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国药集团
SINOPHARM

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

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

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the “Board”) of directors of China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2017 as follows:

RESULTS HIGHLIGHTS

	Unaudited			Percentage
	Six months ended 30 June			
	2017	2016	Changes	
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	
Revenue				
– Concentrated Traditional Chinese Medicine (“TCM”) granules	2,543,295	2,054,739	488,556	23.8%
– Finished drugs	1,144,335	1,111,166	33,169	3.0%
– TCM decoction pieces	185,226	31,226	154,000	493.2%
– TCM healthcare complex	26,312	2,159	24,153	1,118.7%
Total	3,899,168	3,199,290	699,878	21.9%
Gross profit	2,169,823	1,833,689	336,134	18.3%
Operating profit	886,291	698,652	187,639	26.9%
Profit for the period	662,769	545,076	117,693	21.6%
Profit attributable to owners of the Company	598,623	490,776	107,847	22.0%
Basic earnings per share (<i>RMB cents</i>)	13.51	10.98	2.53	23.0%

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

for the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	3	3,899,168	3,199,290
Cost of sales		(1,729,345)	(1,365,601)
Gross profit		2,169,823	1,833,689
Other income	4	36,767	27,815
Other gains and losses	5	(10,986)	1,412
Selling and distribution expenses		(1,022,393)	(876,909)
Administrative expenses		(165,324)	(187,324)
Research and development expenses		(121,596)	(100,031)
Profit from operations		886,291	698,652
Finance costs	6	(85,199)	(34,161)
Share of results of associates		(1,853)	854
Profit before tax		799,239	665,345
Income tax expense	7	(136,470)	(120,269)
Profit for the period	8	662,769	545,076
Other comprehensive expense for the period			
Item that will not be reclassified to profit or loss:			
– Exchange differences arising on translation of functional currency to presentation currency		–	(15,873)
Total comprehensive income for the period		662,769	529,203

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

for the six months ended 30 June 2017 (continued)

		Six months ended 30 June	
	<i>NOTE</i>	2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
– Owners of the Company		598,623	490,776
– Non-controlling interests		64,146	54,300
		<u>662,769</u>	<u>545,076</u>
 Total comprehensive income attributable to:			
– Owners of the Company		598,623	474,903
– Non-controlling interests		64,146	54,300
		<u>662,769</u>	<u>529,203</u>
 Earnings per share			
– Basic and diluted (RMB cents)	<i>10</i>	<u>13.51</u>	<u>10.98</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017

		At 30 June 2017 <i>RMB'000</i> (Unaudited)	At 31 December 2016 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		2,105,616	2,019,036
Prepaid lease payments		326,464	334,244
Investment properties		2,309	2,376
Goodwill		3,532,494	3,456,353
Other intangible assets		6,687,186	6,763,921
Interests in associates		86,931	88,784
Deposits and prepayments		224,101	161,946
Deferred tax assets		122,882	139,716
		<u>13,087,983</u>	<u>12,966,376</u>
CURRENT ASSETS			
Inventories	11	2,574,918	1,894,169
Trade and other receivables	12	4,030,990	2,716,250
Prepaid lease payments		11,191	10,122
Held for trading investments		925	591
Derivative financial instruments		–	23,694
Pledged bank deposits		50,553	2,226
Fixed deposits		–	1,050,000
Bank balances and cash		3,362,744	2,373,356
		<u>10,031,321</u>	<u>8,070,408</u>
CURRENT LIABILITIES			
Trade and other payables	13	2,355,981	2,303,735
Bank borrowings		573,795	1,001,392
Tax liabilities		199,555	201,697
		<u>3,129,331</u>	<u>3,506,824</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 (continued)

	<i>NOTE</i>	At 30 June <i>2017</i> RMB'000 (Unaudited)	At 31 December <i>2016</i> RMB'000 (Audited)
NET CURRENT ASSETS		6,901,990	4,563,584
TOTAL ASSETS LESS CURRENT LIABILITIES		19,989,973	17,529,960
NON-CURRENT LIABILITIES			
Deferred government grants		132,307	142,630
Deferred tax liabilities		1,709,806	1,722,917
Unsecured notes		4,476,170	2,485,604
Bank borrowings		407,756	422,947
		6,726,039	4,774,098
NET ASSETS		13,263,934	12,755,862
CAPITAL AND RESERVES			
Share capital	<i>14</i>	9,809,935	9,809,935
Reserves		2,239,998	1,778,392
Equity attributable to owners of the Company		12,049,933	11,588,327
Non-controlling interests		1,214,001	1,167,535
TOTAL EQUITY		13,263,934	12,755,862

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2017

1. COMPANY BACKGROUND AND BASIS OF PREPARATION

China Traditional Chinese Medicine Holdings Co. Limited (the “Company”) is a public company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. In the opinion of directors of the Company, the Company’s ultimate controlling party is China National Pharmaceutical Group Corporation (“CNPGC”), a company established in the People’s Republic of China (the “PRC”) which is a Chinese state-owned enterprise.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial information relating to the year ended 31 December 2016 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of and Part 3 of Schedule 6 to the Hong Kong Companies Ordinance.

The Company’s 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 sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are effective for the current period:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014-2016 cycle

The application of these amendments to the HKFRSs in the current interim period has had no material impact on amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue

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

	Six months ended 30 June	
	2017 <i>RMB'000</i> (Unaudited)	2016 <i>RMB'000</i> (Restated and unaudited)
Sale of pharmaceutical products		
– Finished drugs	1,144,335	1,111,166
– TCM granules	2,543,295	2,054,739
– TCM decoction pieces	185,226	31,226
– TCM healthcare complex	26,312	2,159
	<u>3,899,168</u>	<u>3,199,290</u>

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue (six months ended 30 June 2016: nil).

Segment reporting

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the Executive Directors, being the chief operating decision maker ("CODM") of the Group, in order to allocate resources to segments and to assess their performances.

In prior period, there were two reportable and operating segments, namely (i) finished drugs and (ii) concentrated TCM granules.

After the acquisitions of Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal") and Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") in November 2016, and the acquisition of Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain") in the current period, the CODM revised the organisation of segments that are used to allocate resources and assess performance, and considered to change its analysis, being (i) finished drugs; (ii) TCM decoction pieces; and (iii) TCM healthcare complex, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. Other than finished drugs, TCM decoction pieces and TCM healthcare complex, the CODM continues to review the performance of concentrated TCM granules as similar basis as prior years.

Therefore, there are four reportable and operating segments in current period, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

Consequently, the comparative segment information for the six months ended 30 June 2016 have been re-presented in order to conform with the presentation adopted in current period. The changes in the segment information do not have any impact on the Group's condensed consolidated financial statements.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants		
– Unconditional subsidies	6,765	10,748
– Conditional subsidies	17,650	2,356
Interest income on bank deposits	12,062	6,706
Interest income on other financial assets	–	6,435
Rental income	290	1,570
	<hr/>	<hr/>
	36,767	27,815
	<hr/> <hr/>	<hr/> <hr/>

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	(762)	(888)
Fair value changes on foreign currency forward contracts	(16,751)	1,562
Fair value changes on held for trading investments	334	–
Net exchange gain	8,803	3,061
Impairment losses reversed (recognised) in respect of		
– trade receivables	1,297	–
– other receivables	(643)	–
Others	(3,264)	(2,323)
	<hr/>	<hr/>
	(10,986)	1,412
	<hr/> <hr/>	<hr/> <hr/>

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	35,382	34,161
Interest on unsecured notes	49,817	–
	<u>85,199</u>	<u>34,161</u>
	<u>85,199</u>	<u>34,161</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax (“EIT”)	119,291	119,570
Underprovision in prior years:		
PRC EIT	5,276	2,508
	<u>124,567</u>	<u>122,078</u>
Deferred tax charge (credit)	11,903	(1,809)
	<u>136,470</u>	<u>120,269</u>
	<u>136,470</u>	<u>120,269</u>

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

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

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation		
– investment properties	67	67
– property, plant and equipment	99,023	90,216
Amortisation of prepaid lease payments	6,948	4,158
Amortisation of other intangible assets (included in cost of sales)	78,161	73,066
	<hr/>	<hr/>
Total depreciation and amortisation	184,199	167,507
	<hr/> <hr/>	<hr/> <hr/>
Impairment (reversed) losses recognised in respect of		
– trade receivables	(1,297)	50,279
– other receivables	643	2,448
(Reversal of) write down of inventories	(764)	10,029
Minimum lease payments under operating leases in respect of land and buildings	12,453	4,620
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9. DIVIDENDS

During the current interim period, a final dividend of HK3.59 cents per share in respect of the year ended 31 December 2016 (six month ended 30 June 2016: nil per share in respect of the year ended 31 December 2015) was declared and paid to the owners of the Company. The aggregate amount of the 2016 final dividend declared and paid in the current interim period amounted to HK\$159,091,000, approximately RMB137,017,000 (six month ended 30 June 2016: nil). Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of HK4.75 cents per share, amounting to HK\$210,496,000 in aggregate, will be paid to the owners of the Company whose name appear in the Registry of Members on 17 October 2017.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	598,623	490,776
	=====	=====
	Six months ended 30 June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,431,505	4,469,365
	=====	=====

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

11. INVENTORIES

	At	At
	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	778,678	384,032
Work in progress	809,501	706,919
Finished goods	986,739	803,218
	=====	=====
	2,574,918	1,894,169
	=====	=====

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 <i>RMB'000</i> (Unaudited)	At 31 December 2016 <i>RMB'000</i> (Audited)
Trade receivables	2,934,121	1,758,510
Bills receivables	776,756	756,966
Deposits, prepayments and other receivables	320,113	200,774
	<u>4,030,990</u>	<u>2,716,250</u>

The Group allows a credit period ranging from 30 to 180 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 180 days.

13. TRADE AND OTHER PAYABLES

	At 30 June 2017 <i>RMB'000</i> (Unaudited)	At 31 December 2016 <i>RMB'000</i> (Audited)
Trade payables	1,145,865	852,330
Deposits received	269,604	279,820
Advances received from customers	117,793	75,582
Advances of government grants	8,734	11,884
Salary and welfare payables	77,288	116,799
Other tax payables	120,499	142,414
Accrual of operating expenses	318,127	316,523
Interest payables	57,911	11,889
Consideration payable for acquisition of Jiangyin Tianjiang Pharmaceutical Co., Ltd.	88,110	88,110
Contingent consideration payable for acquisition of Shanghai Tongjitang	10,000	10,000
Consideration payable for acquisition of Guizhou Tongjitang Pharmacy Chain	8,772	–
Other payables	133,278	398,384
	<u>2,355,981</u>	<u>2,303,735</u>

14. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Issued and fully paid: At 31 December 2016 (audited), 1 January 2017 and 30 June 2017 (unaudited)	4,431,505	9,809,935

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

National policy, as always, supports the development of TCM industry, the introduction and orderly implementation of industry policies such as the “TCM Development Strategy Plan Summary (2016-2030)” (《中醫藥發展戰略規劃綱要(2016-2030年)》), “Traditional Chinese Medicine Act of the People’s Republic of China” (《中華人民共和國中醫藥法》), which creates a favourable policy environment to protect and promote the healthy development of TCM industry, and also brings new vitality and opportunities for pharmaceutical companies.

In the first half of 2017, along with the deepening of the national healthcare reforms, industrial policies such as “zero mark-up policy”, “control on the proportion of drug sales in the revenue of hospital”, bidding and purchasing of drugs (including “secondary price negotiation”), cost control on medical insurance reimbursement and the “two-invoice system” implemented in the pharmaceutical distribution process continued to pose challenges to the Group's finished drug segment, yet our increasingly optimized business structure has enabled the Group to continue to enhance its risk resilience and adapted gradually to changes in the policy environment and seized opportunities in the rough water to make further progress.

During the reporting period, the Group's concentrated TCM granules segment maintained rapid growth, the finished drugs business has also rebounded, the newly developed TCM decoction pieces business and TCM healthcare complex business were gradually forming scale and began to make profit contribution. The Group has been striding into the new develop era with full coverage of TCM industrial chain.

During the reporting period, the revenue of the Group was approximately RMB3,899,168,000, representing an increase of 21.9% as compared to approximately RMB3,199,290,000 for the same period of last year, mainly due to the rapid growth of the concentrated TCM granules business, and also revenue contributed from new segments, i.e. TCM decoction pieces business and TCM healthcare complex business. Among them, concentrated TCM granules business contributed approximately RMB2,543,295,000, representing 65.2% of the total revenue. Revenue of finished drug business was approximately RMB1,144,335,000, representing 29.3% of total revenue. Revenue of TCM decoction pieces business was approximately RMB185,226,000, representing 4.8% of total revenue. Revenue of TCM healthcare complex business was approximately RMB26,312,000, representing 0.7% of total revenue.

Gross profit was RMB2,169,823,000, representing an increase of 18.3% as compared to RMB1,833,689,000 for the same period of last year. Gross profit margin was 55.6%, a decrease of 1.7 percentage points as compared to 57.3% for the same period of last year, mainly due to the profit margins of new businesses (i.e. TCM decoction pieces and TCM healthcare complex) were lower than that of the concentrated TCM granules business and the finished drug business.

Profit for the period and profit attributable to equity holders of the Company was approximately RMB662,769,000 and RMB598,623,000 respectively, representing an increase of 21.6% and 22.0% respectively as compared with the same period of last year.

The unaudited basic earnings per share for the period increased 23.0% from RMB10.98 cents for the first half of 2016 to RMB13.51 cents for the first half of 2017.

The Board recommends the payment of an interim dividend of HK4.75 cents (approximately RMB4.05 cents) per share for the six months ended June 2017, representing a dividend payout ratio of 30%.

Business Review

The Group always adheres to the principles of “Inheriting TCM culture, carrying forward the essence of TCM and protecting human health” as its mission, and has become a leading enterprise in TCM industry. During the reporting period, in order to enhance our competitiveness and maintain rapid growth, the Group accelerated the pace of its consolidation of the whole industry chain of Chinese medicine. Apart from achieving steady growth in traditional finished drug business and rapid expansion in the concentrated TCM granule business, we successfully integrated the newly acquired subsidiaries in 2016. The TCM decoction pieces and TCM healthcare complex business has begun to take shape and contribute to profitability. We have also accelerated the construction of the decoction piece factory and the extraction bases, to ensure sustainable and rapid expansion of TCM decoction pieces and concentrated TCM granules business in the future, and to lay a solid foundation for achieving synergized development of upstream and downstream segments.

1. Concentrated TCM granule: seize the opportunity to continue rapid growth

Main Financial Indicators for the Concentrated TCM Granule Business

	Unaudited		Change
	Six months ended 30 June		
	2017	2016	
	RMB'000	RMB'000	
Revenue	2,543,295	2,054,739	23.8%
Cost of sales	1,068,649	853,427	25.2%
Gross profit	1,474,646	1,201,312	22.8%
Gross profit margin	58.0%	58.5%	-0.5ppt
Operating profit	617,885	487,786	26.7%
Profit for the period	485,071	381,101	27.3%
Net profit margin	19.1%	18.5%	0.6ppt

Note: All figures in this table deducted the additional depreciation and amortisation arising from the fair value assessment of identifiable assets acquired as a result of the acquisition of Tianjiang Pharmaceutical.

The Group integrated the advantages of resources, grasped the historical opportunity to accelerate the expansion of concentrated TCM granule business. During the reporting period, Jiangyin Tianjiang Pharmaceutical Co., Ltd. (“Tianjiang Pharmaceutical”) achieved satisfactory results and realized rapid growth in revenue to approximately RMB2,543,295,000, representing an increase of 23.8% as compared to RMB2,054,739,000 for the same period of last year.

The rapid growth in sales was mainly due to: (1) continued to be benefited from the support of policies, such as increasing coverage of medical insurance and retaining sales mark-up for TCM decoction pieces (including concentrated TCM granules) in public hospitals; (2) with its extensive sales network already covering 30 provinces, market penetration and hospital coverage were strengthened, rapid expansion of the terminal channels was achieved; (3) increased academic marketing so that, average sales of concentrated TCM granules in class II and class III hospitals was significantly improved; (4) with the significant increase in the number of medicine dispensing machines provided to the market, we further consolidated our market position.

Gross profit margin of 58.0%, representing a decrease of 0.5 percentage point as compared to 58.5% for the same period of last year. The main reason for the decline was the rising prices of some Chinese medicinal herbs. During the reporting period, operating profit and profit for the period of the concentrated TCM granule business were RMB617,885,000 and RMB485,071,000, respectively, representing an increase of 26.7% and 27.3%, respectively, as compared with the same period of last year.

Revenue Analysis by region

(in RMB million)

Regions	Six months ended 30 June				Growth amount	Growth rate
	2017	Proportion	2016	Proportion		
East China	992	39.0%	770	37.5%	222	28.9%
South China	484	19.0%	372	18.1%	112	30.1%
North China	285	11.2%	274	13.3%	11	3.9%
Central China	255	10.1%	197	9.6%	58	29.6%
Northwest China	173	6.8%	156	7.6%	17	11.1%
Northeast China	168	6.6%	149	7.3%	19	12.4%
Southwest China	152	6.0%	104	5.0%	48	46.2%
Others	34	1.3%	32	1.6%	2	4.9%
Total	2,543	100.0%	2,054	100.0%	489	23.8%

During the reporting period, the sales of East China, South China, North China and Central China still accounted for 79.3% of the total revenue, largely the same as compared to last year. Southwest China was still the most prominent area of sales growth, while the sales of East China, South China and Central China continued to maintain rapid growth. Affected by local policy, the sales growth in North China slowed down, while the sales in Northeast China has begun to recover.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong);

South China (including Guangdong, Guangxi and Hainan);

North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia);

Central China (including Henan, Hubei and Hunan);

Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang);

Northeast China (including Heilongjiang, Jilin and Liaoning);

Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet)

Revenue Analysis by terminal channel

(in RMB million)

Sales terminal	Six months ended 30 June				Growth amount	Growth rate
	2017	Proportion	2016	Proportion		
Class III hospitals	845	33.2%	722	35.2%	123	17.0%
Class II hospitals	805	31.7%	600	29.2%	205	34.1%
Primary health care institutions	378	14.9%	226	11.0%	152	67.3%
Sales through agents	515	20.2%	506	24.6%	9	1.8%
Total	2,543	100.0%	2,054	100.0%	489	23.8%

During the reporting period, the sales of primary health care institutions posted strong growth, the growth rate of 67% for the first half of this year, already doubled the growth rate of 33% for the full year of 2016; the sales of class II hospitals maintained growth of more than 30%, while the sales growth of class III hospitals slowed slightly. Proportion of sales through agents decreased from 25% last year to 20% this year. Channel structure was further optimized.

Revenue Analysis by sales method

During the reporting period, revenue of concentrated TCM granules through medicine dispensing machines increased significantly to RMB753 million, representing 29.6% of total sales, which increased significantly compared with the same period of last year.

(in RMB million)

Sales method	Six months ended 30 June				Growth amount	Growth rate
	2017	Proportion	2016	Proportion		
Medicine dispensing machine	753	29.6%	454	22.1%	299	65.7%
Individual package	1,790	70.4%	1,600	77.9%	190	11.9%
Total	2,543	100.0%	2,054	100.0%	489	23.8%

At present, 3,072 sets of medicine dispensing machines were installed in 1,740 hospitals by Tianjiang and Guangdong Yifang, there were 1.8 machines in each hospital in average. Coverage of medicine dispensing machines in class III hospital customers was 93.6%, or 2.3 machines per hospital in average; coverage of medicine dispensing machines in class II hospital customers was 69.4%, or 1.6 machines per hospital in average.

Intelligent medicine dispensing machines can bring significant value to hospitals. Compared with the traditional individual package, the intelligent medicine dispensing machines not only can improve the efficiency of prescription, but can also enhance the user experience, which could fit in with the modern fast-paced lifestyle. At present, there is great potential for the development of hospital market in China. Through the installation of intelligent medicine dispensing machines in more class II and class III hospitals, Tianjiang Pharmaceutical will boost sales growth.

2. Finished drugs: gradually recovered benefiting from blockbuster cultivation programme and rapid growth of emerging OTC products

Key financial indicators for finished drug business

	Unaudited		
	Six months ended 30 June		
	2017	2016	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	1,144,335	1,111,166	3.0%
Cost of sales	502,736	485,904	3.5%
Gross profit	641,599	625,262	2.6%
Gross profit margin	56.1%	56.3%	-0.2ppt
Operating profit	246,962	209,634	17.8%
Profit for the period	154,294	163,712	-5.8%
Net profit margin	13.5%	14.7%	-1.2ppt

Note: The business of the Group is presented in four business segments in the reporting period, the numbers for the same period in 2016 were restated.

During the reporting period, the revenue of the finished drug business started to recover and recorded approximately RMB1,144,335,000, representing a slight increase of 3.0% as compared to RMB1,111,166,000 for the same period of last year, benefiting from the active promotion of the blockbuster cultivation programme and sales strategies, some core products of the finished drugs and emerging OTC products achieved rapid growth, which has offset the decline in drug sales through hospital channel impacted by the policy environment.

Analysis of sales revenue of core finished drug:

(in RMB million)

Name of products	Six months ended 30 June			Main distribution channel	Exclusive variety on the Essential Drugs List	Exclusive variety on the Medical Insurance Catalogue
	2017	2016	Change		√	√
1 Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊/片)	237	348	-31.9%	Rx	√	√
2 Bi Yan Kang Tablets (鼻炎康片)	120	99	21.0%	OTC	√	√
3 Jingshu Granules (頸舒顆粒)	104	71	46.9%	Rx	√	√
4 Yu Ping Feng Granules (玉屏風顆粒)	94	112	-15.6%	Rx	√	√
5 Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	88	91	-3.0%	Rx	√	√
6 Zaoren Anshen Capsules (棗仁安神膠囊)	53	44	19.8%	Rx	√	√
7 Fengshi Gutong Capsules (風濕骨痛膠囊)	31	29	9.5%	Rx	√	√
8 Sheng Tong Ping/Nifedipine Sustained-release Tablets I (聖通平/硝苯地平緩釋片I)	29	28	3.2%	Rx/ OTC		
9 Weimaining Capsules (威麥寧膠囊)	26	15	74.5%	Rx		√
10 Gaode/Cefodizime Sodium for Injection (高德/注射用頭孢地嗪鈉)	23	24	-3.6%	Rx		
11 Vitamin C Yinqiao Tablets (維C銀翹片)	18	5	261.6%	OTC		
12 Chongcao Qingfei Capsules (蟲草清肺膠囊)	16	6	150.1%	OTC		√
Other products	305	239	27.1%	OTC		
Total	1,144	1,111	3.0%			

During the reporting period, the sales of prescription drugs in the PRC were still affected by the tender price pressure. The sales prices of Xianling Gubao (仙靈骨葆) decreased slightly, but the decrease was less than 3%. Besides, at the request of the China Food and Drug Administration (CFDA) to replace the packaging for Xianling Gubao before the end of July 2017, the Group controlled the delivery of the product in the short term, and the removal from OTC category also had an impact on its OTC sales. Sale of Xianling Gubao decreased by 31.9% as compared with the same period of last year. Sales of Yu Ping Feng Granules also decreased by 15.6%, mainly affected by considerable low tender prices in few provinces where we withdrew from the tender.

Benefited from the channel inventory clean-up and sales model reform in 2016, as well as the blockbuster cultivation programme, sales from Jingshu Granules, Fengshi Gutong Capsules and Zaoren Anshen Capsules achieved significant growth.

Sales of Bi Yan Kang Tablets increased by 21.0% as compared with the same period of last year, mainly due to the completion of value chain reconstruction of 72-tablet pack, channel network optimization and integration, as well as the strategy of cooperation with chain pharmacy was further promoted. Due to increased price, sales of Weimaining Capsules increased by 74.5% compared with the same period of last year.

During the reporting period, sales of some top 20 OTC products, such as, Vitamin C Yinqiao Tablets, Chongcao Qingfei Capsules, Shedan Chuanbei San (蛇膽川貝散), Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊), Tongluo Guzhining Paste (通絡骨質寧膏) and Yao Shen Herbal Paste (腰腎膏), has gradually become new impetus to revenue growth.

Given the impact of the “two-invoice system”, our distributor network tended to be flattened, and there were obvious changes in the number of distributors. It is expected that with the full implementation of the “two-invoice system” and consolidation of pharmaceutical distribution industry, tier-one pharmaceutical distributors will gradually capture an increasing market share. The number of secondary and grassroot distributors will continue to decrease. However, in the long-term, flattened sales channel will make pharmaceutical distribution business more transparent and convenient for management. It will also help to strengthen our control over sales channel and terminals.

Change in number of distributors

Types	As at 30 June 2017		As at 31 December 2016		Change
	number	Proportion	number	Proportion	
Tier-one distributors	2,227	71.1%	1,821	64.7%	406
Tier-two and grassroots distributors	905	28.9%	994	35.3%	-89
Total	3,132	100.0%	2,815	100.0%	317

During the reporting period, the gross profit margin of the finished drug business was 56.1%, representing a decrease of 0.2 percentage point from 56.3% as compared to same period of last year. The decline in gross profit margin was mainly affected by the rising prices of some Chinese medicinal herbs and the lower tender prices of some products. Operating profit of the finished drug business was approximately RMB246,962,000, representing an increase of 17.8% as compared to the same period of last year, mainly due to decrease in sales expenses and administrative expenses by 6.4% and 2.7% respectively. Profit for the period of the finished drug business decreased by 5.8% to RMB154,294,000 as compared with the same period of last year. The main reason was that the financial costs increased by 138.9% to approximately RMB36,816,000.

3. TCM decoction pieces: Smooth integration with rapid growth

In order to improve the source reliability tracking process and quality control on the upstream raw materials for concentrated TCM granules and TCM finished drugs segments on one hand, and develop TCM decoction business and penetrate into more hospitals on the other, the Group has accelerated the expansion of TCM decoction business. The merger and acquisition of Guizhou Tongjitang Herbal Co., Ltd. (貴州同濟堂中藥飲片有限公司) (“Tongjitang Herbal”) and Shanghai Tongjitang Pharmaceutical Co., Ltd. (上海同濟堂藥業有限公司) (“Shanghai Tongjitang”) was completed in November 2016 and December 2016, respectively. During the reporting period, TCM decoction pieces achieved robust growth.

Key financial indicators for TCM decoction pieces business

	Unaudited		
	Six months ended 30 June		
	2017	2016	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	185,226	31,226	493.2%
Cost of sales	144,009	25,406	466.8%
Gross profit	41,217	5,820	608.2%
Gross profit margin	22.3%	18.6%	3.7ppt
Operating profit	18,188	3,486	421.7%
Profit for the period	20,538	2,517	716.0%
Net profit margin	11.1%	8.1%	3.0ppt

During the reporting period, the revenue of TCM decoction pieces business amounted to RMB185,226,000, representing an increase of approximately 493.2% as compared to RMB31,226,000 for the same period of last year. The rapid growth of sales revenue was mainly due to: (1) financial statements of “Tongjitang Herbal” and “Shanghai Tongjitang” began to be consolidated; (2) continued to benefit from the support of national policy on the TCM industry and good market environment; and (3) rapid growth of the TCM decoction business.

Sale Segment Analysis

(in RMB million)

Segment	Six months ended 30 June				
	2017	Proportion	2016	Proportion	Change
Decoction business	123.8	66.9%	11.5	36.8%	978.4%
Decoction pieces					
wholesale business	61.4	33.1%	19.7	63.2%	210.9%
Total	185.2	100.0%	31.2	100.0%	493.2%

During the reporting period, the gross profit margin of TCM decoction pieces business was 22.3%, representing an increase of 3.7 percentage points from 18.6% for the same period of last year. The improvement in gross margin was mainly due to the consolidation of the financial statements of the decoction business of Shanghai Tongjitang which has higher gross profit margin and rapid growth. Operating profit of the TCM decoction pieces business was approximately RMB18,188,000, representing an increase of 421.7% over the same period of last year. Profit for the period was approximately RMB20,538,000, representing an increase of 716.0% as compared to the same period of last year.

4. TCM healthcare complex: expanding scales, embracing new development opportunities

Key financial indicators of TCM healthcare complex business

	Unaudited		
	Six months ended 30 June		
	2017	2016	Change
	RMB'000	RMB'000	
Revenue	26,312	2,159	1,118.7%
Cost of sales	13,951	864	1,514.7%
Gross profit	12,361	1,295	854.5%
Gross profit margin	47.0%	60.0%	-13.0ppt
Operating profit	3,256	-2,254	244.5%
Profit for the period	2,866	-2,254	227.2%
Net profit margin	10.9%	-104.4%	115.3ppt

In January 2017, the Company completed the acquisition of 60% registered capital in Guizhou Tongjitang Pharmacy Chain Co. Ltd. and its TCM clinics (“Guizhou Tongjitang Pharmacy Chain”), and actively promoted the development of the TCM healthcare complex business and achieved significant expansion of business scale.

During the reporting period, the revenue of TCM big health industry business amounted to RMB26,312,000, representing an increase of approximately 1,118.7% as compared to RMB2,159,000 for the same period of last year. The rapid growth of sales revenue was mainly due to: (1) the financial statements of Guizhou Tongjitang Pharmacy Chain began to be consolidated; (2) continued to benefit from the support of national policy on the TCM industry and good market environment, business of Sinopharm Group Foshan Feng Liao Xing Medical Complex Co., Ltd. (國藥集團佛山馮了性國醫館有限公司) (“Feng Liao Xing TCM Healthcare Complex”) grew rapidly.

Segmental Sales

Segment	<i>(RMB million)</i>				
	Six months ended 30 June				
	2017	Proportion	2016	Proportion	Change %
Medicine/healthcare products	19.58	74.4%	1.51	69.9%	1,196.7%
Outpatient clinic	0.88	3.3%	0.16	7.4%	450.0%
Medical service	5.85	22.3%	0.49	22.7%	1,093.9%
Total	26.31	100.0%	2.16	100.0%	1,118.7%

During the reporting period, in order to improve profitability, Guizhou Tongjitang Pharmacy Chain (同濟堂藥房連鎖) optimized the sales model of chain pharmacies, adjusted the business structure, scaled down the retail sales with lower profit margin, expanded its outpatient and physiotherapy business, and strengthened day-to-day management.

During the reporting period, Feng Liao Xing TCM Healthcare Complex started to offer specialized outpatient services by leveraging on the medical resources of Foshan TCM Hospital and making use of the Hospital's registration & appointment booking system and the result was satisfactory. There were more than 30 registered medical practitioners in Feng Liao Xing TCM Healthcare Complex, the number of outpatient visits per day has increased from 30 for the same period of last year to more than 50. The positive marketing strategy has also increased our brand awareness. During the reporting period, there were nearly 15,000 outpatient and physiotherapy visits, almost three times as compared with the same period of last year.

During the reporting period, the gross profit margin of TCM healthcare complex was 47.0%, representing a decrease of 13.0 percentage points as compared to 60.0% for the same period of last year. This was because Feng Liao Xing Medical Complex has just commenced business during the same period of last year with little revenue and fluctuating gross profit. Operating profit of TCM healthcare complex was approximately RMB3,256,000 for the period, and profit was approximately RMB2,866,000, which has turned around from loss last year to profit.

Research and Development (“R&D”)

Concentrated TCM granules

During the reporting period, the Group continued to pay close attention to the preliminary research for the application of the concentrated TCM granules national standard.

In accordance with the spirits of the Regulations on the Administration of Concentrated TCM Granules (Draft for Comments)” (《中藥配方顆粒管理辦法(徵求意見稿)》) issued by CFDA and the “Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)” (《中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)》) issued by the Chinese Pharmacopoeia Commission (“Pharmacopoeia Commission”), Tianjiang Pharmaceutical made great progress in the research of medicinal herbs during the first half of 2017. At present, research on more than 100 varieties of samples have been completed, and were in accordance with the principle of high standards and strict requirements to ensure that the selected samples can meet the national requirements of traceability of medicinal herbs. At the same time, by expanding the research team and upgrading the research hardware and software, standard decoction research was actively carried out, some important varieties of standard decoction research and process test work were completed.

In addition to actively participate in the development of national standards, Tianjiang Pharmaceutical also spared no effort to promote the concentrated TCM granules to the world. During the reporting period, the proposal of Traditional Chinese Medicine – General requirement of manufacturing procedure and quality control of granule form of individual medicinal for prescription was successfully reviewed and approved through the domestic review procedures. It was included in the 2017 China backup international standard project, and the relevant international standards research and processes were carried out smoothly. Tianjiang Pharmaceutical combined years of experience scientific research and production and the requirements of international standardization of TCM, and made full preparation and detailed demonstration to target at the development of

international quality standards for the concentrated TCM granules, promote the international trade of concentrated TCM granules as well as contributed itself to the internationalization progress of concentrated TCM granules.

At the end of 2016, Jiangyin Tianjiang established an academician workstation, and relied on which, the Company gradually carried out research on clinical practise of the concentrated TCM granules, so as to promote the concentrated TCM granules in a wider range of clinical use and improve product recognition. At the same time, Guangdong Yifang performed research on the TCM ointments, to explore the application potential of the granules in the ointments, and different forms of concentrated TCM granules for the development of new health products in accordance with the constitution identification theory, so as to expand the scope of application and product reserve.

Guangdong Yifang also performed systematic studies on the detection methods of polysaccharide of a dozen kinds of TCM extract, and production processes of some products were optimized for achieving excellence.

Through our strong investment in R&D, the Group is confident to continue to maintain its leading position in the concentrated TCM granules industry and to grasp opportunities at time when the industry is opened, and maintained healthy development for the Group so as to lay a solid foundation to achieve long-term development goals.

Finished Drugs

In 2016, R&D center of finished drugs and research team of the concentrated TCM granules jointly set up the “Standard Research Project Group of Concentrated Granules” (“Project Team”). During the reporting period, the R&D team of finished drug, and the R&D team of concentrated TCM granules continued to work closely together to promote the preliminary study of national standards of the concentrated TCM granules. The Project Team developed a number of standard research processes in respect of issues in common such as production of decoction pieces, the standard decoction preparation and standard decoction quality research, and draft the application files.

In respect of the evidence-based medicine research and nurturing the blockbusters, on the one hand, the implementation of the clinical research such as Yu Ping Feng Granules (玉屏風顆粒) for treatment of repeated respiratory tract infection in children (小兒反復呼吸道感染), Jingshu Granules (頸舒顆粒) for treatment of nerve root type cervical spondylosis (神經根型頸椎病) and Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) for treatment of chronic eczema continued. At present, these three projects has entered closing phase. On the other hand, with deep concern for the patients, the Group conducted a clinical safety analysis and safety proactive monitoring work in the year 2017 to explore the characteristics of the Xianling Gubao (仙靈骨葆), in order to provide better guidance to the patient's medication. At the same time, in order to meet the market demand for pediatric medication, the Company was developing the pediatric dosage form of Yu Ping Feng (玉屏風) Granules, and the pharmacological and pharmacodynamic research have been completed.

During the reporting period, according to the unified deployment of the Company, the R & D center continued to promote the quality consistency evaluation on four chemical varieties, which achieved different progress. Among them, most of the pharmacological research on Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I)) have been completed, and the bioequivalence experiments were ready to start; pharmacological research on Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III)) and Acetaminophen Tablets (對乙酰氨基酚片) and Theophylline Sustained-release tablets (茶鹼緩釋片) were underway.

In addition, the national standardization of TCM construction projects also progressed steadily, and construction of seed bases and promotion demonstration bases of Herba Epimedii (淫羊藿), Salvia Miltiorrhiza (丹參), Radix Dipsaci (續斷), Astragalus (黃芪), Atractylodes (白朮), Fang Feng (防風), etc. have been completed, more than 30 seed breedings, origin processing and other technical procedure were established for the setting up of seed standards, medicinal standards and commodity grade specifications. More than 20 quality standards and other standards at all levels of finished drugs were established, and in-depth study on chemical information database of two finished drugs and series of multi dimensional fingerprints were performed.

Investment Projects

According to the Group's development strategy objectives, the Group also invested in a number of infrastructure projects in recent years to meet the needs of the sustainable development of various business segments. At present, there are three new construction projects, including Guizhou Tongjitang new plant, Shandong Yifang new plant and Zhejiang Yifang new plant. The Guizhou Tongjitang new plant project has been basically completed and is applying for Good Manufacturing Practice certification. The design and construction of the plant is based on the highest domestic standards for TCM manufacturing facilities, covering land area of 330 acres and gross floor area of 90,000 square meters, the project investment amounted to RMB360 million. Its design, construction, and technology have all achieved domestic advanced level, which improved the production conditions and the environment of major finished drugs of the Group such as Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊/片劑), Zaoren Anshen Capsules (棗仁安神膠囊), and Anti-Itching Capsules (潤燥止癢膠囊). The progress of Shandong Yifang and Zhejiang Yifang projects were progressing smoothly, and it is expected that the project construction of Shandong Yifang will be completed by the end of 2017, and equipment testing and trial production will commence at the beginning of 2018. It is expected the project construction of Zhejiang Yifang will also be completed in the first half of 2018 for entering the trial production stage.

Other projects that are currently under way are mainly technical transformation and expansion projects, including: (1) exquisite decoction pieces workshop expansion project of Longxi Yifang; (2) finished drug workshop relocation project of Feng Liao Xing; (3) extraction and granule workshop of Anhui Tianxiang; (4) extraction capacity expansion project (Second phase) of Dezhong Gaoming; (5) relocation project of Feng Liao Xing Herbal Company; (6) workshop renovation project of Pulante; and (7) the drug distribution centers for China TCM Industrial Park project in Foshan and Jiangyin. These projects will be completed and enter equipment testing and trial production phase by the end of 2017 to 2018.

These infrastructure projects will not only improve the production conditions and the environment of the main varieties of the Group's finished drugs, but also provide the production capacity required for the Group's rapid development of the concentrated TCM granules and TCM decoction business. These projects are of great significance to the strategic co-ordination of the Group's business development, resource sharing and efficiency enhancement, as well as the realization of harmonious growth and attainment of win-win situation for all the segments.

Future Prospects

As a leading TCM enterprise in the PRC, the Group will continue to follow the “new normal” in the development of the pharmaceutical and healthcare industry and seize the opportunity brought by the reform of the pharmaceutical system to further stimulate the vitality and creativity of the Group.

- 1) Concentrated TCM granules segment will be benefited from the national policy liberalization and unification of industry standards to prepare for rapid growth. By consolidating all resource advantages, the Group is expanding market network rapidly, and carrying out research work and process test work on standard decoction. The Group will further establish “Tianjiang” and “Yifang” as leading brands of concentrated TCM granules and consolidate the leading industry position through participating in the formulation of the industry standard of concentrated TCM granules and strengthening the expansion of market network.
- 2) In respect of finished drugs, the Group will continue to carry out the blockbuster cultivation programs by conducting a series of academic researches, such as evidence-based clinical studies, drug safety, and pharmacoeconomic studies to achieve the goal of product revitalization, enhancing brand awareness, and increasing product sales. Through years of effort, products such as Xianling Gubao (仙靈骨葆), Yu Ping Feng Granules (玉屏風顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊), Jingshu Granules (頸舒顆粒) and Zaoren Anshen Capsule (棗仁安神膠囊) have been included in various clinical medication guidelines, laid a solid foundation for the recovery of finished drugs business and future sustainable growth.
- 3) With the steady progress of the Group's whole industry chain coverage strategy, the new norms of TCM decoction pieces and TCM healthcare complex business will bring about new sources of vitality to the Company. The Group plans to develop and sell medicinal dietetic soups and soup ingredients based on the medicine food homology concept, and explore the healthcare complex business and promote the development of health food market.
- 4) In the future, the Group will also speed up the extension of the up-stream business segments of the industry chain, start the construction of the pre-processing base of TCM, and form a systematic linkage with the medicinal herb procurement platform to promote the healthy development of the whole industry.

At the same time, the Group will continue to grasp the opportunity of mixed ownership reform and promote the formulation and implementation of incentive mechanisms to further improve the sharing of benefits and risks between the Company and its employees, and bring the incentive of senior

management and core personnel into full play. The Group will further improve the management quality and efficiency from the five dimensions, i.e. sales, quality, safety, environmental protection and compliance, to improve management quality and efficiency, enhance corporate governance, increase the vitality of the enterprise and lay a solid foundation for sustainable development.

FINANCIAL REVIEW

The Group completed the acquisition of 100% equity interest of Huayi Pharmaceutical, Tongjitang Herbal and Shanghai Tongjitang, in May 2016, November 2016 and December 2016, respectively, and completed the acquisition of 60% equity interest in Guizhou Tongjitang Pharmacy Chain in January 2017. During the period, Tongjitang Herbal, Shanghai Tongjitang and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. consolidated into the TCM decoction pieces business of the Group, and Guizhou Tongjitang Pharmacy Chain, Feng Liao Xing TCM Healthcare Complex consolidated into TCM healthcare complex business of the Group. The comparative segment information for the six months ended 30 June 2016 have been re-presented in order to conform with the presentation adopted in current period.

Revenue

For the six months ended 30 June 2017, the Group's revenue amounted to approximately RMB3,899,168,000, representing an increase of 21.9% from approximately RMB3,199,290,000 for the same period of last year, mainly attributable to sale improvement in concentrated TCM granules business and sale contribution brought by Shanghai Tongjitang, Tongjitang Herbal and Guizhou Tongjitang Pharmacy Chain.

Among which, the revenue of concentrated TCM granules business was approximately RMB2,543,295,000, representing an increase of 23.8% compared to approximately RMB2,054,739,000 for the same period of last year, mainly due to the support of national policies, such as retaining sales mark-up for TCM decoction pieces (including concentrated granules) in public hospitals, and there were more new customers developed as compared to the same period of last year. Revenue of finished drug business was approximately RMB1,144,335,000, representing an increase of 3.0% from approximately RMB1,111,166,000 for the same period of last year, which was mainly benefiting from the active promotion of blockbuster cultivation programme and sales strategies, some core products of the finished drugs and emerging OTC products achieved rapid growth, which has offset the decline in prescription drug sales impacted by the policy environment. Revenue of TCM decoction pieces business and TCM healthcare complex business were approximately RMB185,226,000 and RMB26,312,000, representing an increase of approximately RMB154,000,000 and RMB24,153,000 for the same period of last year.

Cost of sales and gross profit margin

For the six months ended 30 June 2017, the Group's cost of sales was approximately RMB1,729,345,000, representing an increase of 26.6% from approximately RMB1,365,601,000 for the same period of last year. Gross profit for the period was approximately RMB2,169,823,000, representing an increase of 18.3% from approximately RMB1,833,689,000 for the same period of last year. Gross profit margin for the period dropped by 1.7 percentage points to 55.6% from 57.3% for the same period of last year.

The decrease in gross profit margin was mainly due to the raw material costs increased and the gross profit margins of the newly consolidated companies were lower than the gross margins of the original businesses of the Group.

Regarding the concentrated TCM granules business, the cost of sales for the period was approximately RMB1,068,649,000, representing an increase of 25.2% as compared with approximately RMB853,427,000 for the same period of last year. Gross profit amounted to approximately RMB1,474,646,000, representing an increase of 22.8% from RMB1,201,312,000 for the same period of last year. The gross profit margin for the period was 58.0%, representing a fall of 0.5 percentage point as compared to 58.5% for the same period of last year, which was mainly due to raw material costs increased.

Regarding the finished drug business, the cost of sales for the period was approximately RMB502,736,000, representing an increase of 3.5% as compared with approximately RMB485,904,000 for the same period of last year. Gross profit amounted to approximately RMB641,599,000, representing an increase of 2.6% from RMB625,262,000 for the same period of last year. The gross profit margin for the period was 56.1%, representing a fall of 0.2 percentage point as compared to 56.3% for the same period of last year, which was mainly due to raw material costs increased.

During the reporting period, regarding the TCM decoction pieces business and TCM healthcare complex business, the cost of sales were approximately RMB144,009,000 and RMB13,951,000, respectively. Gross profits amounted to approximately RMB41,217,000 and RMB12,361,000, respectively, and gross profit margins were 22.3% and 47.0%, respectively.

Other income

For the six months ended 30 June 2017, the Group's other income was approximately RMB36,767,000, representing an increase of 32.2% as compared to approximately RMB27,815,000 for the same period of last year. The increase in other income mainly due to the increase in government grants for finished drug business.

Concentrated TCM granules business:

	Six months ended 30 June		Change
	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Interest income	11,227	10,203	10.0%
Government grants	1,878	5,981	-68.6%
Total	13,105	16,184	-19.0%

Finished drug business

	Six months ended 30 June		Change
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>	
Interest income	639	2,924	-78.2%
Government grants	22,537	6,868	228.2%
Rental income	290	1,570	-81.5%
Total	23,466	11,362	106.5%

During the reporting period, other income from the TCM decoction pieces business and TCM healthcare complex business were approximately RMB174,000 and RMB22,000, respectively.

Other gains and losses

For the six months ended 30 June 2017, the Group's other losses was approximately RMB10,986,000 (for the six months ended 30 June 2016: other gains of approximately RMB1,412,000). Among which, concentrated TCM granules business had other gains of approximately RMB5,276,000 in the same period last year, representing an increase of 237.8% as compared to approximately RMB1,562,000 for the same period of last year, which was mainly due to the gain from the foreign exchange increased. Finished drug business' other losses increased from approximately RMB46,000 in the same period last year to other losses of approximately RMB15,486,000 in the period, mainly due to the change in exchange rate, such that the actual amount settled during the period in respect of the forward foreign exchange contract signed during the last year was RMB16,751,000 less than the fair value recognized last year. During the period, TCM decoction pieces business and TCM healthcare complex business also incurred other losses of approximately RMB837,000 and other gains of approximately RMB61,000, respectively.

Selling and distribution costs

For the six months ended 30 June 2017, the Group's selling and distribution costs amounted to approximately RMB1,022,393,000 (for the six months ended 30 June 2016: RMB876,909,000).

Concentrated TCM granules business:

	Six months ended 30 June		Change
	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Advertising, promotion and traveling expenses	375,173	277,182	35.4%
Salary expenses of sales and marketing staff	38,709	25,964	49.1%
Distribution costs	26,547	30,179	-12.0%
Other selling and distribution costs	243,129	195,459	24.4%
Total	<u>683,558</u>	<u>528,784</u>	<u>29.3%</u>

Selling and distribution costs increased by 29.3% as compared to that for the same period of last year, selling and distribution costs as a percentage of the revenue from the concentrated TCM granules business was 26.9%, representing an increase of 1.2 percentage points as compared to 25.7% for the same period of last year, which was mainly due to marketing input increased in order to development new markets and new customers, and to equip adequate marketing staff according to the growth of sale scale and therefore salary expenses increased.

Finished Drug Business:

	Six months ended 30 June		Change
	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Advertising, promotion and traveling expenses	139,394	157,912	-11.7%
Salary expenses of sales and marketing staff	137,604	138,501	-0.6%
Distribution costs	8,736	9,314	-6.2%
Other selling and distribution costs	38,126	40,242	-5.3%
Total	<u>323,860</u>	<u>345,969</u>	<u>-6.4%</u>

Selling and distribution costs decreased by 6.4% as compared to that for the same period of last year, selling and distribution costs as a percentage of the revenue from the finished drug business was 28.3%, representing a decrease of 2.8 percentage points as compared to 31.1% for the same period of last year, mainly due to the introduction of responsible-person system during last year, operation efficiency of marketing team was enhanced, and selling costs were decreased.

During the reporting period, selling and distribution costs of TCM decoction pieces business was approximately RMB9,491,000, selling and distribution costs as a percentage of the revenue from the TCM decoction business was 5.1%. Selling and distribution costs of TCM healthcare complex business was approximately RMB5,484,000, selling and distribution costs as a percentage of the revenue from the TCM healthcare complex business was 20.8%.

Research and development costs and administrative expenses

For the six months ended 30 June 2017, the Group's research and development costs and administrative expenses amounted to approximately RMB286,920,000 (for the six months ended 30 June 2016: RMB287,355,000).

Concentrated TCM granules business:

	Six months ended 30 June		Change
	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Staff costs	41,885	36,846	13.7%
Depreciation and amortisation	7,953	7,812	1.8%
Office rental cost and other expenses	40,675	83,967	-51.6%
Subtotal	90,513	128,625	-29.6%
Research and development costs	101,071	73,863	36.8%
Total	191,584	202,488	-5.4%

Research and development costs and administrative expenses decreased by 5.4% as compared to corresponding period of last year, the research and development costs and administrative expenses as a percentage to the revenue of concentrated TCM granules business was 7.5%, representing a decrease of 2.4 percentage points as compared to 9.9% for the same period of last year. In order to maintain a leading position in the industry, the Company vigorously developed concentrated TCM granules so as to fulfill the national standard, resulting in an increase in investment in research and development costs.

Finished drug business:

	Six months ended 30 June		Change
	2017	2016	
	<i>RMB'000</i>	<i>RMB'000</i>	
Staff costs	30,832	30,615	0.7%
Depreciation and amortisation	10,177	9,454	7.6%
Office rental cost and other expenses	17,223	14,738	16.9%
Subtotal	58,232	54,807	6.2%
Research and development costs	20,525	26,168	-21.6%
Total	78,757	80,975	-2.7%

Research and development costs and administrative expenses decreased by 2.7% as compared to corresponding period of last year, the research and development costs and administrative expenses as a percentage to the revenue of finished drug business was 6.9%, representing a decrease of 0.4 percentage point as compared to 7.3% for the same period of last year, which was mainly due to the decrease in research and development costs for the period.

During the reporting period, research and development costs and administrative expenses of TCM decoction pieces business was approximately RMB12,875,000, research and development costs and administrative expenses as a percentage of the revenue from the TCM decoction pieces business was 7.0%. Research and development costs and administrative expenses of TCM healthcare complex business was approximately RMB3,704,000, research and development costs and administrative expenses as a percentage of the revenue from the TCM healthcare complex business was 14.1%.

Profit from operations

For the six months ended 30 June 2017, the Group's profit from operations was approximately RMB886,291,000, representing an increase of 26.9% as compared to RMB698,652,000 for the same period of last year, while operating profit margin (defined as profit from operations divided by revenue) was 22.7%, representing an increase of 0.9 percentage point from 21.8% for the same period of last year. The increase in operating profit margin was due to the effective control of selling and distribution costs when revenue increased, and led to growth rate of costs for the period lower than the growth rate of revenue.

Regarding the concentrated TCM granules business, the profit from operations was approximately RMB617,885,000 (after deducting depreciation and amortisation of approximately RMB55,373,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated financial statements), representing an increase of 26.7% as compared to RMB487,786,000 for the same period of last year. The operating profit margin increased by 0.6 percentage point from 23.7% for the same period of last year to 24.3% for the period. Regarding the finished drug business, the profit from operations was approximately RMB246,962,000, representing an increase of 17.8% as compared to RMB209,634,000 for the same period of last year. The operating profit margin increased from 18.9% for the same period of last year to 21.6% for the period. During the reporting period, the operating profit margins of TCM decoction pieces business and TCM healthcare complex business were 9.8% and 12.4%, respectively.

Finance costs

For the six months ended 30 June 2017, the Group's finance costs amounted to approximately RMB85,199,000 (for the six months ended 30 June 2016: RMB34,161,000). The increase in financial costs as compared to the same period of last year was mainly due to the corporate bonds issued in November 2016 and June 2017, respectively, with nominal values of approximately RMB2.5 billion and RMB2.0 billion respectively. Bank and other loans held by the Group as at 30 June 2017 amounted to approximately RMB981,551,000 and corporate bonds of approximately RMB4,476,170,000 were held (bank and other loans held by the Group as at 30 June 2016 amounted to approximately RMB2,739,649,000, and no corporate bond was held). During the period under review, the effective

interest rate was 3.58% (for the six months ended 30 June 2016: 2.50%). The Group will continue to pay attention to the changes in market interest rates and adjust the borrowings and fund raising mechanism on a timely basis. When an opportunity for price negotiation arises, the Group would refinance the existing loans or secure new bank loans.

Income from investment in associate

For the six months ended 30 June 2017, the Group shared losses from associate, Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries, Foshan Shunde Cili Biological Technology Company Limited and its subsidiaries of approximately RMB1,853,000, while there was shared income of approximately of RMB854,000 for the same period of last year.

Earnings per share

For the six months ended 30 June 2017, basic earnings per share was RMB13.51 cents, representing an increase of 23.0% as compared to RMB10.98 cents for the same 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 22.0% to approximately RMB598,623,000 (for the six months ended 30 June 2016: approximately RMB490,776,000).

Liquidity and financial resources

As at 30 June 2017, the Group's current assets amounted to approximately RMB10,031,321,000 (31 December 2016: RMB8,070,408,000), which included cash, cash equivalents and deposits with banks of approximately RMB3,413,297,000 (31 December 2016: RMB3,425,582,000), among which the carrying amount of pledged bank deposits amounted to approximately RMB50,553,000 (31 December 2016: RMB2,226,000). Such pledged bank deposits were mainly collaterals for bank borrowings. Trade and other receivables amounted to approximately RMB4,030,990,000 (31 December 2016: RMB2,716,250,000). Current liabilities amounted to approximately RMB3,129,331,000 (31 December 2016: RMB3,506,824,000). Net current assets aggregated to approximately RMB6,901,990,000 (31 December 2016: RMB4,563,584,000). The Group's current ratio was 3.2 (31 December 2016: 2.3). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity shareholders of the Company) increased to 45.3% from 34.0% as at 31 December 2016. Gearing ratio increased was mainly due to the issuance of corporate bonds with nominal value of approximately RMB2.0 billion during the period, which led to the bank and other loans and bonds payable increased from RMB3,909,943,000 as at 31 December 2016 to approximately RMB5,457,721,000.

Bank and other loans and pledge of assets

As at 30 June 2017, the balance of the Group's bank and other loans was approximately RMB981,551,000 (31 December 2016: RMB1,424,339,000), of which approximately RMB173,800,000 (31 December 2016: RMB144,479,000) was secured by the Group's assets with book value of approximately RMB103,647,000 (31 December 2016: RMB39,028,000) in total. The decrease in bank loans was mainly due to the repayment of Hong Kong dollar loan of HK\$730 million during the period. The balance of the Group's bank and other loans includes approximately RMB573,795,000 and

RMB407,756,000, which are required to be paid within one year and one to three years, respectively (31 December 2016: approximately RMB1,001,392,000 and RMB422,947,000 to be paid within one year and one to three years respectively).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2017 (31 December 2016: nil).

EVENTS AFTER THE REPORTING PERIOD

On 6 April 2016, Guangdong Yifang, a wholly-owned subsidiary of Tianjiang Pharmaceutical, 87.30%-owned subsidiary of the Company, received an indictment in respect of an alleged bribery offence by organization served by the Intermediate People's Court of Guangzhou City of Guangdong Province of the PRC. On 21 July 2017, the Intermediate People's Court of Guangzhou City of Guangdong Province of the PRC delivered a verdict that Guangdong Yifang was acquitted of the alleged offence. Please refer to the announcements dated 6 April 2016 and 21 July 2017 for further details.

On 24 July 2017, Mr. Zhao Dongji ("Mr. Zhao") has been appointed as a joint company secretary of the Company. For the appointment of Mr. Zhao, the Company has obtained a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules for a period of three years from the Stock Exchange of Hong Kong Limited. Please refer to the announcement dated 24 July 2017 for further details.

Save for the above, there was no other significant event subsequent to 30 June 2017.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 9,963 (31 December 2016: 9,539) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,970, 3,826 and 2,167 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 RMB413,412,000 (for the six months ended 30 June 2016: RMB330,400,000).

INTERIM DIVIDEND

The Board recommended an interim dividend of HK4.75 cents (approximately RMB4.05 cents) per share for the six months ended 30 June 2017 (six months ended 30 June 2016: HK6.44 cents (approximately RMB5.54 cents) per share). The interim dividend will be payable on 26 October 2017 to the shareholders on the register of members of the Company on 17 October 2017.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to the interim dividend, the register of members of the Company will be closed from Friday, 13 October 2017 to Tuesday, 17 October 2017, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30p.m. on Thursday, 12 October 2017.

CORPORATE GOVERNANCE

Code on Corporate Governance Code

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2017 with the Code Provisions set out in the Code on Corporate Governance Code contained in Appendix 14 of the Listing Rules.

The Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 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 reporting period. Furthermore, senior management who are likely to be in possession of inside information, have been required to comply with the provisions of the Model Code.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The audit committee has reviewed the unaudited consolidated financial results of the Group for the six months ended 30 June 2017 including the accounting principles, treatments and practices adopted by the Group. The audit committee has no disagreement with the accounting principles, treatments and practices adopted by the Group.

By Order of the Board
China Traditional Chinese Medicine Holdings Co. Limited
WU Xian
Chairman

Hong Kong, 18 August 2017

As at the date of this announcement, the board of directors comprises eleven directors, of which Mr. WU Xian, Mr. WANG Xiaochun Mr. ZHAO Dongji and Ms. HUANG He are executive directors; Mr. LIU Cunzhou, Mr. DONG Zenghe, and Ms. TANG Hua are non-executive directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. YU Tze Shan Hailson and Mr. LO Wing Yat are independent non-executive directors.