



# China Traditional Chinese Medicine Co. Limited

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



**INTERIM REPORT 2015**



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## CORPORATE INFORMATION

### **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. YU Tze Shan Hailson  
Mr. LO Wing Yat

### **Company Secretary**

Mr. HUEN Po Wah

### **Audit Committee**

Mr. XIE Rong (*Chairman*)  
Mr. ZHOU Bajun  
Mr. LO Wing Yat

### **Remuneration Committee**

Mr. ZHOU Bajun (*Chairman*)  
Mr. LIU Cunzhou  
Mr. XIE Rong  
Mr. LO Wing Yat

### **Nomination Committee**

Mr. WU Xian (*Chairman*)  
Mr. YANG Bin  
Mr. ZHOU Bajun  
Mr. XIE Rong  
Mr. LO Wing Yat

### **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 Centre  
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.  
HSBC Bank (China) Company Limited (Shenzhen Branch)

### **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 2015, together with the comparative figures for the corresponding periods in 2014 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, healthcare industry in China experienced a clear slowdown of growth as compared to the last couple of years. Despite the tough situation, the Group achieved satisfactory performance in both top line and bottom line. The Group’s turnover from continuing operations increased by 14.7% to approximately RMB1,422,067,000 from approximately RMB1,239,755,000 for the corresponding period of last year.

The Group continued with the integration of its subsidiaries in order to further improve operating efficiency. Net profit attributable to shareholders of the Company was approximately RMB234,592,000, which was 24.3% higher than approximately RMB188,790,000 for the corresponding period of last year.

## GROUP OVERVIEW

The Group is an integrated pharmaceutical corporation engaged in R&D, manufacturing and selling of traditional Chinese medicines (“TCM”) and other healthcare products. It is the TCM arm of China National Pharmaceutical Group Corporation (“CNP GC”). The Group uses “Sinopharm” as its parent brand and operates under the brand names of Tongjitang (同濟堂), Xianling (仙靈), Dezhong (德眾) and Fengliaoxing (馮了性), all are well-known brands in China. It has over 500 TCM and chemical products, including over 60 national exclusive products. The Group has over 100 products being listed on the National Essential Drugs List (“EDL”), 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 manufacturing facilities in Guangdong, Guizhou, Anhui, Shandong and Qinghai, with approximately 50 GMP (2010 edition) certified production lines and annual production capacity of 5.65 billion tablets, 3.2 billion capsules, 870 million packs of granules, as well as 22,000 tonnes of TCM preprocessing and extraction.

During the period of review, sales of TCM accounted for approximately 90.6% of the turnover of the Group and sales of chemical medicine made up approximately 9.4% of the turnover. The Group’s sustainable development in the future is closely related to the development of healthcare reform and TCM industry in China.



### INDUSTRY OVERVIEW

#### Reform of Healthcare System

On 23 January 2015, the National Health and Family Planning Commission published the “Key Tasks of Healthcare and Family Planning Work in 2015” (《2015年衛生計生工作要點》), with the key points of 1) to formulate and carry out the “Opinion on the Full-Scale Implementation of Overall Reform of Public Hospitals at County Level” (《關於全面推開縣級公立醫院綜合改革的實施意見》) in order to expand the reform to all counties in the country; 2) to improve the national medical insurance system and increase the government subsidy to the basic medical insurance for urban residents and New Rural Cooperative Medical Care System (“NCMS”); 3) to enhance the essential drug system and its operation at primary healthcare institutions by strengthening the stocking and prescription of essential drugs; 4) to improve the supply system of drugs, to link the procurement mechanisms of essential and non-essential drugs and to implement guidance for centralised drug procurement in public hospitals; 5) to promote impartiality in public basic healthcare service; 6) to push forward the system of tiered medical service by producing guidance and pilot scheme and to start trial of tiered medical service in the region undertaking urban public hospital reform; and 7) to develop healthcare service sector, with focus on optimizing the macro-environment of private hospitals, regulating the reform of public hospitals, carrying forward the pilot scheme of reform for hospitals owned by SOE, and improving policies of foreign investment on healthcare.

In May 2015, the General Office of State Council promulgated the “Guidelines to the Pilot Scheme of Comprehensive Reform of Urban Public Hospital” (《關於城市公立醫院綜合改革試點的指導意見》), requiring to further enlarge the scheme to 100 prefecture-level cities (approximately 1/3 of the market) in 2015. By the year of 2017, the pilot scheme of comprehensive reform of urban public hospital should be expanded nationwide, and the income generated from medicines (excluding TCM decoction pieces) of urban public hospitals under the scheme should be reduced to approximately 30% of their total income.

While the initiatives of healthcare reform shall stimulate consumption of healthcare products in China, the intention of controlling income from medicines will force those hospitals under the pilot scheme to reduce purchase price and prescription volume in order to meet the target of 30%. Consequently, pharmaceutical producers, including the Group, may face further pressure on selling price, and sales volume growth as well.



## Opportunity for Developing Chinese Medicine

The culture of Chinese medicine is an indispensable element in Chinese civilization, and is a treasure for Chinese people. TCM are made from natural substances with minimal toxic side effect and drug resistance, and the expenses of treatment are relatively lower. TCM has unique efficacy in rebalancing bodily functions of human being, prevention of illness, and treatment of chronic diseases. As the aging population in China has created huge demand for healthcare products and services, it is high time to carry forward and promote Chinese medicine.

In the “Notice on Publishing the Summary of National Healthcare Service System Planning (2015-2020)” (《關於印發全國醫療衛生服務體系規劃綱要(2015-2020年)的通知》) released by the General Office of State Council on 30 March 2015, the government emphasized the policy of putting equal weight on TCM and western medicine by allocating sufficient resources to TCM healthcare service. By the year of 2020, all community and township hospitals, as well as 70% of village clinics in China should have appropriate capacity of TCM healthcare service.

On 8 May 2015, the General Office of State Council published “Development Plan of TCM Healthcare Service (2015-2020)” (《中醫藥健康服務發展規劃(2015-2020年)》), indicating seven key jobs: 1) to develop TCM service for preserving longevity by supporting TCM healthcare institutions; 2) to encourage investment on TCM healthcare service by all sources of funding; 3) to promote TCM rehabilitation service; 4) to support the development of TCM nursing home for the elders where medical treatment and care service are combined; 5) to nurture TCM culture and healthcare-related tourism; 6) to back up the R&D, manufacturing and utilization of TCM-related healthcare products; and 7) to promote TCM healthcare service trading in order to attract more TCM-related consumption in China and to facilitate TCM healthcare service overseas.

The Group is the TCM business platform of CNPGC, with over 90% of its revenue generated from TCM products. In the first half of 2015, the Company initiated the acquisition of 87.3% equity interest of Jiangyin Tianjiang Pharmaceutical Company Limited (“Tianjiang Pharma”), who is the largest manufacturer of concentrated TCM granule in China. In addition, the Group has taken its first step of entering into TCM healthcare service market by establishing a TCM healthcare complex in Foshan and Chongqing, respectively. The protection of and the support to Chinese medicine by the government will provide great opportunity to the Group to further enhance its presence in TCM industry and to share the market development of TCM products and services.



## BUSINESS REVIEW

### Sales of Products

During the period under review, the Group's turnover from continuing operations increased by 14.7% to approximately RMB1,422,067,000, which was mainly attributable to the strong revenue growth of the 7 exclusive TCM drugs on the EDL. Together these 7 key products contributed 72.4% of the turnover during the period under review, with revenue growth rate of 19.4%.

### Continuing Operations

Analysis by TCM and Chemical medicine:

	For the six months ended 30 June				
	2015 RMB'000	Percentage to turnover	2014 RMB'000	Percentage to turnover	change
TCM	<b>1,287,700</b>	<b>90.6%</b>	1,100,359	88.8%	17.0%
Chemical Medicine	<b>134,367</b>	<b>9.4%</b>	139,396	11.2%	-3.6%
<b>Total</b>	<b>1,422,067</b>	<b>100.0%</b>	1,239,755	100.0%	14.7%

Sales Analysis of Top Ten Products:

	For the six months ended 30 June				
	2015 RMB'000	Percentage to turnover	2014 RMB'000	Percentage to turnover	change
Xianling Gubao (仙靈骨葆)	<b>472,148</b>	<b>33.2%</b>	437,174	35.3%	8.0%
Yu Ping Feng Granule (玉屏風顆粒)	<b>164,127</b>	<b>11.5%</b>	109,014	8.8%	50.6%
Jingshu Granule (頸舒顆粒)	<b>121,283</b>	<b>8.5%</b>	89,099	7.2%	36.1%
Moisturizing & Anti-Itching Capsule (潤燥止癢膠囊)	<b>100,740</b>	<b>7.1%</b>	70,711	5.7%	42.5%
Bi Yan Kang Tablet (鼻炎康片)	<b>97,466</b>	<b>6.9%</b>	104,838	8.5%	-7.0%
Sheng Tong Ping (聖通平)	<b>42,758</b>	<b>3.0%</b>	53,670	4.3%	-20.3%
Fengshi Gutong Capsule (風濕骨痛膠囊)	<b>39,560</b>	<b>2.8%</b>	24,529	2.0%	61.3%
Zaoren Anshen Capsule (棗仁安神膠囊)	<b>34,781</b>	<b>2.4%</b>	27,214	2.2%	27.8%
Gao De (高德)	<b>34,582</b>	<b>2.4%</b>	41,232	3.3%	-16.1%
Sha Pei Lin (沙培林)	<b>22,018</b>	<b>1.5%</b>	13,140	1.1%	67.6%
Other Products	<b>292,604</b>	<b>20.7%</b>	269,134	21.6%	8.7%
<b>Total</b>	<b>1,422,067</b>	<b>100.0%</b>	1,239,755	100.0%	14.7%





## Research and Development (“R&D”)

During the period under review, the Group obtained approval of production for two of its new products, namely Fexofenadine/Pseudoephedrine Sustained-Release Capsule (非索偽麻緩釋膠囊) and Gong Yan Ping Capsule (宮炎平膠囊). In July 2015, China Food and Drug Administration (“CFDA”) completed on-site inspection regarding Wuwei Huoxiang Tablet (五味藿香片), a TCM new drug targeting mild depression.

In addition to the ongoing project of Yu Ping Feng Granule (玉屏風顆粒) Re-evaluation, the Group further planned for clinical trials on Xianling Gubao (仙靈骨葆), Jingshu Granule (頸舒顆粒) and Moisturising and Anti-Itching Capsule (潤燥止癢膠囊), with the purpose of strengthening evidence-based medicine study on its core products. The investment on such researches will help promotion of those products to both TCM and western medicine doctors in China.

## Investment Project

### Acquisition of Tianjiang Pharma

During the period under review, the Group entered into a series of agreement with various vendors to conditionally acquire 87.3% equity interest of Tianjiang Pharma at a consideration of RMB8,736,223,527. In May 2015, the Company completed the placement of 1,752,098,682 new shares to raise approximately HKD8,200,000,000 (equivalent to approximately RMB6,566,686,000). The total net proceeds from the share issues amounted to approximately RMB6,533,637,000 offsetting by the direct related transaction costs of approximately HKD41,273,000 (equivalent to approximately RMB33,049,000), which would be paid as part of the consideration of the transaction. The remaining consideration will be paid by 1) proceed of RMB666,337,600 from two of the vendors, who are key management members of Tianjiang Pharma, for the subscription of 197,749,762 new shares of the Company at the completion of the acquisition; 2) the Group’s internal resources of RMB567,215,000; and 3) a bank loan of approximately RMB1,000,000,000. The acquisition has been approved by shareholders of the Company at an extraordinary general meeting on 13 July 2015. It is expected the transaction will be completed in the second half of 2015.

For details of the transaction, please refer to the circular of the Company dated 24 June 2015 and the announcement of the Company dated 13 July 2015.

### Manufacturing Facilities at Guiyang Economic & Technology Development Zone

During the period under review, the Group continued with the construction of the manufacturing base located at Guiyang Economic & Technology Development Zone, Guizhou Province (new factory of Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. (previously known as “Guizhou Tongjitang Pharmaceutical Co., Ltd.”, “Tongjitang Pharmaceutical”). The project is expected to be completed in 2016. The facilities will be in full compliance with GMP (2010 edition) requirements and will significantly improve the production capacity to meet the need of business expansion of the Group.

### Construction of Headquarter Building

The Group is building its headquarter, R&D centre and ancillary facilities in Chan Cheng District, Foshan City. The Group is working 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 construction work has been commenced and it is expected that the project will be completed in 2016.





### Disposal of Guizhou Zhongtai

On 27 January 2015 the Group and China Biotechnology Co., Ltd. (中國生物技術股份有限公司) (“China Biotechnology Co”) entered into an agreement to conditionally sell 31% equity interest in Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries (“Guizhou Zhongtai”) to China Biotechnology Co for a consideration of RMB139,500,000. The Group considered that the main business of Guizhou Zhongtai was R&D, production and sale of plasma-based biopharmaceutical products, which was not the core business of the Group. The disposal of Guizhou Zhongtai will allow the Group to allocate more resources to focus on the development of TCM business.

The transaction can only be completed after all conditions specified in the agreement are met. Upon completion of the transaction, the Group will hold 20% equity interest of Guizhou Zhongtai, which will subsequently be sold to China Biotechnology Co at an appropriate price under certain conditions. As the controlling shareholder of China Biotechnology Co is CNPGC, this transaction constitutes a connected transaction.

It is expected the transaction will be concluded in the second half of 2015. For the period under review, turnover of Guizhou Zhongtai was approximately RMB3,444,000, and its loss was approximately RMB16,963,000. The performance of Guizhou Zhongtai has been classified as discontinued operation in the financial statement of the Group.

For details of the transaction, please refer to the announcement of the Company dated 27 January 2015.

### PROSPECTS

In the short run, as drugs tenders in many provinces have been delayed, and the authorities intend to further push down bid price during the process, the pressure has become a general challenge faced by all pharmaceutical companies. In addition, there exists the uncertainty in regulation and policy regarding healthcare reform, and some local government is facing the problem of increasing reimbursement of medical expense with limited fiscal income. The pharmaceutical industry as a whole has been affected and the growth rate was significantly slowed down in the first half of 2015. In the medium to long run, however, the change in population structure and spectrum of disease will inevitably drive up the demand for healthcare product. Along with the economic development, spending on healthcare will continue to increase, which shall provide huge market opportunity for healthcare companies to promote and improve their products and services.

The Group is committed to flourishing Chinese medicine and building up its leading position in TCM industry. While making efforts on growing its existing businesses, the Group will identify M&A targets with unique products and established market share. The Group will leverage on its resources in the sector to enlarge its business scope to TCM healthcare service.



## FINANCIAL REVIEW

### Continuing Operations

#### Turnover

For the six months ended 30 June 2015, the Group's turnover amounted to approximately RMB1,422,067,000, or an increase of 14.7% from approximately RMB1,239,755,000 for the same period of last year. The growth of turnover was attributable to the successful expansion in the coverage of primary medical institutions and the formation of partnership with strategic distributor and chain pharmacy. Various promotional activities were conducted at the terminal pharmacy, increasing the coverage and penetration rate in the OTC retail market.

#### Cost of sales and gross profit margin

For the six months ended 30 June 2015, the Group's cost of sales was approximately RMB565,362,000, representing an increase of 17.9% as compared to approximately RMB479,331,000 for the corresponding period of last year. Direct raw materials, direct labor and production overhead accounted for approximately 74.3%, 10.0% and 15.7% of the total cost of sales, respectively, as compared to 72.4%, 11.0% and 16.6% for the corresponding period of last year. Gross profit for the period was approximately RMB856,705,000, or an increase of RMB96,281,000 from approximately RMB760,424,000 for the same period of last year. The gross profit margin was 60.2%, representing a decrease of 1.1% from 61.3% as compared to the corresponding period of last year. The decrease in gross profit margin is attributable to the enhancement of procurement standards of TCM medicinal herbs for further improvement of product quality and the adjustment of sales models for some non-core products, which was switched from selling at distribution price to selling at ex-factory price. The selling price was reduced, together with the reduction of selling and distribution costs at the same time.

#### Other revenue

For the six months ended 30 June 2015, the Group's other revenue was approximately RMB33,460,000 representing an increase of 164.2% compared to approximately RMB12,666,000 for the corresponding period of last year.

	For the six months ended 30 June		
	2015	2014	Change
	RMB'000	RMB'000	
Interest income	<b>27,747</b>	692	3909.7%
Government grants	<b>5,169</b>	11,496	-55.0%
Rental income	<b>544</b>	478	13.8%
<b>Total</b>	<b>33,460</b>	12,666	164.2%

Interest income increased, which was due to the interest income of approximately RMB27,711,000 generated from the deposit of funds received from the placement of new shares during the period.



### Other net income/(expenses)

For the six months ended 30 June 2015, the Group's other net income were approximately RMB7,689,000 (for the six months ended 30 June 2014: other net expenses of approximately RMB2,737,000). The change from other net expenses to other net income was mainly due to net gain on forward exchange contracts of approximately RMB9,842,000.

### Selling and distribution costs

For the six months ended 30 June 2015, the Group's selling and distribution costs amounted to approximately RMB445,484,000 (for the six months ended 30 June 2014: RMB404,993,000).

	For the six months ended 30 June		
	2015	2014	Change
	RMB'000	RMB'000	
Advertising, promotion and traveling expenses	<b>225,309</b>	222,593	1.2%
Salary expenses of sales and marketing staffs	<b>144,307</b>	116,633	23.7%
Distribution costs	<b>14,464</b>	13,988	3.4%
Other selling and distribution cost	<b>61,404</b>	51,779	18.6%
Total	<b>445,484</b>	404,993	10.0%

Selling and distribution costs increased by 10.0% as compared to that of last year, which was mainly attributable to the adjustment of remuneration policy of the Group. It was also due to the increase of expenditures as the Group strengthened product and brand promotion activities to increase the market coverage of products. During the period under review, selling and distribution costs as a percentage to turnover was 31.3%, as compared to 32.7% for the corresponding period of last year. As the sales models of some non-core products was adjusted, selling and distribution costs decreased. The integration of the sales and marketing team has been completed and improvement of operating efficiency continued to be seen.

### Administrative Expenses

For the six months ended 30 June 2015, the Group's administrative expenses amounted to approximately RMB123,274,000 (for the six months ended 30 June 2014: RMB106,493,000).

	For the six months ended 30 June		
	2015	2014	Change
	RMB'000	RMB'000	
Staff salary	<b>32,361</b>	31,238	3.6%
Depreciation and amortisation	<b>9,282</b>	8,668	7.1%
Expenses for product research and development	<b>31,566</b>	29,849	5.8%
Office rental cost and other expenses	<b>50,065</b>	36,738	36.3%
Total	<b>123,274</b>	106,493	15.8%



Administrative expenses increased by 15.8% as compared to corresponding period of last year, which was mainly attributable to professional fees of approximately RMB6,042,000 related to the acquisition of Tianjiang Pharma. During the period under review, administrative expenses as a percentage to turnover was 8.7%, as compared to 8.6% for the corresponding period of last year.

### Profit from Continuing Operations

For the six months ended 30 June 2015, the Group's profit from operations was approximately RMB329,096,000, representing an increase of 27.1% as compared to approximately RMB258,867,000 for the same period of last year, while operating profit margin (defined as profit from operations divided by turnover) increased to 23.1% from 20.9% for the same period of last year.

### Finance Costs

For the six months ended 30 June 2015, the Group's finance costs amounted to approximately RMB37,894,000 (for the six months ended 30 June 2014: RMB33,475,000), and the higher finance costs as compared with the corresponding period of last year was attributable to the increase of short-term borrowing for the deposit payment related to the acquisition of Tianjiang Pharma. During the period under review, the effective interest rate for bank and other loans was 4.77% (for the twelve months ended 31 December 2014: 4.98%).

### Earnings per share

For the six months ended 30 June 2015, basic earnings per share of continuing and discontinuing operations was RMB7.78 cents, representing an increase of 4.4% as compared to RMB7.45 cents for the corresponding period of last year. Basic earnings per share increased because profit attributable to equity shareholders of the Company for the period under review increased by 24.3% to approximately RMB234,592,000 (for the six months ended 30 June 2014: RMB188,790,000). The growth rate of basic earnings per share was lower than that of profit attributable to equity shareholders because of the placement of 1,752,098,682 new shares in May 2015, which increased the weighted average number of ordinary shares to 3,015,543,308 shares from 2,533,899,186 shares as compared to the corresponding period of last year.

### Liquidity and Financial Resources

As of 30 June 2015, the Group's current assets amounted to approximately RMB8,744,269,000 (31 December 2014: RMB2,094,478,000), which included cash, cash equivalents and deposits with banks of approximately RMB6,273,625,000 (31 December 2014: RMB439,721,000), as well as trade and other receivables of approximately RMB1,389,554,000 (31 December 2014: RMB1,236,400,000). Current liabilities amounted to approximately RMB1,398,649,000 (31 December 2014: RMB1,133,841,000). Net current assets aggregated to approximately RMB7,345,620,000 (31 December 2014: RMB960,637,000). The Group's current ratio was 6.3 (31 December 2014: 1.8). Gearing ratio (defined as bank and other loans divided by total equity attributable to equity shareholders of the Company) decreased to 0.14 from 0.37 as of 31 December 2014. Gearing ratio decreased mainly because the interests attributable to equity shareholders of the Company increased to RMB9,940,729,000 from RMB3,183,756,000 as compared to the corresponding period of last year due to the increase in retained profits and placement of new shares.



### **Bank and other Loans and Pledge of Assets**

As of 30 June 2015, the balance of the Group's bank and other loans was approximately RMB1,397,965,000 (31 December 2014: RMB1,172,213,000), of which approximately RMB316,091,000 (31 December 2014: RMB409,547,000) was secured by the Group's assets with book value of approximately RMB209,787,000 (31 December 2014: RMB302,526,000) and guaranteed by a shareholder. Bank loans increased mainly due to the increase of short-term borrowing for the deposit payment related to the acquisition of Tianjiang Pharma.

### **Contingent Liabilities**

The Group did not have any contingent liability as of 30 June 2015 (31 December 2014: nil).

### **Employee and Remuneration Policies**

As of 30 June 2015, the Group had a total of 6,726 (31 December 2014: 6,579, excluded the employees of discontinued operation) 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 4,032, 1,921 and 773 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 RMB228,952,000 (for the six months ended 30 June 2014: RMB199,407,000).



## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

## ALLOT AND ISSUE OF SHARES

### The Sinopharm Subscription

On 22 March 2015, the Company entered into a subscription agreement with Sinopharm Hong Kong pursuant to which the Company conditionally agreed to allot and issue, and Sinopharm Hong Kong conditionally agreed to subscribe for, 598,290,598 shares (the "Sinopharm Shares") at the total subscription price of HK\$2,800,000,000, equivalent to the issue price of HK\$4.68 per share (the "Sinopharm Subscription"). The net proceed from the Sinopharm Subscription is approximately HK\$2,798.4 million. Accordingly, the net issue price per Sinopharm Share is approximately HK\$4.677.

Sinopharm Hong Kong is the controlling shareholder of the Company. Accordingly, Sinopharm Hong Kong is a connected person of the Company and the Sinopharm Subscription constitutes a connected transaction of the Company under the Listing Rules.

### The Yang Subscription

On 22 March 2015, the Company and Mr. YANG Bin, an executive Director and the managing director of the Company, entered into a subscription agreement pursuant to which the Company conditionally agreed to allot and issue, and Mr. YANG Bin conditionally agreed to subscribe for, 42,735,042 shares (the "Yang Shares") at the total subscription price of HK\$200,000,000, equivalent to the issue price of HK\$4.68 per share (the "Yang Subscription"). The net proceed from the Yang Subscription is approximately HK\$199.8 million. Accordingly, the net issue price per Yang Share is approximately HK\$4.676.

By virtue of Mr. YANG Bin's directorship and substantial shareholding interest in the Company, Mr. YANG Bin is a connected person of the Company and the Yang Subscription constituted a connected transaction of the Company under Listing Rules.

### The Wang Subscription

On 22 March 2015, the Company and Mr. WANG Xiaochun, an executive Director of the Company, entered into a subscription agreement pursuant to which the Company conditionally agreed to allot and issue, and Mr. WANG Xiaochun conditionally agreed to subscribe for, 42,735,042 shares (the "Wang Shares") at the total subscription price of HK\$200,000,000, equivalent to the issue price of HK\$4.68 per share (the "Wang Subscription"). The net proceed from the Wang Subscription is approximately HK\$199.8 million. Accordingly, the net issue price per Wang Share is approximately HK\$4.676.



## OTHER INFORMATION

By virtue of Mr. WANG Xiaochun's directorship and substantial shareholding interest in the Company, Mr. WANG Xiaochun is a connected person of the Company and the Wang Subscription constituted a connected transaction of the Company under Listing Rules.

### The Investors Subscriptions

On 25, 26 and 27 March 2015 and 14 April 2015, the Company entered into the agreements with 26 investors (the "Investors") pursuant to which the Company conditionally agreed to allot and issue, and the Investors conditionally agreed to subscribe for 1,068,338,000 shares (the "Investors Shares") at the total subscription price of approximately HK\$5,000,000,000 at the issue price of HK\$4.68 per share (the "Investors Subscriptions"). The net proceed from the Investors Subscriptions is approximately HK\$4,960.7 million. Accordingly, the net issue price per Investors Share is approximately HK\$4.643.

The Company will use the net proceed from the Sinopharm Subscription, Yang Subscription, Wang Subscription and Investors Subscription to finance part of the consideration for the acquisition of Tianjiang Pharma (the "Acquisition"). The Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Investors Subscription would be allot and issue of new shares under a specific mandate. All transactions contemplated under the subscriptions and all the subscriptions agreements were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 7 May 2015. Details of the subscription were disclosed in the Company's announcements dated 30 March 2015 and 14 April 2015 and the Company's circular dated 21 April 2015. The subscriptions of new shares were completed on 12 May 2015 and 14 May 2015, please refer to the announcement of the Company for completion of subscription dated 12 May 2015 and 14 May 2015.

### The Vendors Trustee Subscriptions by Mr. Tan Dengping ("Vendor C") and Ms. Zhou Jialin ("Vendor E")

On 15 May 2015, the Company and Hwabao Trust Co., Ltd. (the "Trustee") entered into a trustee subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, the Trustee conditionally agreed to subscribe on behalf of and for the benefit of Vendor C for, 80,149,157 shares (the "Vendor C Shares") at the total subscription price equivalent to RMB270,070,600 at the issue price of HK\$4.212 per share (the "Vendor C Subscription"). The net proceed from the Vendor C Subscription is approximately HK\$337.5 million. Accordingly, the net issue price per Vendor C Share is approximately HK\$4.211. Vendor C Shares will be subject to a lock-up period of 24 months from the date of completion of the Vendor C Subscription.

On the same date, the Company and the Trustee entered into a trustee subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, the Trustee conditionally agreed to subscribe on behalf of and for the benefit of Vendor E for, 117,600,605 shares (the "Vendor E Shares") at the total subscription price equivalent to RMB396,267,000 at the issue price of HK\$4.212 per share (the "Vendor E Subscription"). The net proceed from the Vendor E Subscription is approximately HK\$495.2 million. Accordingly, the net issue price per Vendor E Share is approximately HK\$4.211. Vendor E Shares will be subject to a lock-up period of 24 months from the date of completion of the Vendor E Subscription.





The Company will use the proceeds from the Vendors Trustee Subscriptions to finance part of the consideration for the Acquisition.

The issuance of new shares allowed the Company to raise the necessary fund to finance part of the consideration for the Acquisition. The Investors Subscriptions would broaden the shareholders base and enhance the profile of the Company given that the Investors comprise professional and international institutional Investors, and increase the trading liquidity of the shares of the Company. Although the issuance of new shares would be diluted the existing shareholdings, it is a cost efficient manner without imposing any interest burden or finance cost to the Group. The directors consider the dilution impact on the shareholdings of the public shareholders resulting from the proposed fund raising exercise is acceptable.

The Sinopharm Subscription, the Yang Subscription and the Wang Subscription is shown the continuing support from Sinopharm Hong Kong, Mr. Yang and Mr. Wang, and would build up investors' confidence in the Group. Vendor C & Vendor E are the key management of Tianjiang Pharma. The Vendors Trustee Subscriptions demonstrate a long-term commitment and support from Vendor C and Vendor E to the continuous development of Tianjiang Pharma.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2015, 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 2015:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
YANG Bin	Interest of controlled corporation	376,735,042 (long position) (Note 1)	8.79%
	Interest of controlled corporation	71,037,863 (short position) (Note 2)	1.66%
WANG Xiaochun	Interest of controlled corporation	376,735,042 (long position) (Note 3)	8.79%
	Interest of controlled corporation	150,000,000 (short position) (Note 4)	3.50%



## OTHER INFORMATION

### Notes:

1. The 376,735,042 shares are held by Profit Channel Development Limited ("Profit Channel"), which is wholly owned by Mr. YANG Bin.
2. Of the 376,735,042 shares, 71,037,863 shares were pledged by Profit Channel to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang").
3. The 376,735,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.
4. On 26 March 2014, of the 376,735,042 shares, 150,000,000 shares were charged 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 2015.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2015, 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 2015:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hong Kong	Beneficial owner	1,614,313,642 (long position) (Note 1)	37.66%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) (Note 1)	37.66%
CNPGC	Security Interest	71,037,863 (long position) (Note 2)	1.66%
Profit Channel	Beneficial owner	376,735,042 (long position)	8.79%
	Beneficial owner	71,037,863 (short position) (Note 2)	1.66%
Hanmax	Beneficial owner	376,735,042 (long position)	8.79%
	Beneficial owner	150,000,000 (short position) (Note 3)	3.50%
China Construction Bank Corporation	Interest of controlled corporations	74,786,000 (long position) (Note 6)	1.74%
China Construction Bank Corporation	Person having a security interest in Shares (Notes 4 and 5)	150,000,000 (long position)	3.50%
Central Huijin Investment Ltd.	Interest of controlled corporations	74,786,000 (long position) (Note 6)	1.74%
Central Huijin Investment Ltd.	Person having a security interest in Shares (Notes 4 and 5)	150,000,000 (long position)	3.50%



## OTHER INFORMATION

### Notes:

1. The 1,614,313,642 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. On 26 March 2014, Hanmax (wholly owned by Mr. WANG Xiaochun) charged 150,000,000 shares 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 ("CCBC") relate to the same block of shares.
5. Central Huijin Investment Ltd. is the holding company of CCBC and is deemed to be interested in the shares in which CCBC is interested through interests of corporations controlled by its as follows:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage Control
CCBC	Central Huijin Investment Ltd.	57.26%
CCB International Group Holdings Limited	CCBC	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%

6. 10,710,000 shares were sold by Design Time Limited during the period from 13 May 2015 to 16 July 2015. CCBC is interested in 64,076,000 shares through various controlled corporations and is interested in 150,000,000 shares as a security as at 16 July 2015.

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 2015.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in above section of "the Yang Subscription" and "the Wang Subscription" of this report, 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 2015, 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 has complied throughout the six months ended 30 June 2015 with the Code Provisions set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules except for the deviation of the code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.



Mr. FANG Shuting resigned as an independent non-executive director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company with effect from 25 November 2014. Due to Mr. FANG Shuting's resignation, the number of members of the audit committee decreased from three to two, below the minimum number required under Rule 3.21 of the Listing Rules. In addition, the number of members of the remuneration committee decreased from four to three, below the minimum number required under the terms of reference of the remuneration committee and the number of independent non-executive directors acting as members of the nomination committee decreased from three to two, less than the majority of the independent non-executive directors required under the terms of reference of the nomination committee and being deviated from code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

In compliance with the code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, Mr. LO Wing Yat was appointed as an independent non-executive director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company with effect from 27 January 2015.

### **The Model Code for Securities Transactions**

The Company has 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**

Subsequent to the date of the Annual Report 2014, there was no change in information of directors of the Company required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rule.

## **REVIEW OF INTERIM RESULTS**

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2015, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2015. 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, 20 August 2015



# INDEPENDENT AUDITOR'S REPORT



## **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 54 which comprises the consolidated statement of financial position of China Traditional Chinese Medicine Co. Limited (the "Company") as of 30 June 2015 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 2015 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

20 August 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)



	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000 (restated – see note 10)
<b>Continuing operations</b>			
<b>Turnover</b>	3 & 4	<b>1,422,067</b>	1,239,755
Cost of sales	13	<b>(565,362)</b>	(479,331)
<b>Gross profit</b>		<b>856,705</b>	760,424
Other revenue	5	<b>33,460</b>	12,666
Other net income/(expenses)	5	<b>7,689</b>	(2,737)
Selling and distribution costs		<b>(445,484)</b>	(404,993)
Administrative expenses		<b>(123,274)</b>	(106,493)
<b>Profit from operations</b>		<b>329,096</b>	258,867
Finance costs	6(a)	<b>(37,894)</b>	(33,475)
<b>Profit before taxation</b>	6	<b>291,202</b>	225,392
Income tax	7	<b>(46,973)</b>	(36,328)
<b>Profit from continuing operations for the period</b>		<b>244,229</b>	189,064
<b>Discontinued operation</b>			
<b>Loss from discontinued operation (net of tax)</b>	10	<b>(16,963)</b>	(16)
<b>Profit for the period</b>		<b>227,266</b>	189,048





## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000 (restated – see note 10)
<b>Attributable to:</b>			
Equity shareholders of the Company			
– Continuing operations		243,243	188,798
– Discontinued operation		(8,651)	(8)
		<b>234,592</b>	188,790
<hr/>			
Non-controlling interests			
– Continuing operations		986	266
– Discontinued operation		(8,312)	(8)
		<b>(7,326)</b>	258
<hr/>			
<b>Profit for the period</b>		<b>227,266</b>	189,048
<hr/>			
<b>Earnings per share</b>	8		
Basic and diluted			
– Continuing operations		8.07 cents	7.45 cents
– Discontinued operation		(0.29) cents	–
		<b>7.78 cents</b>	7.45 cents

The notes on pages 29 to 54 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME



For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Profit for the period</b>	<b>227,266</b>	189,048
<b>Other comprehensive loss for the period (after tax and reclassification adjustments)</b>		
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")	<b>(11,256)</b>	(4,431)
<b>Other comprehensive loss for the period</b>	<b>(11,256)</b>	(4,431)
<b>Total comprehensive income for the period</b>	<b>216,010</b>	184,617
<b>Attributable to:</b>		
– Equity shareholders of the Company	<b>223,336</b>	184,359
– Non-controlling interests	<b>(7,326)</b>	258
<b>Total comprehensive income for the period</b>	<b>216,010</b>	184,617

The notes on pages 29 to 54 form part of this interim financial report.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015 – unaudited  
(Expressed in Renminbi)

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
<b>Non-current assets</b>			
Fixed assets	9		
– Investment properties		2,583	2,651
– Other property, plant and equipment		647,385	674,696
– Interests in leasehold land held for own use under operating leases	11	270,551	282,893
Construction in progress		81,230	76,074
Other receivables		584,574	12,569
		<b>1,586,323</b>	1,048,883
Intangible assets		900,817	948,005
Goodwill		1,097,065	1,191,052
Other financial assets	12	1,010	1,010
Deferred tax assets		57,452	48,424
		<b>3,642,667</b>	3,237,374
<b>Current assets</b>			
Other financial assets	12	500,694	662
Inventories	13	360,855	417,695
Trade and other receivables	14	1,389,554	1,236,400
Deposits with banks	15	15,110	305
Cash and cash equivalents	16	6,258,515	439,416
Assets held for sale	10	219,541	–
		<b>8,744,269</b>	2,094,478
<b>Current liabilities</b>			
Trade and other payables	17	556,315	540,113
Bank and other loans	18	717,540	501,648
Current taxation		45,811	47,743
Current portion of deferred government grants	19	44,906	44,337
Liabilities held for sale	10	34,077	–
		<b>1,398,649</b>	1,133,841

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015 – unaudited  
(Expressed in Renminbi)



	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
<b>Net current assets</b>		<b>7,345,620</b>	960,637
<b>Total assets less current liabilities</b>		<b>10,988,287</b>	4,198,011
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>235,998</b>	245,022
Deferred government grants	19	<b>65,095</b>	25,302
Bank loans	18	<b>680,425</b>	670,565
		<b>981,518</b>	940,889
<b>NET ASSETS</b>		<b>10,006,769</b>	3,257,122
<b>CAPITAL AND RESERVES</b>	20		
Share capital		<b>9,075,883</b>	2,542,246
Reserves		<b>864,846</b>	641,510
<b>Total equity attributable to equity shareholders of the Company</b>		<b>9,940,729</b>	3,183,756
Non-controlling interests		<b>66,040</b>	73,366
<b>TOTAL EQUITY</b>		<b>10,006,769</b>	3,257,122

Approved and authorised for issue by the board of directors on 20 August 2015.

\_\_\_\_\_  
**YANG Bin**  
Director

\_\_\_\_\_  
**WANG Xiaochun**  
Director

The notes on pages 29 to 54 form part of this interim financial report.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company										
	Note	Share	Share	Capital	Exchange	Reserve	Other	Retained	Total	Non-	Total
		capital	premium	redemption	reserve	reserve	fund	reserve	profits	controlling	equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2014</b>		235,087	2,306,840	319	(116,222)	110,236	(64,539)	288,132	2,759,853	74,910	2,834,763
<b>Changes in equity for the six months ended 30 June 2014</b>											
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)	-	-	-	-	-	-	-
<b>Balance at 30 June 2014</b>		2,542,246	-	-	(120,653)	110,236	(64,539)	476,922	2,944,212	75,168	3,019,380
<b>Balance at 1 July 2014</b>		2,542,246	-	-	(120,653)	110,236	(64,539)	476,922	2,944,212	75,168	3,019,380
<b>Changes in equity for the six months ended 31 December 2014</b>											
Profit/(loss) for the period		-	-	-	-	-	-	224,300	224,300	(1,802)	222,498
Other comprehensive income for the period		-	-	-	3,744	-	-	-	3,744	-	3,744
Total comprehensive income for the period		-	-	-	3,744	-	-	224,300	228,044	(1,802)	226,242
Waiver of amount due to a non-controlling shareholder	20(b)	-	-	-	-	-	11,500	-	11,500	-	11,500
Transfer to reserve fund		-	-	-	-	47,710	-	(47,710)	-	-	-
<b>Balance at 31 December 2014</b>		2,542,246	-	-	(116,909)	157,946	(53,039)	653,512	3,183,756	73,366	3,257,122

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)



	Note	Attributable to equity shareholders of the Company									
		Share capital RMB'000	Capital			Reserve fund (note 20(b)) RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			Share redemption premium RMB'000	Exchange reserve RMB'000	Reserve RMB'000						
<b>Balance at 1 January 2015</b>		2,542,246	-	-	(116,909)	157,946	(53,039)	653,512	3,183,756	73,366	3,257,122
<b>Changes in equity for the six months ended 30 June 2015</b>											
Profit/(loss) for the period		-	-	-	-	-	-	234,592	234,592	(7,326)	227,266
Other comprehensive loss for the period		-	-	-	(11,256)	-	-	-	(11,256)	-	(11,256)
Total comprehensive income for the period		-	-	-	(11,256)	-	-	234,592	223,336	(7,326)	216,010
New shares issued during the period	20(a)	6,533,637	-	-	-	-	-	-	6,533,637	-	6,533,637
<b>Balance at 30 June 2015</b>		9,075,883	-	-	(128,165)	157,946	(53,039)	888,104	9,940,729	66,040	10,006,769

The notes on pages 29 to 54 form part of this interim financial report.



# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2015 – unaudited  
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2015 RMB'000	2014 RMB'000
<b>Operating activities</b>			
Cash generated from operations		273,941	195,112
PRC enterprise income tax paid		(62,393)	(55,510)
<b>Net cash generated from operating activities</b>		<b>211,548</b>	139,602
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		(87,582)	(163,684)
Receipts in advance from a joint operator		–	145,313
Payment for the purchase of available-for-sale financial assets		(500,000)	–
Payment for the proposed acquisition of subsidiaries	22	(576,497)	–
Other cash flows arising from investing activities		40,076	4,639
<b>Net cash used in investing activities</b>		<b>(1,124,003)</b>	(13,732)
<b>Financing activities</b>			
Net proceeds from shares issued	20(a)	6,533,637	–
Proceeds from new bank and other loans		866,277	486,435
Repayment of bank loans		(630,385)	(586,884)
Other cash flows used in financing activities		(39,006)	(31,564)
<b>Net cash generated from/(used in) financing activities</b>		<b>6,730,523</b>	(132,013)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,818,068</b>	(6,143)
<b>Cash and cash equivalents at 1 January</b>	16	<b>439,416</b>	345,411
Effect of foreign exchange rate changes		1,031	458
<b>Cash and cash equivalents at 30 June</b>	16	<b>6,258,515</b>	339,726

The notes on pages 29 to 54 form part of this interim financial report.



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi unless otherwise indicated)*



## 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 20 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the newly adopted accounting policy and the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of the newly adopted accounting policy 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 2014 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 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi unless otherwise indicated)*

### **2 NEWLY ADOPTED ACCOUNTING POLICY AND CHANGES IN ACCOUNTING POLICIES**

#### **(a) Newly adopted accounting policy**

##### **Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

#### **(b) Changes in accounting policies**

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.



### 3 TURNOVER AND SEGMENT REPORTING

#### (a) Turnover

##### Continuing operations

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	
	2015 RMB'000	2014 RMB'000
Sale of pharmaceutical products		
– Pills and tablets	965,629	880,995
– Granules	324,190	218,001
– Injections	56,601	54,373
– Medicine wine	17,275	25,190
– Others	58,372	61,196
	<b>1,422,067</b>	1,239,755



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi unless otherwise indicated)*

### 3 TURNOVER AND SEGMENT REPORTING (continued)

#### (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.

- Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. (previously known as "Foshan Dezhong Pharmaceutical Co., Ltd.", "Dezhong")
- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. (previously known as "Foshan Feng Liao Xing Pharmaceutical Co., Ltd.", "Feng Liao Xing")
- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. (previously known as "Guangdong Medi-World Pharmaceutical Co., Ltd.", "Guangdong Medi-World")
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. (previously known as "Shandong Luya Pharmaceutical Co., Ltd.", "Luya")
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (previously known as "Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd.", "Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. (previously known as "Guizhou Tongjitang Pharmaceutical Co., Ltd.", "Tongjitang Pharmaceutical")
- Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. (previously known as "Anhui Jingfang Pharmaceutical Co., Ltd.", "Jingfang")
- Sinopharm Group Longlife (Guizhou) Pharmaceutical Co., Ltd. (previously known as "Guizhou Longlife Pharmaceutical Co., Ltd.", "Guizhou LLF")
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")
- Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai", discontinued operation)

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



## 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.

	Continuing operations										Discontinued operation		
	Feng Liao Xing										Guizhou		
	Dezhong	Feng Liao Xing	Guangdong Medi-World (note)	Luya	Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LLF	Pulante	Subtotal	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	RMB'000
For the six months ended 30 June 2015													
Revenue from external customers	2,034	4,589	15,684	10,534	20,836	545,043	641,249	164,294	17,804	-	1,422,067	3,444	1,425,511
Inter-segment revenue	147,613	83,847	200,692	31,018	22,801	-	456	-	-	12,758	499,185	-	499,185
<b>Reportable segment revenue</b>	<b>149,647</b>	<b>88,436</b>	<b>216,376</b>	<b>41,552</b>	<b>43,637</b>	<b>545,043</b>	<b>641,705</b>	<b>164,294</b>	<b>17,804</b>	<b>12,758</b>	<b>1,921,252</b>	<b>3,444</b>	<b>1,924,696</b>
<b>Reportable segment profit/ (loss) (adjusted EBITDA)</b>	<b>48,671</b>	<b>8,873</b>	<b>35,651</b>	<b>22,184</b>	<b>4,519</b>	<b>34,591</b>	<b>198,877</b>	<b>48,856</b>	<b>1,722</b>	<b>5,060</b>	<b>409,004</b>	<b>(10,278)</b>	<b>398,726</b>
Interest income	16	47	44	3	4	13	134	28	6	26	321	82	403
Interest expenses	2,271	1,865	10,178	-	673	459	22,205	243	-	-	37,894	849	38,743
Depreciation and amortisation for the period	8,707	2,721	9,688	2,743	248	294	27,379	3,595	74	588	56,037	6,590	62,627
As at 30 June 2015													
<b>Reportable segment assets</b>	<b>1,047,207</b>	<b>491,267</b>	<b>1,166,111</b>	<b>183,103</b>	<b>331,155</b>	<b>631,202</b>	<b>3,144,152</b>	<b>361,462</b>	<b>38,309</b>	<b>72,221</b>	<b>7,466,189</b>	<b>228,273</b>	<b>7,694,462</b>
<b>Reportable segment liabilities</b>	<b>491,992</b>	<b>132,683</b>	<b>1,235,119</b>	<b>13,140</b>	<b>310,361</b>	<b>609,313</b>	<b>473,858</b>	<b>140,045</b>	<b>18,043</b>	<b>17,353</b>	<b>3,441,907</b>	<b>37,642</b>	<b>3,479,549</b>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 3 TURNOVER AND SEGMENT REPORTING (continued)

#### (b) Segment reporting (continued)

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

	Continuing operations										Discontinued operation		
	Dezhong	Feng Liao Xing	Guangdong Medi-World (note)	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LIF	Pulante	Subtotal	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	RMB'000
For the six months ended 30 June 2014													
Revenue from external customers	4,941	17,680	11,836	25,127	14,502	456,288	565,363	114,547	20,688	8,783	1,239,755	23,359	1,263,114
Inter-segment revenue	109,341	62,196	154,162	14,699	28,602	-	-	-	-	-	369,000	-	369,000
<b>Reportable segment revenue</b>	<b>114,282</b>	<b>79,876</b>	<b>165,998</b>	<b>39,826</b>	<b>43,104</b>	<b>456,288</b>	<b>565,363</b>	<b>114,547</b>	<b>20,688</b>	<b>8,783</b>	<b>1,608,755</b>	<b>23,359</b>	<b>1,632,114</b>
<b>Reportable segment profit/ (loss) (adjusted EBITDA)</b>	<b>31,275</b>	<b>1,463</b>	<b>49,722</b>	<b>15,991</b>	<b>(1,911)</b>	<b>(2,933)</b>	<b>169,228</b>	<b>22,555</b>	<b>3,108</b>	<b>1,900</b>	<b>290,398</b>	<b>6,539</b>	<b>296,937</b>
Interest income	22	14	174	7	8	86	156	167	21	37	692	114	806
Interest expenses	6,180	3,387	4,623	-	574	293	18,418	-	-	-	33,475	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	53,414	6,687	60,101
As at 31 December 2014													
<b>Reportable segment assets</b>	<b>1,024,135</b>	<b>370,105</b>	<b>530,795</b>	<b>175,780</b>	<b>232,043</b>	<b>433,783</b>	<b>3,053,801</b>	<b>300,378</b>	<b>52,062</b>	<b>66,225</b>	<b>6,239,107</b>	<b>244,334</b>	<b>6,483,441</b>
<b>Reportable segment liabilities</b>	<b>478,881</b>	<b>94,233</b>	<b>611,032</b>	<b>17,993</b>	<b>211,627</b>	<b>425,937</b>	<b>399,701</b>	<b>120,855</b>	<b>17,077</b>	<b>14,922</b>	<b>2,392,258</b>	<b>36,475</b>	<b>2,428,733</b>

Note: The reportable segment assets of Guangdong Medi-World as at 30 June 2015 excluded RMB503,086,000 of investment in subsidiaries (31 December 2014: 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



### 3 TURNOVER AND SEGMENT REPORTING (continued)

#### (b) Segment reporting (continued)

##### (ii) Reconciliations of reportable segment profit or loss

	Six months ended 30 June					
	2015			2014		
	Continuing operations RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operations RMB'000	Discontinued operation RMB'000	Total RMB'000
Reportable segment profit/(loss)	409,004	(10,278)	398,726	290,398	6,539	296,937
Elimination of inter-segment (loss)/profit	(37,218)	–	(37,218)	28,453	–	28,453
Reportable segment profit/(loss) derived from the Group's external customers	371,786	(10,278)	361,508	318,851	6,539	325,390
Other revenue and net income/(expenses)	41,149	488	41,637	9,929	488	10,417
Depreciation and amortisation	(56,037)	(6,590)	(62,627)	(53,414)	(6,687)	(60,101)
Finance costs	(37,894)	(849)	(38,743)	(33,475)	(849)	(34,324)
Unallocated head office and corporate expenses	(27,802)	–	(27,802)	(16,499)	–	(16,499)
Consolidated profit/(loss) before taxation	291,202	(17,229)	273,973	225,392	(509)	224,883

### 4 SEASONALITY OF OPERATIONS

#### Continuing 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 2015, the Group reported revenue of RMB2,832,766,000 (twelve months ended 30 June 2014: RMB2,086,731,000), and gross profit of RMB1,739,670,000 (twelve months ended 30 June 2014: RMB1,270,651,000).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 5 OTHER REVENUE AND NET INCOME/(EXPENSES)

#### Continuing operations

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Other revenue</b>		
Government grants		
– Unconditional subsidies	2,542	3,117
– Conditional subsidies (note 19)	2,627	8,379
Rental income	544	478
Interest income	27,747	692
	<b>33,460</b>	12,666
<b>Other net income/(expenses)</b>		
Loss on disposal of fixed assets	(67)	(404)
Net realised and unrealised gain/(loss) on trading securities	32	(362)
Exchange loss	(1,816)	(1,387)
Net gain on forward exchange contracts	9,842	–
Others	(302)	(584)
	<b>7,689</b>	(2,737)

### 6 PROFIT BEFORE TAXATION

#### Continuing operations

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

#### (a) Finance costs

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	37,894	33,475





## 6 PROFIT BEFORE TAXATION (continued)

### (b) Other items

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Write down of inventories (note 13)	3,949	4,610
Depreciation		
– investment properties	68	80
– interests in leasehold land held for own use under operating leases	3,062	2,333
– other property, plant and equipment	29,808	27,839
Amortisation		
– intangible assets	23,099	23,162
Impairment losses recognised		
– trade and other receivables	6,051	3,135
Operating lease charges: minimum lease payments	1,396	3,474
Research and development costs	31,566	29,849



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 7 INCOME TAX

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
<b>Current tax</b>		
PRC income tax for the period	59,746	45,395
Under/(over)-provision in respect of prior year	697	(1,914)
	<b>60,443</b>	43,481
<b>Deferred tax</b>		
Reversal of temporary differences	(13,736)	(5,351)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	(2,295)
	<b>(13,736)</b>	(7,646)
Income tax expenses	<b>46,707</b>	35,835
<b>Representing:</b>		
Income tax expenses from continuing operations	46,973	36,328
Income tax expenses from discontinued operation (note 10)	(266)	(493)
Income tax expenses	<b>46,707</b>	35,835

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 2015 and 2014.

Pursuant to the Corporate Income Tax Law of the RPC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2014 to 2016 pursuant to documents issued by local government authorities. The PRC income tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya was of 15% for the six months ended 30 June 2015 (six months ended 30 June 2014: 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 retrospectively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.



## 7 INCOME TAX (continued)

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.

Deferred tax liabilities have been provided for based on the expected dividends to be distributed from the subsidiaries in the foreseeable future in respect of profit generated by subsidiaries in the PRC. As at 30 June 2015, the Board of Directors of the Company estimated that dividends to be distributed to the shareholder will not be greater than RMB113,258,000 in the foreseeable future.

## 8 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 RMB234,592,000 (six months ended 30 June 2014: RMB188,790,000) and the weighted average of 3,015,543,000 ordinary shares (six months ended 30 June 2014: 2,533,899,000) in issue during the interim period.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 8 EARNINGS PER SHARE (continued)

#### (a) Basic earnings per share (continued)

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Profit attributable to the equity shareholders of the Company	234,592	188,790
Number of ordinary shares in issue for the purpose of basic earnings per share (thousands)	3,015,543	2,533,899
Basic earnings per share (RMB per share)	7.78 cents	7.45 cents
<b>Continuing operations</b>		
Profit attributable to the equity shareholders of the Company	243,243	188,798
Number of ordinary shares in issue for the purpose of basic earnings per share (thousands)	3,015,543	2,533,899
Basic earnings per share (RMB per share)	8.07 cents	7.45 cents
<b>Discontinued operation</b>		
Loss attributable to the equity shareholders of the Company	(8,651)	(8)
Number of ordinary shares in issue for the purpose of basic earnings per share (thousands)	3,015,543	2,533,899
Basic earnings per share (RMB per share)	(0.29) cents	–

#### (i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2015 '000	2014 '000
Issued ordinary shares at 1 January	2,533,899	2,533,899
Effect of shares issued (note 20(a))	481,644	–
Weighted average number of ordinary shares at 30 June	3,015,543	2,533,899

#### (b) Diluted earnings per share

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



## 9 FIXED ASSETS

### (a) Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired items of plant and machinery (including payments for construction in progress) with a cost of RMB79,649,000 (six months ended 30 June 2014: 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).

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 RMB85,000 were disposed of during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB28,168,000), resulting in a loss of RMB67,000 (six months ended 30 June 2014: RMB404,000).

### (b) Pledged assets

Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB114,601,000 were pledged as securities of bank loans of the Group as at 30 June 2015 (31 December 2014: RMB131,776,000) (see note 18(i)).

## 10 DISCONTINUED OPERATION

On 27 January 2015, the Group agreed with a fellow subsidiary, China Biotechnology Co., Ltd. (中國生物技術股份有限公司), which is a wholly-owned subsidiary of China National Pharmaceutical Group Corporation ("CNP GC"), that the Group shall conditionally sell 31% of equity interest in Guizhou Zhongtai at a consideration of RMB139,500,000. On 27 January 2015, the board of directors of the Group approved to dispose 31% of equity interest and remain 20% of equity interest in Guizhou Zhongtai. The Directors expect that the transaction will be completed within next twelve months. Upon the completion of transaction, the Group will have 20% of equity interest in Guizhou Zhongtai, which will become an associate to the Group. CNP GC is the ultimate controlling shareholder of the Group.

Accordingly, the operating results of Guizhou Zhongtai for the six months ended 30 June 2015 are presented as discontinued operation in the interim financial report. The presentation of comparative information in respect of the period ended 30 June 2014 has been reclassified to conform to the current period's presentations.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 10 DISCONTINUED OPERATION (continued)

All the assets and liabilities of Guizhou Zhongtai are classified as held for sale.

(i) Result of the discontinued operation:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Revenue (note 3(b)(i))	3,444	23,359
Expenses	(20,673)	(23,868)
Loss before taxation	(17,229)	(509)
Income tax benefit (note 7)	266	493
Loss for the period	(16,963)	(16)

(ii) Result of the discontinued operation is arrived at after charging:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
i) Other revenue:		
Government grants (note 19)	406	339
Interest income	82	114
	488	453
ii) Other net income:	–	35
iii) Finance costs:		
Interest expense	849	849
iv) Staff costs:		
Salaries, wages and other benefits	5,126	4,676
Contributions to defined contribution retirement plan	967	758
	6,093	5,434
v) Other items:		
Depreciation		
– interests in leasehold land held for own use under operating leases	111	209
– other property, plant and equipment	4,635	4,650
Amortisation		
– intangible assets	1,844	1,828
Operating lease charges: minimum lease payments	27	29
Research and development costs	738	132

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



## 10 DISCONTINUED OPERATION (continued)

(iii) Cash flows of the discontinued operation:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Net cash (used in)/generated from operating activities	(10,740)	9,474
Net cash used in investing activities	(821)	(364)
Net cash used in financing activities	(849)	(849)
Net cash (outflows)/inflows for the period	(12,410)	8,261

(iv) Assets of disposal group held for sale:

	At 30 June 2015 RMB'000
Fixed assets (note)	
– Property, plant and equipment	68,206
– Interests in leasehold land held for own use under operating leases	9,165
Intangible assets	22,245
Goodwill	93,987
Inventories	24,083
Trade and other receivables	1,855
	219,541

Note: Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB22,198,000 were pledged as securities of bank loans as at 30 June 2015 (see note 10(v)).

(v) Liabilities of disposal group held for sale:

	At 30 June 2015 RMB'000
Trade and other payables	5,928
Bank loans	20,000
Deferred tax liabilities	4,300
Deferred government grants	3,849
	34,077



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 11 INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

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, for which the Group has paid RMB94,722,000. 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 contributed by the Group was RMB92,342,000 (31 December 2014: RMB93,294,000) and was recorded under the interests in leasehold land held for own use under operating leases in the consolidated statement of financial position.

### 12 OTHER FINANCIAL ASSETS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
<b>Non-current</b>		
Available-for-sale equity securities		
– Unlisted equity securities, at cost	1,010	1,010
	1,010	1,010
<b>Current</b>		
Equity securities listed in HK (at fair value)		
– held for trading	694	662
Available-for-sale financial asset – unlisted (note)	500,000	–
	500,694	662
Market value of listed securities	694	662

Note: As at 30 June 2015, the available-for-sale financial asset with principal amount of RMB500,000,000 (31 December 2014: Nil) was provided with a 100% guaranteed principal amount with floating return rate at approximately 4.4% per annum and maturity days within 70 days.

Investments in unlisted equity securities and unlisted financial asset 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 and unlisted financial assets are stated at cost less impairment, if any, in the financial statements.

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



### 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	
	2015 RMB'000	2014 RMB'000
Carrying amount of inventories sold	561,413	474,721
Write down of inventories (note 6(b))	3,949	4,610
	<b>565,362</b>	479,331

### 14 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade debtors (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 2015 RMB'000	At 31 December 2014 RMB'000
	Within 3 months after invoice date	556,178
3 to 6 months after invoice date	89,495	84,433
More than 6 months less than 12 months after invoice date	46,170	29,453
More than 12 months after invoice date	11,502	9,502
Trade debtors, net of allowance for doubtful debts	<b>703,345</b>	544,490
Bills receivable	<b>570,077</b>	608,653
Other receivables	<b>116,132</b>	83,257
	<b>1,389,554</b>	1,236,400

Trade receivables are due within 30 to 90 days from the date of billing. As at 30 June 2015, the Group's gross trade receivables of RMB24,700,000 (31 December 2014: RMB20,728,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB24,700,000 were recognised (31 December 2014: RMB20,728,000).

As at 30 June 2015, bills receivable of RMB76,091,000 were pledged as securities (31 December 2014: bills receivable of RMB166,547,000) (see note 18(i)).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 15 DEPOSITS WITH BANKS

As at 30 June 2015, deposits with banks of RMB15,010,000 were pledged as securities of bank loans of the Group (31 December 2014: Nil) (see note 18(i)). The remaining balance of RMB100,000 (31 December 2014: Nil) was pledged as securities for gas facilities.

### 16 CASH AND CASH EQUIVALENTS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Cash at bank and in hand (note)	6,258,515	439,416

Notes: As at 30 June 2015, RMB5,910,000,000 of cash at bank and in hand represented deposits with banks with fixed interest rates ranging of 1.495%-4.635% per annum and within three months of maturity at acquisition (31 December 2014: Nil). The remaining balance represented demand deposits and cash in hand.

### 17 TRADE AND OTHER PAYABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Trade creditors	149,508	133,143
Other creditors and accrued charges	362,433	333,940
Advances received from customers	44,374	73,030
	556,315	540,113

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

### 18 BANK AND OTHER LOANS

At 30 June 2015, the Group's bank and other loans are repayable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year or on demand	717,540	501,648
After 1 year but within 2 years	680,425	670,565
	1,397,965	1,172,213

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



## 18 BANK AND OTHER LOANS (continued)

At 30 June 2015, the Group's bank and other loans are secured as follows:

	<b>At 30 June 2015 RMB'000</b>	At 31 December 2014 RMB'000
Bank loans		
– Secured	<b>313,091</b>	406,547
– Unsecured	<b>1,081,874</b>	762,666
	<b>1,394,965</b>	1,169,213
Other secured loan*	<b>3,000</b>	3,000
	<b>1,397,965</b>	1,172,213

\* Other secured loan was borrowed from Foshan Shunde Industry Service Innovation Center. The loan is interest free and repayable on 18 December 2015.

Notes:

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

	<b>Carrying Value</b>	
	<b>At 30 June 2015 RMB'000</b>	At 31 December 2014 RMB'000
Interests in leasehold land and buildings (note 9(b))	<b>114,601</b>	131,776
Intangible assets	<b>4,085</b>	4,203
Deposits with banks (note 15)	<b>15,010</b>	–
Bills receivable (note 14)	<b>76,091</b>	166,547
	<b>209,787</b>	302,526

(ii) As at 30 June 2015, other loan of RMB3,000,000 was guaranteed by Mr. Yang Bin, who is the director of the Company (31 December 2014: RMB3,000,000).

(iii) Banking facilities of RMB1,432,625,000 (31 December 2014: RMB1,904,312,000) were utilised to the extent of RMB1,394,965,000 (31 December 2014: RMB1,169,213,000). The bank loans drawn were secured by assets as set out in note 18(i).

(iv) Parts of the Group's banking facilities, amounted to RMB918,525,000 (31 December 2014: RMB911,665,000) are subject to the fulfillment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, 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 2015, none of the covenants relating to drawn down facilities had been breached (31 December 2014: Nil).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 19 DEFERRED GOVERNMENT GRANTS

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
At the beginning of the period/year	69,639	63,979
Additions	47,244	10,817
Credited to profit or loss		
– Continuing operations (note 5)	(2,627)	(4,411)
– Discontinued operation (note 10)	(406)	(746)
Reclassification to liabilities held for sale (note 10)	(3,849)	–
At the end of the period/year	110,001	69,639
<b>Representing:</b>		
Current portion	44,906	44,337
Non-current portion	65,095	25,302
	110,001	69,639

As at 30 June 2015 and 31 December 2014, 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)



### 20 CAPITAL, RESERVES AND DIVIDENDS

#### (a) Share capital

##### (i) Ordinary shares

	At 30 June 2015		At 31 December 2014	
	Number of shares '000	RMB'000	Number of shares '000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	2,533,899	2,542,246	2,533,899	235,087
Transition to no-par value regime on 3 March 2014 (note 1)	–	–	–	2,307,159
Share issue (note 2)	1,752,099	6,533,637	–	–
At 30 June/31 December	4,285,998	9,075,883	2,533,899	2,542,246

Notes:

- 1) The transition to the no-par value regime under the Hong Kong Companies Ordinance (Cap. 622) occurred automatically on 3 March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the Ordinance.
- 2) The Company allotted and issued 1,538,425,000 and 213,674,000 ordinary shares at HKD4.68 (approximately RMB3.75) per share on 12 May 2015 and 14 May 2015 respectively. The total net proceeds from the share issues amounted to RMB6,533,637,000.

#### (b) Other reserve

Other reserve represented the premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves as at 31 December 2013, and the waiver of amount due to a non-controlling shareholder during the year of 2014.

#### (c) Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 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 at 30 June 2015 RMB'000	Fair value measurements as at 30 June 2015 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>				
Available-for-sale equity securities:				
– Listed in HK	694	694	–	–
Available-for-sale financial asset – unlisted	500,000	–	500,000	–
	500,694	694	500,000	–



## 21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

### (a) Financial assets and liabilities measured at fair value (continued)

#### (i) Fair value hierarchy (continued)

	Fair value at 31 December 2014 RMB'000	Fair value measurements as at 31 December 2014 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>				
Available-for-sale equity securities:				
– Listed in HK	662	662	–	–

During the six months ended 30 June 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2014: 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 2014 and 30 June 2015.

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Contracted for (note)	8,258,941	137,948
Authorised but not contracted for	334,782	353,073
	<b>8,593,723</b>	491,021



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 22 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT (continued)

Note: On 31 December 2014, 15 January 2015, 17 March 2015 and 18 March 2015 respectively, the Company entered into the equity transfer agreements with the third-party vendors in which it was agreed that the vendors shall sell and the Company shall purchase total 87.30% of equity interest in Jiangyin Tianjiang Pharmaceutical Co., Ltd. (江陰天江藥業有限公司) and its subsidiaries (the "Target Group") with a total consideration not less than RMB8,192,720,000 and not more than RMB8,946,020,000. The transaction has been approved by the extraordinary general meeting on 13 July 2015 and is expected to be completed upon the fulfilment of certain conditions. According to the management, the total consideration has been fixed at RMB8,736,224,000. The Target Group will become the subsidiaries of the Group upon the completion of the transaction above. Up to the date of this report, the transaction has not been completed. As at 30 June 2015, RMB576,497,000 has been paid as deposit for this transaction.

The Target Group is principally engaged in development, manufacturing and marketing of concentrated traditional Chinese medicines granules in the PRC.

### 23 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Transactions with related parties

During the six months ended 30 June 2015 and 2014, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship
Mr. Wu Xian	Executive director of the Company
Mr. Yang Bin	Executive director and a shareholder of the Company
Mr. Wang Xiaochun	Executive director and a shareholder of the Company
CNPGC	Ultimate controlling shareholder
CNPGC's subsidiaries	Fellow subsidiaries of the Group





## 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	
	2015 RMB'000	2014 RMB'000
CNPGC's subsidiaries		
– Continuing operations	214,304	169,209
– Discontinued operation	4	–
	<b>214,308</b>	169,209

(ii) Purchase of raw materials from:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
CNPGC's subsidiaries		
– Continuing operations	5,970	13,559

(iii) Research and development services provided by:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
CNPGC's subsidiaries		
– Continuing operations	6,344	4,536



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

### 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:

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
CNPGC's subsidiaries – Continuing operations	135,389	101,206

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
CNPGC's subsidiaries – Continuing operations	13,842	9,626

#### (b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Salaries and short-term employee benefits	3,669	3,614
Post-employment benefits	148	122
	3,817	3,736