" (關於改進低價藥品價格管理有關問題的通知), publishing the list of low-price drugs of which the pricing is controlled by NDRC. It also requested the price administration authority of each province to release, before 1 July 2014, the list of low-price drugs of which the pricing is controlled by the local authority.

On 27 June 2014, the Commission launched the "Notice of Management of Purchasing Low-Price Drugs" (做好常用低價藥品採購管理工作的通知), regulating the purchase with different categories in order to connect it to the prevailing purchasing policies. It imposes a centralized purchasing mechanism on government-run primary healthcare institutions. All purchases and payments are to be done by a purchasing platform at provincial level. On the other hand, higher class public hospitals are allowed to directly negotiate with the manufacturers to buy low-price drugs and to make payment in a timely manner.

The Group has over 100 products being included in NDRC's low-price drug list and another over 50 products in the low-price drug lists at provincial level, including key products such as Bi Yan Kang Tablet (鼻炎康片), Xianling Gubao Tablet (仙靈骨葆片), Nifedipine Sustained-release Tablet (10mg) (硝苯地平緩釋片(10毫克)), etc. The Group is ready to leverage on the reform of pricing mechanism of low-price drugs so that such products will contribute more revenues in the future.

Policies of Public Hospital Reform

On 9 January 2014, the Commission issued "Opinions on Encouraging Establishment of Private Hospital" (關於加快發展社會辦醫的若干意見), which suggested that (1) the development scale of public hospital should be strictly controlled and private funding should be allowed to invest in public hospital; (2) provincial government should be authorized for the approval of foreign-owned and sino-foreign joint-venture hospitals; (3) territory for service providers from Hong Kong, Macau and Taiwan to set up wholly-owned hospital in the Mainland should be extended. The Commission undertook that private hospital would enjoy equal status with public hospital in respect of medical insurance mechanism. On 26 January 2014, the Commission published the "Consultation on Allowing Medical Doctors to Practice at Multiple Hospitals" (徵求醫師多點執業的若干意見), aiming at relaxing the control of human resource by public hospitals. On 25 March 2014, NDRC launched the policy of "Adopting Market Price on Medical Services Provided by Private Hospitals" (非公立醫院機構醫療服務實行市場調節價), which allows private hospitals more freedom to set price for their services.

BUSINESS REVIEW

Sales of Products

During the period under review, the Group's turnover increased by 144.3% to approximately RMB1,263,114,000, which was mainly attributable to the consolidation of all sales revenues of Tongjitang. Moreover, synergy from post-merger integration of sales force produced better productivity, which resulted in the growth of sales revenue for the Group as a whole.

Analysis by TCM, chemical medicine and bio-medicine:

	For the six months ended 30 June				
	2014 RMB'000	**Percentage to turnover**	2013 RMB'000 (Restated)	Percentage to turnover	change
TCM	**1,100,359**	**87.1%**	425,571	82.3%	158.6%
Chemical medicine	**139,396**	**11.0%**	83,585	16.2%	66.8%
Bio-medicine	**23,359**	**1.9%**	7,869	1.5%	196.8%
Total	**1,263,114**	**100.0%**	517,025	100.0%	144.3%

Sales Analysis of Top Ten Products:

	For the six months ended 30 June				
	2014 RMB'000	**Percentage to turnover**	2013 RMB'000 (Restated)	Percentage to turnover	change
Xianling Gubao (仙靈骨葆)	**437,174**	**34.6%**			Nil
Yu Ping Feng Granule (玉屏風顆粒)	**109,014**	**8.6%**	111,077	21.5%	-1.9%
Bi Yan Kang Tablet (鼻炎康片)	**104,838**	**8.3%**	99,088	19.2%	5.8%
Jingshu Granule (頸舒顆粒)	**89,099**	**7.1%**			Nil
Moisturizing & Anti-Itching Capsule (潤燥止癢膠囊)	**70,711**	**5.6%**			Nil
Sheng Tong Ping (聖通平)	**53,670**	**4.2%**	40,292	7.8%	33.2%
Gao De (高德)	**41,232**	**3.3%**	26,780	5.2%	54.0%
Zaoren Anshen Capsule (棗仁安神膠囊)	**27,214**	**2.2%**			Nil
Feng Liao Xing Medicinal Wine (馮了性藥酒)	**25,190**	**2.0%**	42,632	8.2%	-40.9%
Fengshi Gutong Capsule (風濕骨痛膠囊)	**24,529**	**1.9%**			Nil
Other products	**280,443**	**22.2%**	197,156	38.1%	42.2%
Total	**1,263,114**	**100.0%**	517,025	100.0%	144.3%

Remark: Revenue of other products for the six months ended 30 June 2013 does not include the revenue of Tongjitang during the period.

Research and Development

R&D Centre of TCM Branch of China State Institute of Pharmaceutical Industry

In January 2014, the R&D centre of the Group was renamed as the R&D Centre of TCM Branch of China State Institute of Pharmaceutical Industry ("CSIPI"). CSIPI is the R&D arm of CNPGC, and its TCM Branch is one of the leading R&D institutions in respect to studying and nurturing TCM products. In December 2013 and March 2014, the Group announced the cooperation with two subsidiaries of CSIPI in developing a range of TCM and chemical drugs. The close partnership with CSIPI will put the Group in a favourable position in identifying new products and improving efficiency of R&D processes.

R&D Projects on New Products

Currently, the Group has over 10 R&D projects ongoing at various phases, including both TCM and chemical drugs. The Group expects to obtain the production approvals for Fexofenadine/Pseudophedrine Sustained-release capsule (非索偽麻緩釋膠襄) and Wuwei Huoxiang Tablet (五味藿香片) in 2014 and 2015, respectively.

The Group has been making progress on the key project of Yu Ping Feng Granule (玉屏風顆粒) Re-evaluation. The clinical trial on improving efficacy of the product through classification of constitutions of human beings has been started. The clinical trial plan for joint-use of the product with chemical drug to target COPD has been finalized. The clinical trial on using the product to target child repeated infection of respiratory tract is under design.

Manufacturing Facilities

Currently, the Group has obtained new GMP certificates for all its production lines. The construction work of Tongjitang's new factory in Guiyang has been started and is expected to be completed in 2016. The Group plans to move product manufacturing of Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante") to Foshan, Guangdong by the end of 2014 to streamline its operation.

Construction of Headquarter Building

The Group acquired a piece of land in Foshan city of Guangdong Province in August 2013, with the purpose of constructing its headquarter, R&D centre and other facilities on the land parcel. The Group is cooperating with an independent third party to develop the project, and the allocation of the space of the building will be based on the amount of investment from each of the two parties. The design of the building has been finalized and the construction work will be commenced in 2014. It is expected that the project will be completed in 2016.

Guizhou Zhongtai

On 6 March 2014, the Group entered into a termination agreement with Foshan Shunde Hefeng Investment Co., Ltd. (佛山市順德區合峰投資有限公司) ("Shunde Hefeng") to terminate the disposal agreement signed on 26 August 2013 between the two parties, ceasing the disposal of 51% equity capital of Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai"). The Group expects the performance of Guizhou Zhongtai to be improved significantly in the foreseeable future. As compared to the disposal of Guizhou Zhongtai, retaining Guizhou Zhongtai will bring in more benefit for shareholders of the Group.

During the period of review, Guizhou Zhongtai achieved turnover of approximately RMB23,359,000 (approximately RMB7,869,000 for the six months ended 30 June 2013), and net loss of approximately RMB131,000 (net loss of approximately RMB9,238,000 for the six months ended 30 June 2013).

PROSPECTS

In the short run, as drugs tenders in most of the provinces have been delayed, and the authorities tend to push down bid price during the process, the pressure has become a general challenge faced by all pharmaceutical companies. Costs, such as purchase price of certain raw materials, salary and energy expenses keep rising. Some local governments faced the problem of decrease in fiscal revenue. The pharmaceutical industry as a whole has been affected and the growth rate of the overall sales turnover was slow down in the first half of 2014. However, in the medium to long run, the change in population structure and spectrum of disease will inevitably drive up the demand for drugs. With medical reform entering into a critical stage, both government and private investment continue to expand the market. The number of hospitals of different levels is increasing steadily. The service volume at primary healthcare institutions, such as community health service centers, will grow more rapidly.

While making efforts on growing our existing businesses, the Group will identify M&A targets with unique products and established market share. Priority will be given to TCM companies possessing a product portfolio complementary to that of the Group. The focus will be on cerebro-cardiovascular drugs, oncology drugs, orthopedic drugs, drugs targeting the problems of the aging population, etc.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2014, the Group's turnover amounted to approximately RMB1,263,114,000, or an increase of 144.3% from approximately RMB517,025,000 for the same period of last year. The growth of turnover was mainly attributable to the comprehensive consolidation of Tongjitang's financial statements, and the synergy from the integration of the sales force. Besides, bidding process in some provinces started to be carried out, which also drove sales growth.

Cost of sales and gross profit margin

For the six months ended 30 June 2014, the Group's cost of sales was approximately RMB494,246,000, representing an increase of 126.5% as compared to approximately RMB218,237,000 for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 71.4%, 11.1% and 17.5% of the total cost of sales, respectively, as compared to 68.9%, 12.5% and 18.6% for the corresponding period of last year. Gross profit for the period was approximately RMB768,868,000, or an increase of RMB470,080,000 from approximately RMB298,788,000 for the same period of last year. Gross profit margin also rose to 60.9% from 57.8% for the same period of last year.

Other revenue

For the six months ended 30 June 2014, the Group's other revenue was approximately RMB13,119,000,representing an increase of 100.4% compared to approximately RMB6,545,000 for the corresponding period of last year.

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000 (Restated)	Change
Interest income	**806**	3,432	-76.5%
Government grants	**11,835**	2,814	320.6%
Rental income	**478**	299	59.9%
Total	**13,119**	6,545	100.4%

Interest income decreased, which was mainly due to major interest income from the compensation for land consideration of the land for headquarters in the corresponding period of last year was a non-recurring income, and was nil during the period. The increase in government grants was mainly due to the relevant income of approximately RMB9,538,000 from Tongjitang after the acquisition.

Other net (expenses)/income

For the six months ended 30 June 2014, the Group's other net expenses were approximately RMB2,702,000 (for the six months ended 30 June 2013: other net income of approximately RMB719,000). The change from other net income to other net expenses was mainly due to the change in exchange rate, which resulted in decrease of exchange gains of approximately RMB1,891,000, as compared to the corresponding period of last year.

Selling and distribution costs

For the six months ended 30 June 2014, the Group's selling and distribution costs amounted to approximately RMB405,033,000 (for the six months ended 30 June 2013: RMB138,629,000).

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000 (Restated)	Change
Advertising, promotion and traveling expenses	**222,633**	82,611	169.5%
Salary expenses of sales and marketing staffs	**116,633**	36,918	215.9%
Distribution costs	**13,988**	5,207	168.6%
Other selling and distribution cost	**51,779**	13,893	272.7%
Total	**405,033**	138,629	192.2%

Selling and distribution costs increased by 192.2% as compared to that of last year, as after acquisition of Tongjitang, the size of business and marketing team of the Group increased significantly. At the same time, the Group strengthened the promotion of its products and brands, such that the related expenses increased. During the period under review, selling and distribution costs as a percentage to turnover was 32.1%, as compared to 26.8% for the corresponding period of last year.

Administrative Expenses

For the six months ended 30 June 2014, the Group's administrative expenses amounted to approximately RMB115,045,000 (for the six months ended 30 June 2013: RMB77,322,000).

	For the six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000 (Restated)	Change
Staff salary	**35,636**	21,741	63.9%
Depreciation and amortisation	**12,799**	8,049	59.0%
Expenses for product research and development	**29,981**	19,089	57.1%
Office rental cost and other expenses	**36,629**	28,443	28.8%
Total	**115,045**	77,322	48.8%

Administrative expenses increased to approximately RMB115,045,000 after consolidating Tongjitang's financial statements, representing an increase of 48.8% as compared to approximately RMB77,322,000 for the corresponding period of last year. However, the Group effectively controlled expenses and improved efficiency by post-merger integration. Administrative expenses as a percentage to turnover decreased from 15.0 % for the same period of last year to 9.1% for the period under review.

Profit from Operations

For the six months ended 30 June 2014, the Group's profit from operations was approximately RMB259,207,000, representing an increase of 187.7% as compared to approximately RMB90,101,000 for the same period of last year, while operating profit margin (defined as profit from operations divided by turnover) increased to 20.5% from 17.4% for the same period of last year.

Finance Costs

For the six months ended 30 June 2014, the Group's finance costs amounted to approximately RMB34,324,000 (for the six months ended 30 June 2013: RMB13,930,000), and the higher finance costs as compared with the corresponding period of last year was attributable to the increase of bank loans for the acquisition projects last year. As of 30 June 2014, long-term bank loans of the Group was approximately RMB674,688,000. Besides, consolidation of Tongjitang's financial statements led the balance of bank loan increasing by approximately RMB152,000,000. During the period under review, the effective interest rate for bank and other loans was 5.05% (for the twelves months ended 31 December 2013: 5.17%).

Earnings per share

For the six months ended 30 June 2014, basic earnings per share was RMB7.45 cents, representing an increase of 114.7% as compared to RMB3.47 cents for the corresponding period of last year. Basic earnings per share increased because of the acquisition of Tongjitang which generated good performance and the synergetic effect. Profit attributable to equity shareholders of the Company for the period under review increased by 199.5% to approximately RMB188,790,000 (for the six months ended 30 June 2013: RMB63,037,000).

Liquidity and Financial Resources

As of 30 June 2014, the Group's current assets amounted to approximately RMB1,828,793,000 (31 December 2013: RMB1,778,150,000), which included cash, cash equivalents and deposits with banks of approximately RMB353,632,000 (31 December 2013: RMB349,650,000), as well as trade and other receivables of approximately RMB1,083,239,000 (31 December 2013: RMB1,016,832,000). Current liabilities amounted to approximately RMB1,210,800,000 (31 December 2013: RMB1,264,388,000). Net current assets aggregated to approximately RMB617,993,000 (31 December 2013:RMB513,762,000). The Group's current ratio was 1.5 (31 December 2013: 1.4). Gearing ratio (defined as bank and other loans divided by total equity attributable to equity shareholders of the Company) decreased to 0.39 from 0.45 as of 31 December 2013. Gearing ratio decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, and retained profits increased as well.

Bank and other Loans and Pledge of Assets

As of 30 June 2014, the balance of the Group's bank and other loans was approximately RMB1,148,123,000 (31 December 2013: RMB1,251,896,000), of which approximately RMB362,235,000 (31 December 2013: RMB338,928,000) was secured by the Group's assets with book value of approximately RMB261,993,000 (31 December 2013: RMB189,003,000) and guaranteed by a shareholder. Bank loans decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, so as to reduce finance costs.

Contingent Liabilities

The Group did not have any contingent liabilities as of 30 June 2014 (31 December 2013: nil).

Employee and Remuneration Policies

As of 30 June 2014, the Group had a total of 6,834 (31 December 2013: 6,719) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,734, 2,145 and 955 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the period was approximately RMB205,707,000 (for the six months ended 30 June 2013: RMB88,767,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil).

CONNECTED TRANSACTION

Entered into Research and Development Agreements with SPERC

On 5 March 2014, Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World"), an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") in relation to the engagement by Guangdong Medi-World of SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB7.2 million.

SPERC is a subordinated company of CSIPI, which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Group Hongkong Co., Limited ("Sinopharm Hong Kong") which is in turn the controlling shareholder beneficially interested in 1,121,023,044 shares as at 5 March 2014, representing approximately 44.24% of the total issued share capital of the Company. Accordingly, SPERC is a connected party of the Company and the R&D Agreements constitute connected transaction of the Company under the Listing Rules.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the People's Republic of China (the "PRC"). With the expertise and technical know-how of SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R & D Agreements, please refer to the announcement of the Company dated 5 March 2014.

CONTINUING CONNECTED TRANSACTIONS

Entered into New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 11 December 2013, the Company entered into a New Master Purchase Agreement and a New Master Supply Agreement with CNPGC for the three financial years ending 31 December 2014, 2015 and 2016.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the materials supplied by CNPGC and its subsidiaries ("CNPGC Group") during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Purchase Agreement, the value of the Purchase Transactions does not exceed the annual cap of RMB35 million, RMB39 million and RMB45 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the products to CNPGC Group during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the Master Supply Agreement, the value of the Supply Transactions does not exceed the annual cap of RMB500 million, RMB610 million and RMB740 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

CNPGC is beneficially interested in 1,140,179,044 shares as at 11 December 2013, representing approximately 45.00% of the total issued share capital of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively, constituted continuing connected transactions of the Company under Listing Rules.

For details of these new continuing connected transactions, please refer to the announcement and the circular of the Company dated 12 December 2013 and 14 December 2013 respectively. The Master Purchase Agreement, the Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 3 January 2014.

Based on the background of CNPGC and the previous business relationship with CNPGC Group, CNPGC Group is a reliable business partner of the Group who has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality materials from CNPGC Group, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of CNPGC Group in the PRC. The role of CNPGC Group will be enhanced as a business partner of the Group to distribute the products to hospitals and retail pharmacies.

INVESTMENT IN GUIZHOU ZHONGTAI

On 6 March 2014, Guangdong Medi-World entered into a termination agreement with Shunde Hefeng to terminate the disposal agreement signed on 26 August 2013, ceasing the disposal of 51% equity capital of Guizhou Zhongtai. The Group expects the performance of Guizhou Zhongtai to be improved significantly in the foreseeable future. As compared to the disposal of Guizhou Zhongtai, retaining Guizhou Zhongtai will bring in more benefit for shareholders of the Group.

During the period of review, Guizhou Zhongtai's turnover was approximately RMB23,359,000, representing an increase of 196.85% as compared to approximately RMB7,869,000 for the corresponding period last year. The net loss was approximately RMB131,000 (net loss of approximately RMB9,238,000 for the six months ended 30 June 2013).

Save as disclosed above, there was no material acquisition or disposal of subsidiaries by the Company during the period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2014, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("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 ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 30 June 2014:

Name of Directors	**Capacity**	**Number of Ordinary Shares**	**Approximate Percentage of Total Interests to Issued Share Capital**
YANG Bin	Interest of controlled corporation	267,511,621 (long position) *(Note 1)*	10.56%
	Interest of controlled corporation	71,037,863 (short position) *(Note 2)*	2.80%
	Beneficial owner	66,488,379 (long position)	2.62%
	Total	334,000,000 (long position)	13.18%
WANG Xiaochun	Interest of controlled corporation	334,000,000 (long position) *(Note 3)*	13.18%
	Interest of controlled corporation	150,000,000 (short position) *(Note 4)*	5.91%
	Total	334,000,000 (long position)	13.18%

Notes:

1. The 267,511,621 shares are held by Profit Channel Development Limited ("Profit Channel"), which is wholly owned by Mr. YANG Bin.

2. Profit Channel pledged 71,037,863 shares to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of Tongjitang.

3. The 334,000,000 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

4. On 26 March 2014, 150,000,000 shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

Other than as disclosed above, none of the directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the six months ended 30 June 2014.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2014, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 30 June 2014:

Name of Substantial Shareholders	Capacity	Ordinary Shares Number of	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hong Kong	Beneficial owner	1,016,023,044 (long position) *(Note 1(b))*	40.09%
CNPGC	Interest of controlled corporations	1,105,889,044 (long position) *(Notes 1(a) and (b))*	43.64%
CNPGC	Security interest	71,037,863 (long position) *(Note 2)*	2.80%
Profit Channel	Beneficial owner	267,511,621 (long position)	10.56%
	Interest of a controlled corporation	71,037,863 (short position) *(Note 2)*	2.80%
Hanmax	Beneficial owner	334,000,000 (long position) *(Note 3)*	13.18%
	Beneficial owner	150,000,000 (short position) *(Note 3)*	5.91%

Name of Substantial Shareholders	Capacity	Ordinary Shares Number of	Approximate Percentage of Total Interests to Issued Share Capital
China Construction Bank Corporation	Person having a security interest in shares *(Notes 4 and 5)*	150,000,000 (long position)	5.92%
Central Huijin Investment Ltd.	Person having a security interest in shares *(Notes 4 and 5)*	150,000,000 (long position)	5.92%

Notes:

1. CNPGC is interested in 1,105,889,044 shares in the following manner:

   (a) 89,866,000 shares are held by Hwabao Trust Co., Ltd. which acts as the trustee for the benefit of Sinopharm Fund. Sinopharm Fund is a limited partnership established under the PRC laws and is managed by its general partner owned as to 35% by CNPGC and 65% by an independent third party which is an entity deemed to be controlled by CNPGC under the SFO; and

   (b) 1,016,023,044 shares are held by Sinopharm Hong Kong, which is indirectly wholly owned by CNPGC.

2. Profit Channel (wholly owned by Mr. YANG Bin) pledged 71,037,863 shares to CNPGC as security in connection with the Company's bank borrowing to finance the Company's acquisition of the Tongjitang.

3. The 334,000,000 shares are held by Hanmax which is wholly owned by Mr. WANG Xiaochun. On 26 March 2014, 150,000,000 shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

4. The interests of Central Huijin Investment Ltd. and China Construction Bank Corporation relate to the same block of shares.

5. Central Huijin Investment Ltd. is the holding company of China Construction Bank Corporation and is deemed to be interested in the shares in which China Construction Bank Corporation is interested through interests of corporations controlled by its as follows:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage Control
China Construction Bank Corporation	Central Huijin Investment Ltd.	57.26%
CCB International Group Holdings Limited	China Construction Bank Corporation	100%
CCB Financial Holdings Limited	CCB International Group Holdings Limited	100%
CCB International (Holdings) Limited	CCB Financial Holdings Limited	100%
CCBI Investments Limited	CCB International (Holdings) Limited	100%
Design Time Limited	CCBI Investments Limited	100%

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2014.

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 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Corporate Governance Code

To the knowledge of the Board, the Company complied throughout the six months ended 30 June 2014 with the Code Provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

The Model Code for Securities Transactions

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

CHANGE IN DIRECTORS' INFORMATION

Change in information of the directors of the Company required to be disclosed pursuant to Rule 13.51(2)(c) of the Listing Rules were as follows:

– Mr. SHE Lulin resigned as a non-executive director with effect from 30 August 2014.

– Mr. ZHANG Jianhui was appointed as a non-executive director with effect from 30 August 2014.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2014, including the accounting principles, treatments and practices adopted by the Group. The Audit Committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board

WU Xian
Chairman

Hong Kong, 30 August 2014

Review Report to the Board of Directors of China Traditional Chinese Medicine Co. Limited
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 21 to 52 which comprises the consolidated statement of financial position of China Traditional Chinese Medicine Co. Limited as of 30 June 2014 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement 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 an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, 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 report as at 30 June 2014 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 August 2014

For the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

	Note	**Six months ended 30 June** **2014** **RMB'000**	2013 RMB'000 Restated*
Turnover	*3 & 4*	**1,263,114**	517,025
Cost of sales	*13*	**(494,246)**	(218,237)
Gross profit		**768,868**	298,788
Other revenue	*5*	**13,119**	6,545
Other net (expenses)/income	*5*	**(2,702)**	719
Selling and distribution costs		**(405,033)**	(138,629)
Administrative expenses		**(115,045)**	(77,322)
Profit from operations		**259,207**	90,101
Finance costs	*6(a)*	**(34,324)**	(13,930)
Profit before taxation	*6*	**224,883**	76,171
Income tax	*7*	**(35,835)**	(17,274)
Profit for the period		**189,048**	58,897
Attributable to:			
Equity shareholders of the Company		**188,790**	63,037
Non-controlling interests		**258**	(4,140)
Profit for the period		**189,048**	58,897
Earnings per share	*9*		
Basic and diluted		**7.45 cents**	3.47 cents

* See Note 2(b)(i).

The notes on pages 28 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	**RMB'000**	RMB'000
			Restated*
Profit for the period		**189,048**	58,897
Other comprehensive (loss)/income for the period (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")		**(4,431)**	1,441
Available-for-sale securities: net movement in fair value reserve	*8*	**–**	1,114
Other comprehensive (loss)/income for the period		**(4,431)**	2,555
Total comprehensive income for the period		**184,617**	61,452
Attributable to:			
– Equity shareholders of the Company		**184,359**	65,592
– Non-controlling interests		**258**	(4,140)
Total comprehensive income for the period		**184,617**	61,452

* See Note 2(b)(i).

The notes on pages 28 to 52 form part of this interim financial report.

At 30 June 2014 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Non-current assets			
Fixed assets	*10*		
– Investment properties		**2,733**	2,813
– Other property, plant and equipment		**681,705**	636,429
– Interests in leasehold land held for own use under operating leases		**366,967**	156,450
Construction in progress		**49,212**	89,245
Other receivables		**47,115**	161,464
		1,147,732	1,046,401
Intangible assets		**972,375**	997,351
Goodwill		**1,191,052**	1,191,052
Other financial assets	*12*	**1,010**	1,010
Deferred tax assets		**53,294**	52,506
		3,365,463	3,288,320
Current assets			
Other financial assets	*12*	**5,802**	6,164
Inventories	*13*	**386,120**	405,504
Trade and other receivables	*14*	**1,083,239**	1,016,832
Deposits with banks	*15*	**13,906**	4,239
Cash and cash equivalents	*16*	**339,726**	345,411
		1,828,793	1,778,150

At 30 June 2014 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Current liabilities			
Trade and other payables	*17*	**664,772**	595,763
Bank and other loans	*18*	**473,435**	583,626
Current taxation		**39,552**	50,469
Current portion of deferred government grants	*19*	**33,041**	34,530
		1,210,800	1,264,388
Net current assets		**617,993**	513,762
Total assets less current liabilities		**3,983,456**	3,802,082
Non-current liabilities			
Deferred tax liabilities		**261,642**	269,600
Deferred government grants	*19*	**27,746**	29,449
Bank loans	*18*	**674,688**	668,270
		964,076	967,319
NET ASSETS		**3,019,380**	2,834,763
CAPITAL AND RESERVES	*20*		
Share capital: nominal value		**–**	235,087
Other statutory capital reserves		**–**	2,307,159
Share capital and other statutory capital reserves		**2,542,246**	2,542,246
Other reserves		**401,966**	217,607
Total equity attributable to equity shareholders of the Company		**2,944,212**	2,759,853
Non-controlling interests		**75,168**	74,910
TOTAL EQUITY		**3,019,380**	2,834,763

The notes on pages 28 to 52 form part of this interim financial report.

For the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Reserve fund RMB'000	Fair value reserve RMB'000	Other reserve (note 20(c)) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Restated balance at 1 January 2013		175,589	625,875	319	(115,073)	89,619	6,378	(64,539)	110,286	828,454	17,317	845,771
Changes in equity for the six months ended 30 June 2013												
Profit for the period (restated)		–	–	–	–	–	–	–	63,037	63,037	(4,140)	58,897
Other comprehensive income for the period (restated)		–	–	–	1,441	–	1,114	–	–	2,555	–	2,555
Total comprehensive income for the period		–	–	–	1,441	–	1,114	–	63,037	65,592	(4,140)	61,452
New shares issued during the period (restated)	*20(a)*	17,852	529,043	–	–	–	–	–	–	546,895	–	546,895
Acquisition of a subsidiary (restated)		–	–	–	–	–	–	–	–	–	56,699	56,699
Restated balance at 30 June 2013		193,441	1,154,918	319	(113,632)	89,619	7,492	(64,539)	173,323	1,440,941	69,876	1,510,817
Balance at 1 July 2013		193,441	1,154,918	319	(113,632)	89,619	7,492	(64,539)	173,323	1,440,941	69,876	1,510,817
Changes in equity for the six months ended 31 December 2013												
Profit for the period		–	–	–	–	–	–	–	135,426	135,426	5,034	140,460
Other comprehensive loss for the period		–	–	–	(2,590)	–	(1,114)	–	–	(3,704)	–	(3,704)
Total comprehensive income for the period		–	–	–	(2,590)	–	(1,114)	–	135,426	131,722	5,034	136,756
New Shares issued during the period	*20(a)*	41,646	1,151,922	–	–	–	–	–	–	1,193,568	–	1,193,568
Derecognition of available-for-sale equity securities		–	–	–	–	–	(6,378)	–	–	(6,378)	–	(6,378)
Transfer to reserve fund		–	–	–	–	20,617	–	–	(20,617)	–	–	–
Balance at 31 December 2013		235,087	2,306,840	319	(116,222)	110,236	–	(64,539)	288,132	2,759,853	74,910	2,834,763

For the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Reserve fund RMB'000	Other reserve (note 20(c)) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014		235,087	2,306,840	319	(116,222)	110,236	(64,539)	288,132	2,759,853	74,910	2,834,763
Changes in equity for the six months ended 30 June 2014											
Profit for the period		–	–	–	–	–	–	188,790	188,790	258	189,048
Other comprehensive loss for the period		–	–	–	(4,431)	–	–	–	(4,431)	–	(4,431)
Total comprehensive income for the period		–	–	–	(4,431)	–	–	188,790	184,359	258	184,617
Transition to no-par value regime on 3 March 2014	*20(a)*	2,307,159	(2,306,840)	(319)	–	–	–	–	–	–	–
Balance at 30 June 2014		2,542,246	–	–	(120,653)	110,236	(64,539)	476,922	2,944,212	75,168	3,019,380

The notes on pages 28 to 52 form part of this interim financial report.

For the six months ended 30 June 2014 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	**RMB'000**	RMB'000
			Restated*
Cash generated from operations		**195,112**	77,583
PRC enterprise income tax paid		**(55,510)**	(29,527)
Net cash generated from operating activities		**139,602**	48,056
Payment for the purchase of property, plant and equipment		**(163,684)**	(34,801)
Receipts in advance from a joint operator	*11*	**145,313**	–
Other cash flows arising from investing activities		**4,639**	65,536
Net cash (used in)/generated from investing activities		**(13,732)**	30,735
Proceeds from shares issued		**–**	546,895
Proceeds from new bank and other loans		**486,435**	268,154
Repayment of bank loans		**(586,884)**	(299,514)
Other cash flows (used in)/arising from financing activities		**(31,564)**	858
Net cash (used in)/generated from financing activities		**(132,013)**	516,393
Net (decrease)/increase in cash and cash equivalents		**(6,143)**	595,184
Cash and cash equivalents at 1 January	*16*	**345,411**	46,258
Effect of foreign exchange rate changes		**458**	(4,733)
Cash and cash equivalents at 30 June	*16*	**339,726**	636,709

* See Note 2(b)(i).

The notes on pages 28 to 52 form part of this interim financial report.

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 30 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the newly adopted accounting policies and the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of the newly adopted accounting policies and the changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of China Traditional Chinese Medicine Co. Limited (the "Company") and its subsidiaries (collectively referred to the "Group") since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. It has also been reviewed by KPMG 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. KPMG's independent review report to the Board of Directors is included on page 20.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2014.

2 NEWLY ADOPTED ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(a) Newly adopted accounting policies

(i) Joint arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

2 NEWLY ADOPTED ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies

(i) Changes in presentation currency

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in United States dollars ("USD") or Hong Kong dollars ("HKD") and subsidiaries established in the PRC have their functional currencies in Renminbi ("RMB"). Along with the successful acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang") on 23 October 2013, the Company determined to change its presentation currency from HKD to RMB, which is the functional currency of the Company's major subsidiaries in the PRC, on 25 November 2013. The consolidated financial statements for the period ended 30 June 2013 has been re-translated into RMB from HKD. All financial information presented in RMB has been rounded to the nearest thousand.

(ii) New standards and interpretations not yet adopted

The HKICPA has issued the following amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK (IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

2 NEWLY ADOPTED ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Changes in accounting policies (Continued)

(ii) New standards and interpretations not yet adopted (Continued)

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group does not have any impaired non-financial assets.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

HK (IFRIC) 21, Levies

The interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacture and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Sale of pharmaceutical products		
– Pills and tablets	**880,995**	248,748
– Granules	**218,001**	125,524
– Injections	**77,732**	43,300
– Medicine wine	**25,190**	42,632
– Others	**61,196**	56,821
	1,263,114	517,025

(b) Segment reporting

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

For the six months ended 30 June 2014

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Guizhou Tongjitang Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical") acquired in October 2013

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

For the six months ended 30 June 2014 (Continued)

- Anhui Jingfang Pharmaceutical Co., Ltd. ("Jingfang") acquired in October 2013
- Guizhou Longlife Pharmaceutical Co., Ltd. ("Guizhou LLF") acquired in October 2013
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante") acquired in October 2013
- Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai")

For the six months ended 30 June 2013

- Dezhong
- Feng Liao Xing
- Guangdong Medi-World
- Luya
- Feng Liao Xing Material & Slices
- Winteam Sales
- Guizhou Zhongtai

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Information about profit or loss, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Six months ended 30 June 2014											
	Dezhong	Feng Liao Xing	Guangdong Medi-World *(note)*	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LLF	Pulante	Guizhou Zhongtai	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	4,941	17,680	11,836	25,127	14,502	456,288	565,363	114,547	20,688	8,783	23,359	1,263,114
Inter-segment revenue	109,341	62,196	154,162	14,699	28,602	-	-	-	-	-	-	369,000
Reportable segment revenue	**114,282**	**79,876**	**165,998**	**39,826**	**43,104**	**456,288**	**565,363**	**114,547**	**20,688**	**8,783**	**23,359**	**1,632,114**
Reportable segment profit/(loss) (adjusted EBITDA)	**31,275**	**1,463**	**49,722**	**15,991**	**(1,911)**	**(2,933)**	**169,228**	**22,555**	**3,108**	**1,900**	**6,539**	**296,937**
Interest income	22	14	174	7	8	86	156	167	21	37	114	806
Interest expenses	6,180	3,387	4,623	-	574	293	18,418	-	-	-	849	34,324
Depreciation and amortisation for the period	8,711	3,331	9,321	2,757	180	285	26,988	1,113	72	656	6,687	60,101
Reportable segment assets	**908,430**	**354,705**	**785,797**	**167,604**	**290,144**	**348,684**	**2,868,511**	**285,369**	**40,251**	**59,479**	**313,930**	**6,422,904**
Reportable segment liabilities	**402,071**	**105,611**	**793,835**	**17,236**	**268,716**	**365,345**	**320,664**	**114,142**	**9,749**	**14,511**	**98,848**	**2,510,728**

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Information about profit or loss, assets and liabilities (Continued)

	Six months ended 30 June 2013 (Restated)							
	Dezhong	Feng Liao Xing	Guangdong Medi-World *(note)*	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Guizhou Zhongtai	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	12,996	9,071	10,147	21,110	15,234	440,598	7,869	517,025
Inter-segment revenue	133,597	101,668	135,870	10,244	66,296	–	–	447,675
Reportable segment revenue	146,593	110,739	146,017	31,354	81,530	440,598	7,869	964,700
Reportable segment profit/(loss) (adjusted EBITDA)	62,527	27,095	48,115	9,899	3,238	(23,964)	(3,432)	123,478
Interest income	19	8	3,286	5	5	–	109	3,432
Interest expenses	5,196	2,230	5,425	–	213	379	487	13,930
Depreciation and amortisation for the period	9,894	3,314	6,720	3,654	136	138	6,033	29,889
Reportable segment assets	1,008,217	365,603	549,226	147,906	202,693	275,765	312,104	2,861,514
Reportable segment liabilities	531,220	127,592	618,666	15,446	179,120	298,862	112,867	1,883,773

Note: The reportable segment assets of Guangdong Medi-World as at 30 June 2014 excluded RMB503,086,000 of investment in subsidiaries (31 December 2013: RMB503,086,000).

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration, other head office or corporate administration costs.

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Reportable segment profit	**296,937**	123,478
Elimination of inter-segment profits	**28,453**	1,368
Reportable segment profit derived from the Group's external customers	**325,390**	124,846
Other revenue and net (expenses)/income	**10,417**	7,264
Depreciation and amortisation	**(60,101)**	(29,889)
Finance costs	**(34,324)**	(13,930)
Unallocated head office and corporate expenses	**(16,499)**	(12,120)
Consolidated profit before taxation	**224,883**	76,171

4 SEASONALITY OF OPERATIONS

The Group experiences on average 10%-15% higher sales in the second half year, compared to first half year, due to the increased retail demand for its products during autumn and winter. The Group anticipates this demand by increasing its production to build up inventories during summer. As a result, the Group typically reports lower revenues for the first half of the year than the second half.

For the twelve months ended 30 June 2014, the Group reported revenue of RMB2,140,702,000 (twelve months ended 30 June 2013: RMB1,054,242,000 as restated), and gross profit of RMB1,295,859,000 (twelve months ended 30 June 2013: RMB599,996,000 as restated).

5 OTHER REVENUE AND NET (EXPENSES)/INCOME

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Other revenue		
Government grants		
– Unconditional subsidies	**3,117**	483
– Conditional subsidies	**8,718**	2,331
Rental income	**478**	299
Interest income	**806**	3,432
	13,119	6,545
Other net (expenses)/income		
Loss on disposal of fixed assets	**(404)**	(103)
Net realised and unrealised losses on trading securities	**(362)**	–
Exchange (loss)/gain	**(1,387)**	504
Others	**(549)**	318
	(2,702)	719

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Interest on bank advances and other borrowings wholly repayable within five years	**34,324**	13,930

6 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Write down/(reversals) of inventories (note 13)	**4,610**	(1,742)
Depreciation		
– investment properties	**80**	95
– interests in leasehold land held for own use under operating leases	**2,542**	1,190
– other property, plant and equipment	**32,489**	22,474
Amortisation		
– intangible assets	**24,990**	6,130
Impairment losses recognised		
– trade and other receivables	**3,135**	2,882
Operating lease charges: minimum lease payments	**3,503**	2,392
Research and development costs	**29,981**	19,089

7 INCOME TAX

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Current tax		
PRC income tax for the period	**45,395**	19,887
(Over)/under-provision in respect of prior year	**(1,914)**	41
	43,481	19,928
Deferred tax		
Reversal of temporary differences	**(5,351)**	(2,654)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(2,295)**	–
	(7,646)	(2,654)
Income tax expenses	**35,835**	17,274

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the six months ended 30 June 2014 and 2013.

7 INCOME TAX (Continued)

Pursuant to the Corporate Income Tax Law of the Peoples' Republic of China, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong, Guangdong Medi-World and Jingfang, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2011 to 2013 pursuant to documents issued by local government authorities. Feng Liao Xing, Dezhong, Guangdong Medi-World and Jingfang are applying for the extension of "Advanced and New Technology Enterprise" and the entitlement of the preferential income tax rate for 2014 to 2016. In the opinion of directors, they do not foresee any difficulties to obtain the approval of the preferential income tax rate for 2014 to 2016. The PRC income tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World and Jingfang was of 15% for the six months ended 30 June 2014 (six months ended 30 June 2013: 15%); and 2) Tongjitang Pharmaceutical, Guizhou LLF, Pulante and Guizhou Zhongtai Biological Technology Company Limited, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group's certain Hong Kong incorporated subsidiaries, which are the qualified Hong Kong tax residents, are subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that the undistributed profits of the Group's PRC subsidiaries on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits of RMB500,354,000 earned by the Group's PRC subsidiaries on or after 1 January 2013 as at 30 June 2014.

8 OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Changes in fair value recognised during the period	**–**	1,311
Income tax effect on the change in fair value recognised during the period	**–**	(197)
	–	1,114

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB188,790,000 (six months ended 30 June 2013: RMB63,037,000 as restated) and 2,533,899,000 of ordinary shares (six months ended 30 June 2013: 1,815,910,000) in issue during the interim period.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the periods presented and, therefore, diluted earnings per share is not presented.

10 FIXED ASSETS

(a) Acquisitions and disposals

During the six months ended 30 June 2014, the Group acquired items of plant and machinery (including payments for construction in progress) and the interest in leasehold land held for own use under operating leases with a cost of RMB278,933,000 (six months ended 30 June 2013: RMB45,035,000 as restated).

Items of buildings, plant and machinery and the interest in leasehold land held for own use under operating leases with a net book value of RMB28,168,000 were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB326,000 as restated), resulting in a loss of RMB404,000 (six months ended 30 June 2013: RMB103,000 as restated).

(b) Pledged assets

Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB143,627,000 were pledged as securities of bank loans of the Group as at 30 June 2014 (31 December 2013: RMB148,825,000) (see note 18(i)).

11 INTERESTS IN A JOINT OPERATION

On 14 August 2013, Foshan Winteam Pharmaceutical Development Company Limited, a wholly-owned subsidiary of the Company, acquired a land use right in Foshan City, Guangdong Province of the PRC from the PRC government authority at a consideration of RMB234,050,000. The Group entered into a cooperation and development agreement (the "Agreement") with an independent third party for the purpose of construction of buildings on the land. According to the Agreement, the Group and the independent third party jointly control through unanimous consent for all decisions and entitle to certain percent of buildings after completion based on their investments proportion in the construction project. As of the end of the reporting period, the carrying amount of the land use right and related construction costs were RMB240,211,000 (31 December 2013: Nil) and RMB1,989,000 (31 December 2013: Nil) and were recorded under the interests in leasehold land held for own use under operating leases and construction in progress in the consolidated statement of financial position respectively. As of the end of the reporting period, the Group has received an advance of RMB151,313,000 from the above independent third party and recorded under trade and other payables in the consolidated statement of financial position (31 December 2013: RMB6,000,000).

12 OTHER FINANCIAL ASSETS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current		
Available-for-sale equity securities		
– Unlisted equity securities, at cost	**1,010**	1,010
	1,010	1,010
Current		
Equity securities listed in HK (at fair value)	**802**	1,164
Available-for-sale securities-unlisted	**5,000**	5,000
	5,802	6,164
	6,812	7,174
Market value of listed securities	**802**	1,164

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

None of the available-for-sale equity securities are past due or impaired.

13 INVENTORIES

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as followed:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Carrying amount of inventories sold	**489,636**	219,979
Write down/(reversal) of inventories (note 6(b))	**4,610**	(1,742)
	494,246	218,237

The reversal of write-down of inventories during the six months ended 30 June 2013 arose as a result of the subsequent sales of long-aged finished goods for which a write-down was made in prior periods.

14 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 3 months after invoice date	**919,794**	828,912
3 to 6 months after invoice date	**53,592**	53,314
More than 6 months less than 12 months after invoice date	**30,846**	22,106
More than 12 months after invoice date	**6,774**	2,839
Trade debtors and bills receivable, net of allowance for doubtful debts	**1,011,006**	907,171
Other receivables	**72,233**	109,661
	1,083,239	1,016,832

Trade receivables are due within 30 to 90 days from the date of billing.

As at 30 June 2014, trade receivables of RMB4,568,000 and bills receivable of RMB109,381,000 were pledged as securities (31 December 2013: bills receivable of RMB35,478,000) (see note 18(i)).

(Expressed in Renminbi unless otherwise indicated)

15 DEPOSITS WITH BANKS

Deposits with banks were fixed deposits with maturity beyond three months.

16 CASH AND CASH EQUIVALENTS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Cash at bank and in hand	**339,726**	345,411

17 TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade creditors	**129,389**	152,364
Other creditors and accrued charges	**485,220**	426,258
Advances received from customers	**50,163**	17,141
	664,772	595,763

Trade creditors are due within 1 month or on demand from the date of billing.

18 BANK AND OTHER LOANS

At 30 June 2014, the Group's bank and other loans are repayable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year or on demand	**473,435**	583,626
After 1 year but within 3 years	**674,688**	668,270
	1,148,123	1,251,896

18 BANK AND OTHER LOANS (Continued)

At 30 June 2014, the Group's bank and other loans are secured as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Bank loans		
Secured	**359,235**	335,928
Unsecured	**785,888**	912,968
	1,145,123	1,248,896
Other secured loan*	**3,000**	3,000
	1,148,123	1,251,896

* Other secured loan was borrowed from Foshan Shunde Industry Service Innovation Center. The loan is interest free and repayable on 18 December 2014.

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Interests in leasehold land and buildings (note 10(b))	**143,627**	148,825
Intangible assets	**4,417**	4,700
Trade receivables (note 14)	**4,568**	–
Bills receivable (note 14)	**109,381**	35,478
	261,993	189,003

(ii) Other loan of RMB3,000,000 were guaranteed by Mr. Yang Bin, the director, as at 30 June 2014 (31 December 2013: bank loan of RMB22,000,000 and other loan of RMB3,000,000).

(iii) Banking facilities of RMB1,256,922,000 (31 December 2013: RMB1,256,825,000) were utilised to the extent of RMB1,145,123,000 (31 December 2013: RMB1,248,896,000). The bank loans drawn were secured by assets as set out in note 18(i).

Parts of the Group's bank loans, amounted to RMB950,588,000 (31 December 2013: RMB892,726,000) are subject to the fulfilment of covenants which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2014, none of the covenants relating to drawn down facilities had been breached (31 December 2013: Nil).

19 DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under current and non-current liabilities are as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
At the beginning of the period/year	**63,979**	17,462
Additions	**5,526**	5,761
Addition through acquisition	**–**	43,082
Credited to profit or loss	**(8,718)**	(2,326)
At the end of the period/year	**60,787**	63,979
Representing:		
Current portion	**33,041**	34,530
Non-current portion	**27,746**	29,449
	60,787	63,979

As at 30 June 2014 and 31 December 2013, deferred government grants of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of fixed assets.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of fixed assets will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

As at 31 December 2013, 3,000,000,000 ordinary shares, with par value of HKD0.1 (approximately RMB0.08) each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

20 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Share capital (Continued)

(i) Ordinary shares

	At 30 June 2014		At 31 December 2013	
	Number of shares '000	**RMB'000**	Number of shares '000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	**2,533,899**	**235,087**	1,783,411	175,589
Share issue (note)	**–**	**–**	750,488	59,498
Transition to no-par value regime on 3 March 2014	**–**	**2,307,159**	–	–
At 30 June/31 December	**2,533,899**	**2,542,246**	2,533,899	235,087

Note: During the year ended 31 December 2013, amounts of RMB1,680,965,000 standing to the credit of the share premium account was applied in paying up in full 750,488,000 ordinary shares of HKD0.1 (approximately RMB0.08) each of the Company, which were allotted and fully paid then held in accordance with section 48B of the predecessor Hong Kong Companies Ordinance (Cap.32).

(b) Share premium and capital redemption reserves

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital (see note 20(a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(c) Other reserve

Other reserve represents premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves.

(d) Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 30 June 2014 categorised into		
	Fair value at 30 June 2014	Quoted prices in active market for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Equity securities listed in HK	802	802	–	–
Available-for-sale securities – unlisted	5,000	–	5,000	–
	5,802	802	5,000	–

21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

		Fair value measurements as at 31 December 2013 categorised into		
	Fair value at 31 December 2013 RMB'000	Quoted prices in active market for identical assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurement				
Financial assets:				
Equity securities listed in HK	1,164	1,164	–	–
Available-for-sale securities – unlisted	5,000	–	5,000	–
	6,164	1,164	5,000	–

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted available-for-sale financial assets is the estimated amount that the Group would receive or pay to terminate the financial assets at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the asset counterparty.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 30 June 2014.

22 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for	**118,680**	216,165
Authorised but not contracted for	**205,959**	7,591
	324,639	223,756

23 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the six months ended 30 June 2014 and 2013, transactions with the following parties are considered to be related party transactions:

Name of related party	**Relationship**
Mr. Yang Bin	Executive director and a shareholder of the Company
Mr. Wu Xian	Executive director of the Company with effect from 5 February 2013
Mr. Xu Tiefeng	Executive director and controlling shareholder of the Company till 28 February 2013
Mr. Wang Xiaochun	Executive director of the Company with effect from 23 October 2013
Foshan Hanyu Pharmaceutical Co., Ltd. ("Hanyu Pharmaceutical")	Effectively 45.32% owned by Mr. Yang Bin and 27.34% owned by Mr. Xu Tiefeng
Kimlong Technology Limited ("Kimlong")	Effectively 100% owned by Mr. Yang Bin
China National Pharmaceutical Group Corporation ("CNPGC")	Ultimate controlling shareholder with effect from 28 February 2013
CNPGC's subsidiaries	Fellow subsidiaries of the Group with effect from 28 February 2013
Hanmax Investment Limited	Effectively owned by Mr. Wang Xiaochun

23 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

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

(i) Sales of finished goods to:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**169,209**	49,035

(ii) Purchase of raw materials from:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**13,559**	9,562

(iii) Research and development services provided by:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
CNPGC's subsidiaries	**4,536**	–

(iv) Loan from related party:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
		(Restated)
Hanyu Pharmaceutical *	**–**	25,211

* The loan from related party is unsecured, interest free and repayable on 20 March 2014.

23 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

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

(v) Trade and other receivable balances due from related parties:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
CNPGC's subsidiaries	**100,280**	76,312

(vi) Trade and other payable balances due to related parties:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Hanyu Pharmaceutical	**–**	5,000
CNPGC's subsidiaries	**9,292**	2,038
	9,292	7,038

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000 (Restated)
Salaries and short-term employee benefits	**3,614**	2,075
Post-employment benefits	**122**	49
	3,736	2,124

24 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or represented to conform to current period's presentation as a result of the application of the change in presentation currency from HKD to RMB on 25 November 2013 (note 2) and the reclassification from discontinuing operations to continuing operations of Guizhou Zhongtai. On 16 May 2013, the board of directors of the Group approved to dispose of its entire interest in Guizhou Zhongtai. On 28 June 2013, the Group agreed with an independent third party that the Group shall conditionally sell its entire interest in Guizhou Zhongtai (the "Disposal Plan"). The directors expected that the transaction would be completed within the next twelve months. However, on 25 November 2013 the Group agreed with the independent third party to cease the Disposal Plan and the operation results of Guizhou Zhongtai are still presented as continuing operations for all periods presented.