China Traditional Chinese Medicine Holdings Co. Limited

(Incorporated in Hong Kong with Limited Liability)

(Stock code: 00570)

INTERIM REPORT **2017**

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CORPORATE INFORMATION

Board of Directors	*Executive Directors* Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun *(Managing Director)* Mr. ZHAO Dongji *(re-designated from Non-executive Director to Executive Director with effect from 5 June 2017)* Ms. HUANG He *(re-designated from Non-executive Director to Executive Director with effect from 5 June 2017)*
	Non-executive Directors Mr. LIU Cunzhou Mr. DONG Zenghe Ms. TANG Hua
	Independent Non-executive Directors Mr. ZHOU Bajun Mr. XIE Rong Mr. YU Tze Shan Hailson Mr. LO Wing Yat
Joint Company Secretaries	Ms. LEUNG Suet Lun Mr. ZHAO Dongji *(with effect from 21 July 2017)*
Audit Committee	Mr. XIE Rong *(Chairman)* Mr. ZHOU Bajun Mr. LO Wing Yat Mr. YU Tze Shan Hailson Ms. TANG Hua
Remuneration Committee	Mr. ZHOU Bajun *(Chairman)* Mr. LIU Cunzhou Mr. XIE Rong Mr. LO Wing Yat
Nomination Committee	Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun Mr. ZHOU Bajun Mr. XIE Rong Mr. LO Wing Yat
Strategic Committee	Mr. LIU Cunzhou *(Chairman)* Mr. WU Xian 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	Deloitte Touche Tohmatsu *Certified Public Accountants* Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited The Bank of Tokyo-Mitsubishi UFJ, Ltd. Industrial and Commercial Bank of China Limited (Foshan Branch) China Merchants Bank Co., Ltd. (Foshan Branch) Guangdong Shunde Rural Commercial Bank Co., Ltd.
Stock Code	00570
Website	http://www.china-tcm.com.cn

INTRODUCTION

The board (the "Board") of directors ("Directors") of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") prepared under Hong Kong Financial Reporting Standards ("HKFRS") for the six months ended 30 June 2017 (the "reporting period"), together with the comparative figures for the corresponding periods in 2016 and the relevant explanatory notes. The consolidated results are unaudited, but have been reviewed by the Company's independent auditor, Deloitte Touche Tohmatsu, and the audit committee of the Company (the "Audit Committee").

OVERVIEW

National policy, as always, supports the development of Traditional Chinese Medicine ("TCM") industry. The introduction and orderly implementation of industry policies such as the "Traditional Chinese Medicine 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 approximately 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 increased 23.0% from RMB10.98 cents for the corresponding period to RMB13.51 cents for the reporting period.

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 granules 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 factories 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 granules: seize the opportunity to continue rapid growth

Key financial indicators for the concentrated TCM granules business

	Unaudited Six months ended 30 June		
	2017	2016	Change
	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: The data presented 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 granules business. During the reporting period, Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang" and its subsidiaries collectively, "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 approximately 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 was 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)

	Six months ended 30 June					
Regions	**2017**	**Proportion**	2016	Proportion	Growth amount	Growth rate
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)

	Six months ended 30 June					
Sales terminals	**2017**	**Proportion**	2016	Proportion	Growth amount	Growth rate
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)

	Six months ended 30 June					
Sales methods	**2017**	**Proportion**	2016	Proportion	Growth amount	Growth rate
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 Jiangyin Tianjiang and Guangdong Yifang Pharmaceutical Co., Ltd. ("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
	RMB'000	RMB'000	
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.

Revenue analysis of core finished drugs:

(in RMB million)

	Name of products	Six months ended 30 June 2017	2016	Change	Main distribution channel	Exclusive variety on the Essential Drugs List	Exclusive variety on the Medical Insurance Catalogue
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		√
13	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 People's Republic of China ("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 change 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. Sales 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 price in few provinces where we withdrew from the tender.

Benefited from the channel inventory clear-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 pharmacies 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 Powder (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), have 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 grassroots 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 number**	**Proportion**	As at 31 December 2016 number	Proportion	Change
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 price of some Chinese medicinal herbs and the lower tender price 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 pieces 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 business achieved robust growth.

Key financial indicators for TCM decoction pieces business

	Unaudited		
	Six months ended 30 June		
	2017	2016	Change
	RMB'000	RMB'000	
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 approximately 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.

Revenue analysis by segment

(in RMB million)

	Six months ended 30 June				
Segments	**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 **RMB'000**	2016 RMB'000	Change
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 (貴州同濟堂藥房連鎖) ("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 healthcare complex business amounted to approximately 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.

Revenue analysis by segment

(RMB million)

	Six months ended 30 June				
Segments	**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 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 system and the result was satisfactory. There were more than 30 registered medical practitioners in Feng Liao Xing TCM Healthcare Complex, and 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 outpatients 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 TCM Healthcare 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 for the period 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 during the reporting period, 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 researches 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 drafted 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 for treatment of repeated respiratory tract infection in children (小兒反復呼吸道感染), Jingshu Granules for treatment of nerve root type cervical spondylosis (神經根型頸椎病) and Moisturising & Anti-Itching Capsule 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 of 2017 to explore the characteristics of the Xianling Gubao, 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 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 procedures were established for the setting up of seed standards, medicinal herbs 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, Zaoren Anshen Capsules, and Anti-Itching Capsules. 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 Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. (3) extraction and granule workshop of Anhui Tianxiang; (4) extraction capacity expansion project (Second phase) of Dezhong Gaoming; (5) relocation project of Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices") (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 pieces 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 Feng Liao Xing Material & Slices 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 comform 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 approximately 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 approximately 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		
	2017	2016	Change
	RMB'000	RMB'000	
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		
	2017	2016	Change
	RMB'000	RMB'000	
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 approximately 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		
	2017	2016	Change
	RMB'000	RMB'000	
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	**683,558**	528,784	29.3%

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		
	2017	2016	Change
	RMB'000	RMB'000	
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	**323,860**	345,969	-6.4%

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 in 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 pieces 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		
	2017	2016	Change
	RMB'000	RMB'000	
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		
	2017	2016	Change
	RMB'000	RMB'000	
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 and administrative expenses 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 approximately 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 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 RMB2.0 billion during the period, which led to the bank and other loans and bonds payable increased from approximately 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).

CAPITAL SOURCE

The Group satisfies its operating capital needs mainly through operating business and external financing. During the reporting period, the net cash outflow generated from the operating business of the Group was approximately RMB1,137,973,000, as compared with the net cash inflow of approximately RMB723,348,000 for the same period of last year, mainly due to a longer cash collection period in the concentrated TCM granules business, and the increase in purchase of inventory and the increase in the amount of payment for minimizing the impact on the increase in cost of raw material; the net cash inflow generated from the investing activities was RMB766,644,000, as compared with the net cash outflow of approximately RMB942,461,000 for the same period of last year, change from net cash outflow to net cash inflow mainly due to the maturity of fixed deposits of RMB1,050,000,000 and the acquisition of Tianjiang Pharmaceutical for the same period of last year with payment of approximately RMB870,779,000, while there was no such acquisition for the period; the net cash inflow generated from financing activities was approximately RMB1,604,195,000, representing an increase as compared with that of approximately RMB61,782,000 for the same period of last year, mainly due to the cash inflow of approximately RMB1,988,000,000 from the issuance of the three-year corporate bonds for the period, while there was no such issuance for the same period of last year. The outstanding bank facilities of the Group were approximately RMB454,005,000. The Group has sufficient working capital and its financial position is healthy.

FINANCING CAPACITY

As at 30 June 2017, the capital commitments which the Group has entered into but outstanding and not provided for in the financial statements were approximately RMB844,911,000 (31 December 2016: approximately RMB966,992,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities and investment payment. The Group's major funding needs also included the payment for construction of Shandong Yifang and Zhejiang Yifang new plants, and expenses on other technical transformation and expansion projects, including drug distribution centers in Foshan and Jiangyin. The Group believes that, with the available cash balances and the undrawn bank facilities already granted by the bank, as well as the fact that it has been well recognized and supported by the major financial institutions, the Group will be capable of fully satisfying the liquidity needs and the abovementioned funding needs.

CONTINGENT LIABILITIES

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

FINANCIAL RISK

The Group mainly operates in mainland China with most of the transactions originally denominated and settled in Renminbi, of which foreign exchange risk is considered insignificant. During the reporting period, the Group repaid bank borrowings of HK$730 million, and therefore Hong Kong dollar borrowings decreased from HK$1,200 million as at 31 December 2016 to HK$470 million as at 30 June 2017, and the foreign exchange risk decreased. On 30 June 2017, no forward foreign exchange contract has been entered into by the Group. Forward foreign exchange contract amounting to HK$1.17 billion which was executing on 31 December 2016 has been expired during the reporting period. In future, the Group will continue to perform regular reviews on its net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by taking appropriate measures on a timely basis.

MATERIAL ACQUISITIONS, DISPOSALS AND MATERIAL INVESTMENT

There were no material acquisitions, disposals and material investment of the Group for the period ended 30 June 2017.

EVENTS AFTER THE REPORTING PERIOD

Litigation Update

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.

Appointment of Joint Company Secretary

On 24 July 2017, Mr. ZHAO Dongji has been appointed as a joint company secretary of the Company. For the appointment of Mr. ZHAO Dongji, the Company has obtained a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for a period of three years from the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2017, 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 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 2017:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
WANG Xiaochun	Interest of controlled corporation	376,735,042 (long position) *(Note)*	8.50%

Note:

The 376,735,042 shares are held by Hanmax Investment Limited ("Hanmax") which is wholly owned by Mr. WANG Xiaochun.

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 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2017, 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 2017:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Share Capital
Sinopharm Hongkong	Beneficial owner	1, 614,313,642 (long position) *(Note 1)*	36.43%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) *(Note 1)*	36.43%
Hanmax	Beneficial owner	376,735,042 (long position)	8.50%
GIC Private Limited	Investment Manager	100,532,000 (long position) *(Note 2)*	2.27%
	Interest of controlled corporations	213,674,000 (long position) *(Note 2)*	4.82%
Profit Channel Development Limited	Beneficial owner	243,735,042 (long position)	5.50%

Notes:

1. The 1,614,313,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. The number of shares held by GIC Private Limited is based on the information of Corporate Substantial Shareholder Notice (Form 2) dated 22 January 2016.

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 2017.

CONNECTED TRANSACTION

Acquisition of Shanghai Tongjitang in 2016

On 27 September 2016, Feng Liao Xing Material & Slices (a wholly-owned subsidiary of the Company) entered into agreements (the "Shanghai Tongjitang Agreement") with Mr. Hu Yong and Mr. Wang Xiaochun (collectively, the "Shanghai Tongjitang Vendors") and Shanghai Tongjitang respectively.

The Board would like to provide information disclosed in the "Acquisition of Shanghai Tongjitang" in the Report of the Directors of annual report 2016 of the Company (the "Annual Report 2016") that the Shanghai Tongjitang Vendors guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) for each of the two years ended 31 December 2016 and 2017 shall be not less than RMB43 million (equivalent to approximately HK$49.9 million) (the "Guaranteed Profits"). In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years is less than the Guaranteed Profits, the consideration will be adjusted to RMB500 million (equivalent to approximately HK$580 million). The audited net profit after tax (excluding non-recurring gains and losses) of Shanghai Tongjitang for the year ended 31 December 2016 was RMB47,475,240, which is higher than the Guaranteed Profits. Directors considered that it is unlikely for consideration to adjust.

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

As the Master Purchase Agreement and the Master Supply Agreement and the respective annual caps would expire on 31 December 2016, on 18 November 2016, the Company entered into the agreements to govern the terms of the Purchases and the Sales and to set the annual caps for the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Purchase Agreement, the Group conditionally agreed to purchase the materials supplied by the CNPGC and its subsidiaries (collectively, the "CNPGC Group") during the period from 1 January 2017 to 31 December 2019. The value of the purchases shall not exceed the annual caps of RMB45 million (equivalent to approximately HK$50.9 million) for each of the three financial years ending 31 December 2017, 2018 and 2019.

Pursuant to the New Master Supply Agreement, the Group conditionally agreed to sell the products to the CNPGC Group during the period from 1 January 2017 to 31 December 2019.

Pursuant to the New Master Supply Agreement, the Group agreed to supply and CNPGC Group agreed to purchase the products during the period from 1 January 2017 to 31 December 2019. Pursuant to the New Master Supply Agreement, the value of the sales shall not exceed the annual caps of RMB800 million (equivalent to approximately HK$904 million), RMB900 million (equivalent to approximately HK$1,017 million) and RMB1,000 million (equivalent to approximately HK$1,130 million) for each of the three financial years ending 31 December 2017, 2018 and 2019 respectively.

CNPGC is beneficially interested in 1,614,313,642 shares as at 18 November 2016, representing approximately 36.43%,of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively constitute continuing connected transactions of the Company under the Listing Rules.

The agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is a state-owned enterprise in the PRC and is one of the largest state-owned pharmaceutical and healthcare groups administered directly by the State-owned Assets Supervision and Administration Commission of the State Council. Its principal activities are pharmaceutical distribution, pharmaceutical scientific research and manufacture of medical and biotech products. Members of the CNPGC Group have been the suppliers of the materials and customers of the products of the Group since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality Materials from the CNPGC Group, while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC is one of the largest pharmaceutical companies in the PRC and has a long-term relationship with the Group, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC.

For details of these renewed continuing connected transactions, please refer to the announcement and the circular of the Company dated 20 November 2016 and 19 December 2016 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 6 January 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

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

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

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

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 to 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 to 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.

CHANGE IN DIRECTORS' AND SENIOR MANAGEMENT'S INFORMATION

Subsequent to the date of the Annual Report 2016, change in information of directors and senior management of the Company required to be disclosed pursuant to Rule 13.51(2) and Rule 13.51B(1) of the Listing Rule is for the following:

- Mr. YANG Bin resigned as an executive Director and the managing Director with effect from 31 March 2017. Mr. YANG Bin has vacated from the offices as member of the nomination committee and the strategic committee of the Company upon his resignation as an executive Director becoming effective.

- Mr. WANG Xiaochun, an executive Director, has been appointed as the managing Director and a member of the nomination committee, the aggregate remuneration as an executive Director and the managing Director is RMB1,860,000 per annum, with effect from 31 March 2017.

- Mr. ZHAO Dongji, a non-executive Director, has been re-designated as an executive Director. Also, Mr. ZHAO Dongji has been appointed as vice-president of the Company with effect from 5 June 2017.

- Ms. HUANG He , a non-executive Director, has been re-designated as an executive Director and appointed as vice-president of the Company with effect from 5 June 2017. She was no longer a member of the Audit Committee following her re-designation as executive Director, with effect from 5 June 2017.

- The aggregate remuneration for each of Mr. ZHAO Dongji and Ms. HUANG He as an executive Director and the vice-president is RMB1,200,000 per annum, both with effect from 5 June 2017.

- Mr. YU Tze Shan Hailson, an independent non-executive Director has been appointed as a member of Audit Committee with effect from 5 June 2017.

- Mr. SITU Min has been appointed as a chief financial officer of the Company with effect from 5 June 2017.

- Mr. ZHAO Dongji has been appointed as the joint company secretary of the Company with effect from 21 July 2017.

Save as disclosed above, as at the date of this interim report, there is no change of information about the Directors and senior management of the Company which shall be disclosed pursuant to 13.51(2) of the Listing Rules.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2017. 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, 18 August 2017

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
CHINA TRADITIONAL CHINESE MEDICINE HOLDINGS CO. LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 60, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, 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 HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**2,105,616**	2,019,036
Prepaid lease payments	12	**326,464**	334,244
Investment properties		**2,309**	2,376
Goodwill	13	**3,532,494**	3,456,353
Other intangible assets	13	**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
		13,087,983	12,966,376
CURRENT ASSETS			
Inventories	14	**2,574,918**	1,894,169
Trade and other receivables	15	**4,030,990**	2,716,250
Prepaid lease payments	12	**11,191**	10,122
Held for trading investments		**925**	591
Derivative financial instruments		**–**	23,694
Pledged bank deposits	16	**50,553**	2,226
Fixed deposits		**–**	1,050,000
Bank balances and cash	16	**3,362,744**	2,373,356
		10,031,321	8,070,408
CURRENT LIABILITIES			
Trade and other payables	17	**2,355,981**	2,303,735
Bank borrowings	18	**573,795**	1,001,392
Tax liabilities		**199,555**	201,697
		3,129,331	3,506,824
NET CURRENT ASSETS		**6,901,990**	4,563,584
TOTAL ASSETS LESS CURRENT LIABILITIES		**19,989,973**	17,529,960

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		**132,307**	142,630
Deferred tax liabilities		**1,709,806**	1,722,917
Unsecured notes	*19*	**4,476,170**	2,485,604
Bank borrowings	*18*	**407,756**	422,947
		6,726,039	4,774,098
NET ASSETS		**13,263,934**	12,755,862
CAPITAL AND RESERVES			
Share capital	*20*	**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

Approved and authorised for issue by the board of directors on 18 August 2017.

WU Xian
Executive Director

WANG Xiaochun
Executive Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company							
	Share capital RMB'000	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note a)	Other reserve RMB'000 (note b)	Accumulated profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017 (audited)	**9,809,935**	**(165,183)**	**200,253**	**(53,039)**	**1,796,361**	**11,588,327**	**1,167,535**	**12,755,862**
Profit for the period	**–**	**–**	**–**	**–**	**598,623**	**598,623**	**64,146**	**662,769**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**598,623**	**598,623**	**64,146**	**662,769**
Acquisition of subsidiaries (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**7,723**	**7,723**
Dividend paid	**–**	**–**	**–**	**–**	**(137,017)**	**(137,017)**	**–**	**(137,017)**
Dividend paid to non-controlling interests of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(25,403)**	**(25,403)**
At 30 June 2017 (unaudited)	**9,809,935**	**(165,183)**	**200,253**	**(53,039)**	**2,257,967**	**12,049,933**	**1,214,001**	**13,263,934**
At 1 January 2016 (audited)	9,809,935	(60,578)	190,170	(53,039)	1,246,884	11,133,372	1,006,841	12,140,213
Profit for the period	–	–	–	–	490,776	490,776	54,300	545,076
Other comprehensive expense for the period	–	(15,873)	–	–	–	(15,873)	–	(15,873)
Total comprehensive (expense) income for the period	–	(15,873)	–	–	490,776	474,903	54,300	529,203
Acquisition of subsidiaries	–	–	–	–	–	–	41,198	41,198
Shares repurchased during the period	–	–	–	–	(160,721)	(160,721)	–	(160,721)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	(40,708)	(40,708)
At 30 June 2016 (unaudited)	9,809,935	(76,451)	190,170	(53,039)	1,576,939	11,447,554	1,061,631	12,509,185

Notes:

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

(b) Other reserve represents premium paid for acquisition of non-controlling interests in prior years.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	NOTE	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Net cash (used in) from operating activities		**(1,137,973)**	723,348
Investing activities			
Withdrawal of fixed deposits		**1,050,000**	–
Interest received		**12,062**	–
Proceeds from disposal of property, plant and equipment and construction in progress		**5,730**	–
Proceeds from disposal of other intangible assets		**79**	–
Purchase of property, plant and equipment and payment for construction in progress		**(250,712)**	(175,194)
Settlement of payables on acquisition of subsidiaries		**(6,093)**	(870,779)
Purchase of prepaid lease payments		**(237)**	(16,891)
Cash (outflow) inflow from acquisition of subsidiaries, net of bank balances and cash acquired of	*13*	**(42,936)**	3,601
Proceeds from disposal of other financial asset		**–**	100,594
Other investing cash flows		**(1,249)**	16,208
Net cash from (used in) investing activities		**766,644**	(942,461)
Financing activities			
Proceeds from issue of unsecured notes		**1,988,000**	–
New bank borrowings raised		**976,540**	1,466,726
Increase in restricted bank deposits		**(823,982)**	(13,590)
Decrease in restricted bank deposits		**1,050,000**	–
Repayment of bank borrowings		**(1,388,586)**	(1,196,472)
Dividend paid		**(162,420)**	–
Interest paid		**(42,300)**	(34,161)
Payment for repurchase shares		**–**	(160,721)
Other financing cash flows		**6,943**	–
Net cash from financing activities		**1,604,195**	61,782
Net increase (decrease) in cash and cash equivalents		**1,232,866**	(157,331)
Cash and cash equivalents at 1 January		**2,147,338**	2,101,856
Effect of foreign exchange rate changes		**(17,460)**	(9,855)
Cash and cash equivalents at 30 June, represented by bank balances and cash		**3,362,744**	1,934,670

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 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 HKFRSs	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 or service provided, less returns, discounts and sales tax and is analysed as follows:

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

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.

During the current period, in view of the significance of the operation of the TCM decoction pieces business segment upon the acquisitions of Guizhou Tongjitang Herbal Co., Ltd. ("Tongjitang Herbal") and Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") in late 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 the finished drugs segment that were used to allocate resources and assess performance, and changed its analysis to (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 business, the CODM continues to review the performance of concentrated TCM granules on a similar basis as prior years.

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

Accordingly, there are four reportable and operating segments in the 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 or as at 31 December 2016 have been updated 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.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

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. Reportable segment profit does not include items not specifically attributed to individual segments, including rental income, share of results of associates, fair value changes on derivative financial instruments, fair value changes on held for trading investments, net exchange gain and head office and corporate expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of held for trading investments, derivative financial instruments, deferred tax assets and unallocated head office and corporate assets. Segment liabilities include trade and other payables, bank borrowings, deferred government grants and unsecured notes attributable to individual segments and bank borrowings managed directly by the segments, with the exception of tax liabilities, deferred tax liabilities and unallocated head office and corporate liabilities.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, interest income and expense from bank balances and borrowings which managed directly by the segments, depreciation, amortisation.

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

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

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

	Finished drugs RMB'000	Concentrated TCM granules RMB'000	TCM decoction pieces RMB'000	TCM healthcare complex RMB'000	Total RMB'000
For the six months ended 30 June 2017 (unaudited)					
Reportable segment revenue	**1,146,769**	**2,543,493**	**215,421**	**28,155**	**3,933,838**
Eliminated of inter-segment revenue	**(2,434)**	**(198)**	**(30,195)**	**(1,843)**	**(34,670)**
Revenue from external customers	**1,144,335**	**2,543,295**	**185,226**	**26,312**	**3,899,168**
Reportable segment profit (adjusted EBITDA)	**324,904**	**718,743**	**28,385**	**3,529**	**1,075,561**
Interest income	**639**	**11,227**	**174**	**22**	**12,062**
Finance costs	**36,798**	**48,361**	**40**	**–**	**85,199**
Depreciation and amortisation	**56,249**	**117,287**	**10,368**	**295**	**184,199**
As at 30 June 2017 (unaudited)					
Reportable segment assets	**6,914,072**	**16,309,660**	**858,389**	**120,005**	**24,202,126**
Reportable segment liabilities	**4,024,873**	**3,906,079**	**747,318**	**7,915**	**8,686,185**
For the six months ended 30 June 2016 (restated and unaudited)					
Reportable segment revenue	1,112,775	2,054,936	47,515	2,361	3,217,587
Eliminated of inter-segment revenue	(1,609)	(197)	(16,289)	(202)	(18,297)
Revenue from external customers	1,111,166	2,054,739	31,226	2,159	3,199,290
Reportable segment profit (loss) (adjusted EBITDA)	271,392	580,552	3,814	(2,167)	853,591
Interest income	2,924	10,203	13	1	13,141
Finance costs	15,411	18,711	39	–	34,161
Depreciation and amortisation	56,566	110,512	341	88	167,507
As at 31 December 2016 (restated and audited)					
Reportable segment assets	6,113,657	14,946,411	830,445	14,266	21,904,779
Reportable segment liabilities	3,573,177	2,812,688	739,793	3,461	7,129,119

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reportable segment profit (adjusted EBITDA)	**1,075,561**	853,591
Depreciation and amortisation	**(184,199)**	(167,507)
Interest income	**12,062**	13,141
Finance costs	**(85,199)**	(34,161)
Rental income	**290**	1,570
Fair value changes on derivative financial instruments	**(16,751)**	1,562
Fair value changes on held for trading investments	**334**	–
Net exchange gain	**8,803**	3,061
Share of results of associates	**(1,853)**	854
Head office and corporate expenses	**(9,809)**	(6,766)
Consolidated profit before taxation	**799,239**	665,345

	At 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
	(Unaudited)	(Restated and audited)
Assets		
Reportable segment assets	**24,202,126**	21,904,779
Elimination of inter-segment receivables	**(1,314,756)**	(1,951,873)
	22,887,370	19,952,906
Held for trading investments	**925**	591
Derivative financial instruments	**–**	23,694
Deferred tax assets	**122,882**	139,716
Unallocated head office and corporate assets	**108,127**	919,877
Consolidated total assets	**23,119,304**	21,036,784
Liabilities		
Reportable segment liabilities	**8,686,185**	7,129,119
Elimination of inter-segment payables	**(1,314,756)**	(1,951,873)
	7,371,429	5,177,246
Tax liabilities	**199,555**	201,697
Deferred tax liabilities	**1,709,806**	1,722,917
Unallocated head office and corporate liabilities	**574,580**	1,179,062
Consolidated total liabilities	**9,855,370**	8,280,922

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

(iii) Geographical information

Analysis of the Group's revenue and results as well as analysis of the amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(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
	36,767	27,815

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(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)
	(10,986)	1,412

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**	–
	85,199	34,161

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
	124,567	122,078
Deferred tax charge (credit)	**11,903**	(1,809)
	136,470	120,269

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
	RMB'000	RMB'000
	(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
Total depreciation and amortisation	**184,199**	167,507
Impairment losses (reversed) 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

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 months 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 shareholders 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
	RMB'000	RMB'000
	(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. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group incurred approximately RMB190,587,000 (six months ended 30 June 2016: RMB175,194,000) on acquisition of property, plant and equipment.

Certain of the Group's buildings with carrying value of RMB19,029,000 (31 December 2016: RMB30,740,000) were pledged to secure certain bank borrowings granted to the Group.

12. PREPAID LEASE PAYMENTS

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current portion	**11,191**	10,122
Non-current portion	**326,464**	334,244
	337,655	344,366

Certain of the Group's prepaid lease payments with carrying value of RMB1,106,000 (31 December 2016: RMB1,559,000) were pledged to secure certain bank borrowings granted to the Group.

13. GOODWILL/OTHER INTANGIBLE ASSETS

	Goodwill RMB'000	**Other intangible assets** RMB'000
Cost and carrying amount:		
At 1 January 2017 (audited)	3,456,353	6,763,921
Addition acquired through business combination (note a)	76,141	–
Additions	–	1,505
Amortisation for the period	–	(78,161)
Disposal	–	(79)
At 30 June 2017 (unaudited)	3,532,494	6,687,186

No impairment loss has been recognised in respect of goodwill and other intangible assets of the Group during the current period (six months ended 30 June 2016: nil).

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note:

(a) Acquisition of Guizhou Tongjitang Pharmacy Chain

On 3 January 2017, the Group acquired 60% of the equity interest of Guizhou Tongjitang Pharmacy Chain for a consideration of RMB87,725,000 from Guizhou Tongjitang Medicine Distribution Co., Ltd. and Guizhou Tongjitang Asset Management Co., Ltd. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB76,141,000.

Consideration transferred

	RMB'000
Cash	87,725

Goodwill arose on the acquisition of Guizhou Tongjitang Pharmacy Chain because Guizhou Tongjitang Pharmacy Chain is principally engaged in the operation of chain pharmacies and traditional Chinese medicine clinics in Guizhou Province, the PRC. The acquisition of Guizhou Tongjitang Pharmacy Chain is in line with the Group's development strategy to become leader in the TCM industry and will allow the Group to expand its product mix, consolidate upstream resources and extend its coverage in the industry value chain.

Assets acquired and liabilities recognised at the date of acquisition and goodwill arising on acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	1,764
Inventories	7,996
Trade and other receivables	3,442
Bank balances and cash	9,700
Trade and other payables	(2,084)
Tax liabilities	(1,511)
Less: Non-controlling interests of subsidiary of Guizhou Tongjitang Pharmacy Chain	(7,723)
	11,584
Consideration transferred	87,725
Less: Fair value of identifiable net assets acquired	(11,584)
Provisional goodwill arising on acquisition	76,141

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note: (continued)

(a) Acquisition of Guizhou Tongjitang Pharmacy Chain (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	87,725
Outstanding consideration payable	(8,772)
	78,953
Less: Bank balances and cash acquired	(9,700)
Less: Deposit paid in 2016	(26,317)
	42,936

The directors of the Company are in process of assessing fair value of the identifiable net assets and liabilities assumed of Guizhou Tongjitang Pharmacy Chain at the date of the acquisition and goodwill was determined provisionally.

Goodwill arose in the acquisition of Guizhou Tongjitang Pharmacy Chain because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Guizhou Tongjitang Pharmacy Chain. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

In the opinion of the directors of the Company, the fair values of trade and other receivables acquired approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which all expected to be collected.

Impact of acquisition on the results of the Group

During the period ended 30 June 2017, Guizhou Tongjitang Pharmacy Chain contributed RMB21,124,000 to the Group's revenue and profit of RMB4,060,000 to the Group's results.

The acquisition of Guizhou Tongjitang Pharmacy Chain was completed on 3 January 2017. Had the acquisition of Guizhou Tongjitang Pharmacy Chain been effected at 1 January 2017, the pro forma revenue and profit of the Group would approximate the current results of RMB3,899,168,000 and RMB662,769,000, respectively, because the financial impact of pre-acquisition period of 2 days (from 1 January 2017 to 2 January 2017) was not material.

(b) Acquisition of Huayi Pharmaceutical Co., Ltd. ("Huayi")

In May 2016, the Group acquired 100% of the equity interest of Huayi for consideration of RMB34,000,000 from China National Traditional Chinese Medicine Corporation ("CNTCM"). In the opinion of directors of the Company, CNTCM is the Company's intermediate holding company. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB9,774,000. The Group recognised in its consolidated financial statements for the year ended 31 December 2016 provisional amounts of the fair value of identifiable assets acquired and liabilities assumed and goodwill. During the current period (i.e. end of the measurement period), the directors of the Company completed the determination of the fair value of the identifiable assets acquired and liabilities assumed and goodwill and concluded that no adjustments to such provisional amounts are required.

14. INVENTORIES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (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

15. TRADE AND OTHER RECEIVABLES

The following are the aging analysis of the Group's trade receivables, net of allowance for doubtful debts, based on invoice date at the end of the reporting period and bills receivables, based on issue date at the end of the reporting period, respectively:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Trade receivables, aged		
0-90 days	**1,730,710**	856,247
91-180 days	**745,374**	483,646
181-365 days	**376,844**	392,515
Over 365 days	**81,193**	26,102
	2,934,121	1,758,510
Bills receivables, aged		
0-90 days	**753,552**	669,671
91-180 days	**23,204**	87,295
	776,756	756,966
Deposits, prepayments and other receivables	**320,113**	200,774
	4,030,990	2,716,250

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.

16. PLEDGED BANK DEPOSITS/BANK BALANCE AND CASH

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Pledged bank deposits		
– Bank borrowings securities	**49,998**	–
– Other securities	**555**	2,226
	50,553	2,226
Bank balances and cash		
– Restricted bank deposits	**–**	226,018
– Bank balances and cash	**3,362,744**	2,147,338
	3,362,744	2,373,356

17. TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (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 (note a)	**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
	2,355,981	2,303,735

17. TRADE AND OTHER PAYABLES (continued)

Note:

(a) As at 30 June 2017 and 31 December 2016, advances of government grants to the Group mainly included various conditional government grants for research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income when government inspection of relevant research and development projects has been completed.

The aging analysis of the Group's trade payables based on the invoice date at the end of each reporting period are as follows:

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
0-90 days	**1,110,127**	806,582
91-180 days	**8,119**	10,835
181-365 days	**6,515**	21,534
Over 365 days	**21,104**	13,379
	1,145,865	852,330

18. BANK BORROWINGS

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Bank borrowings comprised bank loans and other loans and analysed as follows:		
Bank loans	**980,751**	1,419,860
Other loans	**800**	4,479
	981,551	1,424,339
Secured	**173,800**	144,479
Unsecured	**807,751**	1,279,860
	981,551	1,424,339
Carrying amount repayable*:		
Within one year	**573,795**	1,001,392
More than one year, but not exceeding two years	**–**	422,947
More than two years, but not exceeding three years	**407,756**	–
	981,551	1,424,339
Amounts due within one year shown under current liabilities	**573,795**	1,001,392
Add: Amounts shown under non-current liabilities	**407,756**	422,947
	981,551	1,424,339

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

18. BANK BORROWINGS (continued)

The exposure of the Group's borrowings are as follows:

	Carrying amount	
	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Fixed rate borrowings	**573,795**	1,001,392
Floating rate borrowings	**407,756**	422,947
	981,551	1,424,339

The Group's floating rate borrowings carried interest at Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.65% (31 December 2016: HIBOR plus 1.65%).

19. UNSECURED NOTES

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Carrying amount repayable:		
Within two to five years	**4,476,170**	2,485,604
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum, interest payable annually with maturity on 15 November 2019	**2,488,020**	2,485,604
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum, interest payable annually with maturity on 12 June 2020	**1,988,150**	–
	4,476,170	2,485,604

In November 2016, the Company registered medium-term notes in an aggregate amount of RMB4,500,000,000 and the notes could be issued by the Company in multiple tranches within two years from 9 November 2016. On 16 November 2016, the Company completed the issuance of the first tranche of notes in an aggregate amount of RMB2,500,000,000, with a maturity of three years and coupon rate of 3.4% per annum. On 13 June 2017, the Company completed the issuance of the second tranche of notes in an aggregate amount of RMB2,000,000,000, with a maturity of three years and coupon rate of 4.98% per annum.

20. 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

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Financial assets

	Fair value as at			
	30 June 2017 RMB'000	31 December 2016 RMB'000	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Financial assets at FVTPL				
1. Listed equity securities	**925**	591	Level 1	Quoted bid prices in active markets.
2. Foreign currency forward contracts	**–**	23,694	Level 2	Discounted cash flow: Future cash flows are estimated based on difference between predetermined forward exchange rates and spot exchange rates at the end of the reporting period.

There were no transfers between Level 1 and 2 during both periods.

Fair value measurements and valuation processes

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

22. CAPITAL COMMITMENTS

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
– Investments in PRC entities (note)	**640,000**	640,000
– Acquisition of a subsidiary	**–**	61,403
– Acquisition of property, plant and equipment	**204,911**	265,589
	844,911	966,992

Note: Pursuant to the cooperation agreements entered into by the Group, Foshan Health Development Co., Ltd. and Foshan Hospital of TCM on 13 January 2016, and a subsequent agreement entered into by the Group and Baoli Huanan Industrial Co., Ltd. on 29 December 2016. the parties agreed to form two companies which are principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The registered capital of these companies has not yet been paid up to the date of issue of the condensed consolidated financial statements.

23. RELATED PARTY TRANSACTIONS

During the current period, the Group entered into the following related party transactions:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Sale of finished goods to CNPGC's subsidiaries other than the Group	**185,819**	118,532
Purchase of raw materials from CNPGC's subsidiaries other than the Group	**7,435**	2,900
Research and development services provided by CNPGC's subsidiaries other than the Group	**–**	940
Acquisition of Huayi from China Traditional Chinese Medicine Corporation, (the company's intermediate holding company), CNPGC's subsidiaries other than the Group	**–**	34,000

23. RELATED PARTY TRANSACTIONS (continued)

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

	At 30 June 2017 RMB'000 (Unaudited)	At 31 December 2016 RMB'000 (Audited)
Trade and other receivables due from CNPGC's subsidiaries other than the Group	**203,845**	172,818
Trade and other payables due to CNPGC's subsidiaries other than the Group	**32,440**	5,663

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Key management remuneration		
Remuneration for key management personnel of the Group is as follows:		
Short-term employee benefits	**2,891**	4,463
Post-employments benefits	**117**	135
	3,008	4,598

23. RELATED PARTY TRANSACTIONS (continued)

Transactions/balances with other state-controlled entities

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

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