国药集团
SINOPHARM

China Traditional Chinese Medicine Holdings Co. Limited

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

2018
Interim Report

CONTENTS

CORPORATE INFORMATION

Board of Directors	*Executive Directors* Mr. WU Xian *(Chairman)* Mr. WANG Xiaochun *(Managing Director)* Mr. ZHAO Dongji Ms. HUANG He *Non-executive Directors* Mr. LIU Cunzhou Mr. YANG Shanhua *(Appointed with effect from 28 March 2018)* Ms. TANG Hua Mr. KUI Kaipin *(Appointed with effect from 30 May 2018)* *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
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 Wan Chai Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited 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 2018 (the "reporting period"), together with the comparative figures for the corresponding periods in 2017 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

The Group has implemented a strategy of whole coverage of the traditional Chinese medicine ("TCM") industry chain and has achieved satisfactory business development results.

During the reporting period, the Group's revenue was approximately RMB5,461,424,000, representing an increase of 40.1% as compared with approximately RMB3,899,168,000 for the same period of last year. This was mainly attributable to the rapid growth of the concentrated TCM granules business and fast expansion of the decoction pieces business. The concentrated TCM granules business contributed approximately RMB3,490,594,000, or 63.9% of total revenue. Revenue from the finished drugs business was approximately RMB1,306,031,000, representing 23.9% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB639,533,000, or 11.7% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB25,266,000, representing 0.5% of total revenue.

Gross profit was RMB2,930,733,000, representing an increase of 35.1% as compared with approximately RMB2,169,823,000 for the same period of last year. Gross profit margin was 53.7%, representing a decrease of 1.9 percentage points as compared with 55.6% for the same period of last year. This was mainly due to the proportion of the TCM decoction pieces business, whose gross profit margin was lower than other businesses.

BUSINESS REVIEW

In line with its strategic plan, the Group extended to the upstream and downstream of the TCM industry chain and enhanced its core competencies of perfect resource safeguarding, strict quality standards, and advanced technology and techniques. Focusing on these three competencies, the Group vigorously promoted Chinese medicinal herb plantation, TCM decoction pieces, and the concentrated TCM granules businesses. It also worked to enhance its competitive advantages in various aspects of the industrial chain, such as Chinese medicinal herb resources, warehousing and logistics, production capacity enhancement and sales network extension. At the same time, China Ping An Group was introduced as our strategic partner to seek new industry opportunities. Business highlights for the Company in the first half of 2018 were as follows:

1. Industrial chain construction for TCM decoction pieces and concentrated TCM granules in line with national policy

Since the adjustment of national institutions in 2018, the State Administration for Market Regulation (the "SAMR") (the original China Food and Drug Administration (the "CFDA")) has advanced stricter quality requirements for TCM. These are especially relevant to Chinese medicinal herbs, as a good TCM quality is determined by quality assurance throughout the whole production process. Therefore establishing a TCM product quality source tracking system is vital to the development of the industry. TCM source tracking would include all phases of production, from plantation, localized initial processing, production of decoction pieces, and production of concentrated TCM granules and TCM finished drugs, to logistics and marketing.

Since 2016, we started to built a nationwide industrial chain for TCM decoction pieces and concentrated TCM granules, in line with both the regional characteristics of authentic Chinese medicinal herbs resources, and with national policies for quality source tracking of decoction pieces and concentrated TCM granules. The chain also conforms with point-to-point sales strategies for TCM decoction pieces and concentrated TCM granules (localization of production and sales).

Ultimately the Group aims to establish a complete quality source tracking system for the production of Chinese medicinal herbs; exploit the scale effect of production of TCM decoction pieces and concentrated TCM granules to reduce production and logistics costs; break local protection barriers, expand market coverage and achieve a leading position in TCM decoction pieces and concentrated TCM granules industry.

- Establishing Chinese medicinal herb plantation bases (front end of the industrial chain)

  On 23 July 2018, SAMR drafted the Revised Draft of Chinese Medicinal Herbs Production Quality Management Standard (Draft for Comment)《中藥材生產質量管理規範(徵求意見稿)》, clearly defining the quality management of Chinese medicinal herbs and the traceability of TCM companies.

  High quality of raw materials form the basis of the Group's long-term sustainable development. The quality of Chinese medicinal herbs are the foundation of TCM products, and the quality of concentrated TCM granules, TCM decoction pieces or TCM finished drugs depends on the raw materials from which they are made. During the reporting period, the Company promoted the establishment of a source tracking system and constructed bases for medicinal herb plantation. The plantation bases have been established in 14 provinces with rich medicinal herbs, including Anhui, Gansu, Sichuan, Shandong, Zhejiang, etc, and a total 46 species of medicinal herbs (such as Atractylodes (白朮), Atractylodes Macrocephala (白術), Poria (茯苓), Pinellia Ternate (半夏), Radix Bupleuri (柴胡), Angelica Sinensis (當歸), Codonopsis Pilosula (黨參), Liquorice (甘草), Astragalus Membranaceus (黃芪) and Herba Epimedii (淫羊藿)) are planted. Perfect safeguarding of medicinal herb resources is one of the core competencies pursued by the Group.

- Forming a synergistic production system for TCM decoction pieces and concentrated TCM granules (middle of the industrial chain)

Concentrated TCM granules are the Group's strongest driver of growth. As a traditional sector of the TCM industry, TCM decoction pieces have maintained a higher growth rate in the industry under the policy environment of maintaining mark-up and not including in the proportion cap of drugs sales in hospital. The decoction pieces sector is fragmented, which may provide an opportunity for the Group to enter into the decoction pieces industry. Utilizing the hospital channel advantage enjoyed by concentrated TCM granules, the Group will accelerate the layout of the decoction pieces segment, and make the TCM decoction pieces business a new contributor to future growth.

The Group will thus establish two production systems, for both TCM decoction pieces and concentrated TCM granules, by Jiangyin Tianjiang Pharmaceutical Co., Ltd ("Jiangyin Tianjiang") and Guangdong Yifang Pharmaceutical Co., Ltd ("Guangdong Yifang"), which are headquartered respectively in Jiangyin, Jiangsu and Foshan, Guangdong. Both have been setting up factories for TCM decoction pieces and concentrated TCM granules in different provinces through self-construction or merger and acquisition. Currently, Jiangyin Tianjiang is present in Heilongjiang, Sichuan, Yunnan, Chongqing, Guizhou, Anhui, Fujian, and Hubei while Guangdong Yifang is in Gansu, Shandong, Zhejiang, Shaanxi, Jiangxi, Hunan, Jilin, and Guangxi. These layouts are located at or near the origins of authentic medicinal herbs.

The nationwide branches established by Jiangyin Tianjiang and Guangdong Yifang will form a synergetic production technology system, unifying production layouts and technical standards for a variety of products. Each branch will produce about 50 varieties, representing a production scale of about 3,000-5,000 tonnes. Products using the same process are centralized into the same factories, which is beneficial to both the overall scale effect and enhanced quality standards. Upon completing the construction of these two systems in 2019, the Group will enjoy a huge competitive advantage in the quality, cost and efficiency of TCM decoction pieces and concentrated TCM granules.

At the date of this report, the Group had 10 Chinese medicinal herb extraction bases with Good Manufacturing Practise ("GMP") certification covering seven provinces of Guangdong, Anhui, Jiangsu, Hubei, Gansu, Guizhou and Sichuan; 6 GMP granule preparation bases covering five provinces of Guangdong, Jiangsu, Gansu, Heilongjiang and Sichuan; and 12 GMP bases for decoction pieces covering eleven provinces of Guangdong, Anhui, Jiangsu, Fujian, Shandong, Shanghai, Zhejiang, Beijing, Gansu, Guizhou and Sichuan. According to the Company development plan, planning for bases will be completed in a total of 23 provinces or cities nationwide in 2019. Estimated TCM extraction capacity will reach about 80,000 tonnes, production capacity of granule preparations will be about 25,000 tonnes, and the production capacity of TCM decoction pieces will be about 80,000 tonnes.

Additionally, the Group strives to obtain a provincial-level pilot license for concentrated TCM granule production. Beyond its two existing national-level licenses, namely Jiangyin Tianjiang and Guangdong Yifang, as at the date of this report, the Group has obtained pilot production licenses in five provinces (cities) i.e. Sichuan, Shaanxi, Heilongjiang, Chongqing and Fujian, and expects to obtain further pilot licenses in Beijing and Hubei by the end of the year. This is of great significance to the Group's strategic goals of breaking local protection barriers and expanding market coverage.

- Establishing TCM logistics and warehousing companies (front end and middle of the industrial chain)

  As at the date of this report, the Group began to establish a safeguarding system for raw materials through the establishment of two warehousing and trading companies for Chinese medicinal herbs. The Group plans to build four additional GSP-compliant warehousing and trading platforms for Chinese medicinal herbs in Longxi (Gansu), Bozhou (Anhui), Mianyang (Sichuang) and Guilin (Guangxi). A standardized warehouse with a gross floor area of 600,000 square metres will be also constructed with a quality inspection center and trading platform for Chinese medicinal herbs. The four warehousing and trading platforms will be open to the public. They will not only store the Group's Chinese medicinal herbs and decoction pieces in various regions, but also provide inspection and warehousing services to other Chinese medicinal herb operators, and will conduct transactions nationally. The purpose of construction of these warehousing and trading platforms for Chinese medicinal herbs are to: (1) ensure the production needs of the Group, and provide a safeguard for the distribution of decoction pieces to intelligent distribution centers and retail pharmacies of the Group in various regions through storage of Chinese medicinal herbs and raw materials; (2) provide warehousing capacity for a wide variety of products so that the Group can maintain a competitive advantage in hospitals' bidding for decoction pieces, and thus rapidly expand sales to hospitals; (3) facilitate online and offline trading of Chinese medicinal herbs and decoction pieces, expanding the Group's scale of operations and enabling it to become a founder of specification and quality level standards for Chinese medicinal herbs.

- Standard research/evidence-based medical research (end of the industrial chain)

  Improving the TCM industry's quality management and becoming a leader in industry standards is one of the Group's core pursuits. It has been almost two years since the Pharmacopoeia Committee issued its Technical Requirements for Quality Control and Standards for Concentrated TCM Granules (Draft for Comment) (中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)) in August 2016, the Group has devoted to establish standard for concentrated TCM granules and conducted scientific research in accordance with the Pharmacopoeia Committee's schedule and requirements. During the reporting period, the Group prepared standard decoctions and conducted research on more than 170 varieties, and completed research on and submitted 123 varieties to the Pharmacopoeia Commission for review. Of these, 68 varieties were attributable to Guangdong Yifang and 55 to Jiangyin Tianjiang, were highly recognized by the review experts.

  To ensure sustainable development, the Group also carried out other research projects on concentrated TCM granules during the reporting period. These included: (1) pharmaceutical and evidence-based research on concentrated TCM granules, and continued promotion of research in the efficiency differences between mixing ingredients before and after decocting; (2) research and development of granule products with homology of medicine and food to expand the product reserves; (3) consumer-driven improvements to the flavor of existing granule varieties, and development of concentrated TCM granules suitable for children.

- Sales terminal breakthroughs for TCM decoction pieces and concentrated TCM granules (end of the industrial chain)

  The Group's decoction pieces business has developed vigorously, largely through the implementation of an effective intelligent distribution center model. During the reporting period, the new Zhongshan Distribution Center in Guangdong and Shijiazhuang Distribution Center in Hebei went into operation, and as at the date of this report, a total of seven distribution centers are in operation. Among them, the distribution center in Nanhai, Foshan achieved a breakthrough by signing cooperative agreements with 139 local community hospitals. The distribution center supplies decoction pieces to the hospitals as well as providing decoction and delivery services. This success reflects the inability of the traditional decoction pieces supply model to meet the needs of small and medium-sized medical institutions. With its service flexibility, quality control and reliable process control, the intelligent distribution center offers differentiated competition with small and medium-sized decoction pieces suppliers. Relying on the Group's comprehensive quality monitoring system for Chinese medicinal herbs and the layout of middle and upstream operations, the distribution centers possess great potential for growth.

  During the reporting period, the Group continued to deploy smart dispensing machine systems, expand sales networks, and seize on fast-emerging market opportunities. Meanwhile, we are committed to advancing the level of intelligent prescription of concentrated TCM granules in hospitals and improving medication experience of patients. During the reporting period, installed dispensing machines increased to 4,546 and covered total of 2,907 hospitals and the per-machine output increased substantially by 24%. The level of intelligent sales of concentrated TCM granules has increased significantly, and the sales ratio through dispensing machines has increased from 29.6% for the same period last year to 44.1% for this period.

  At the end of the industrial chain, we are committed to expanding to more medical institutions and retail pharmacies, providing patients with high quality TCM decoction pieces and concentrated TCM granule products, expanding our market advantages (brand awareness, user trust) and consolidating our market position.

2. Strategic reserve of Chinese medicinal herbs

Since the Group's production involves more than 700 varieties of concentrated TCM granules, and the business is in a rapid growth period, with an annual growth rate of approximately 30%, it requires matching production capacity and raw material supply, which is an objective demand for business growth. Since the implementation of the strategic reserve of Chinese medicinal herbs since 2016, the situations where the Group's large areas of raw materials running out of stock and procurement costs out of control gradually relieved. As at 30 June 2018, there were about 16,000 tons of Chinese medicinal herbs in stock. Except for a few shortages and individual varieties for which prices are expected to continue to increase in the future, many varieties have only 3 to 5 months of stock reserves, still far from the level of the Group's overall requirements for the annual reserve of approximately one year, which is mainly limited by insufficient level of warehouse storage capacity of the Group at present.

In the future, after the warehouse capacity has been increased, in order to maintain stable and reliable raw material supply and control procurement cost, the inventory of raw materials may further be upgraded to a higher level corresponding to the shipment amount and in line with the management requirements of the Company.

3. TCM finished drugs

In recent years as various policies have been tightened, the overall growth rate of the TCM finished drugs segment has slowed. Nevertheless, by making a substantial investment in evidence-based clinical research in advance, together with the mature academic promotion system, a sales promotion effect is gradually released. OTC channel varieties have continued to gear up following increased and improved efforts at promotion strategy, which has driven a steady growth in the TCM finished drugs business during the reporting period. The Company has also continued to improve the evidence-based proof chain for each core product of hospital sales channel, with a similar effort being extended to some OTC core varieties.

On 20 July 2018, the Company announced that Jiangyin Tianjiang, had acquired a 51% equity interest in Sinopharm Zhonglian Pharmaceutical Group Co., Ltd. ("Zhonglian Pharmaceutical") by equity transfer and capital increase. Zhonglian Pharmaceutical has over 400 years of history and is a time-honoured brand in the TCM industry. It focuses on production and sales of TCM finished drugs, its key products being in the therapeutic areas of liver disease, respiratory system disease, gynecological disease, cardio-cerebral disease and others. Zhonglian Pharmaceutical has 348 registered drugs, 161 products covered by the national medical insurance, and 70 products listed in the National Essential Drug List, and 18 domestically exclusive products. Its top product is Carapacis Trionycis Bolus（鱉甲煎丸）, a TCM finished drug used to treat pulmonary fibrosis within the medical insurance catalogue. The product has a history of more than 2,000 years and is a classical formula of Zhang Zhongjing in the Han dynasty. The second top product is Jinye Baidu Granules（金葉敗毒顆粒）, a respiratory drug within the medical insurance catalogue.

The completion of Zhonglian Pharmaceutical's acquisition will greatly enrich the Group's product line of exclusive varieties of TCM finished drugs. We will improve the sales model for Zhonglian Pharmaceutical, strengthen academic promotion, clear product positioning, and explore product value. It is believed that Zhonglian Pharmaceutical will rapidly expand its market share during the next few years.

4. TCM healthcare complex services

The healthcare complex segment is one of the important sectors in the 13th Five-Year Plan for the development of TCM. The 2018 National TCM Work Plan encourages private sector to engage in the TCM business and promote the registration of TCM practitioners who learned TCM in the way of apprenticeship. During the reporting period, the Company continued to explore the TCM healthcare complex business. At present, three TCM Healthcare Complexes are operating, with five more at the preparation stage.

ANALYSIS OF BUSINESS SEGMENTS

1. Concentrated TCM granules

Key financial indicators for concentrated TCM granules

	Unaudited		
	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**3,490,594**	2,543,295	37.2%
Cost of sales	**1,448,232**	1,068,649	35.5%
Gross profit	**2,042,362**	1,474,646	38.5%
Gross profit margin	**58.5%**	58.0%	0.5ppt
Operating profit	**800,090**	617,885	29.5%
Profit for the period	**627,347**	485,071	29.3%
Net profit margin	**18.0%**	19.1%	-1.1ppt

During the reporting period, Tianjiang Pharmaceutical recorded rapid sales growth and achieved a revenue of RMB3,490,594,000, representing a 37.2% increase over the same period last year (which accounted for 63.9% of total revenue).

The rapid growth in sales revenue was mainly due to: (1) the obvious advantages in quality controllability and convenience of concentrated TCM granules, as well as effective academic promotion, gradual improvement in market recognition, and about 20% of the sales growth was attributed to hospitals covered before the reporting period; (2) the Company's continued vigorous deployment of the dispensing machine system to capitalize new markets, and the rapid growth of new hospitals contributed approximately 14% increase in sales; (3) some distributors' conversion of sales (two-invoice system) to direct sales (one-invoice system), which increased sales by about 3% due to higher sales prices.

The gross profit margin increased slightly by 0.5 percentage points to 58.5% compared to 58.0% for the same period last year, mainly due to steady overall prices of Chinese medicinal herbs. During the reporting period, operating profit and profit for the period from the concentrated TCM granule business were approximately RMB800,090,000 and RMB627,347,000 respectively, representing increases of 29.5% and 29.3% compared with the same period last year.

Revenue analysis by region

	Six months ended 30 June					
Region	**2018**	**Proportion**	2017	Proportion	Growth amount	Growth rate
	RMB million		RMB million			
East China	**1,228**	**35.2%**	992	39.0%	236	23.8%
South China	**664**	**19.0%**	484	19.0%	180	37.2%
North China	**422**	**12.1%**	285	11.2%	137	48.1%
Central China	**342**	**9.8%**	255	10.1%	87	34.1%
Northwest China	**275**	**7.9%**	173	6.8%	102	59.0%
Northeast China	**241**	**6.9%**	168	6.6%	73	43.5%
Southwest China	**265**	**7.6%**	152	6.0%	113	74.3%
Overseas and others	**53**	**1.5%**	34	1.3%	19	55.9%
Total	**3,490**	**100.0%**	2,543	100.0%	947	37.2%

During the reporting period, sales in East China, South China, North China and Central China accounted for 76.1% of total sales as compared with 79.3% for the same period last year. North China, Northwest China, Northeast China and Southwest China, overseas and others achieved a year-on-year increase of over 40%, while Southwest China was the most prominent area of sales growth with a year-on-year increase of 74.9%.

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); and

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

2. Finished drugs

Key financial indicators for the finished drugs business

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**1,306,031**	1,144,335	14.1%
Cost of sales	**519,606**	502,736	3.4%
Gross profit	**786,245**	641,599	22.6%
Gross profit margin	**60.2%**	56.1%	4.1ppt
Operating profit	**291,228**	246,962	17.9%
Profit for the period	**171,201**	154,294	11.0%
Net profit margin	**13.1%**	13.5%	-0.4ppt

Revenue analysis by product type

	Six months ended 30 June				
Type of product	**2018**	**Proportion**	2017	Proportion	Change
	RMB million		RMB million		
Core prescription products	**708.26**	**54.2%**	643.41	56.2%	10.1%
Core OTC products	**332.67**	**25.5%**	265.12	23.2%	25.5%
Other products	**265.10**	**20.3%**	235.80	20.6%	12.4%
Total	**1,306.03**	**100.0%**	1,144.33	100.0%	14.1%

Notes:

Core prescription channel products: Eight products including Xianling Gubao Capsules（仙靈骨葆膠囊）, Yu Ping Feng Granules（玉屏風顆粒）, Jingshu Granules（頸舒顆粒）, Moisturizing and Anti-Itching Capsules（潤燥止癢膠囊）, Fengshi Gutong Capsules（風濕骨痛膠囊）and Zaoren Anshen Capsules（棗仁安神膠囊）, Qili Capsules（七厘膠囊）、Waimaining Capsules（威麥寧膠囊）.

Core OTC channel products: eleven products including Bi Yan Kang Tablets（鼻炎康片）, Feng Liao Xing Dieda Medicinal Wine（馮了性風濕跌打藥酒）, Chongcao Qingfei Capsules（蟲草清肺膠囊）, Yao Shen Herbal Paste（腰腎膏）, Sheng Tong Ping/Nifedipine Sustained-release Tablet（聖通平／ 硝苯地平緩釋片）, Vitamin C Yinqiao Tablets（維C銀翹片）, Heiguteng Zhuifeng Huoluo Capsules（黑骨藤追風活絡膠囊）, Shedan Chuanbei Powder（蛇膽川貝散）, Shedan Chenpi Powder（蛇膽陳皮散）, Tongluo Guzhining Paste（通絡骨質寧膏）and Angong Niuhuang Pills（安宮牛黃丸）.

During the reporting period, the prescription and OTC channels of the TCM finished drugs segment continued to grow steadily. This can mainly be attributed to: (1) core products in the prescription channels benefited from previous evidence-based clinical research, activation of the academic promotion effect, Xianling Gubao（仙靈骨葆）and Yupingfeng（玉屏風）, as top selling products, maintaining their leading market position; (2) no significant changes to the bidding and procurement environment; (3) the core products in the OTC channels continued to gear up, and advantages of the retail channels being gradually shown; (4) due to the implementation of "two-invoice system" policy, some of the TCM finished products switched from the original agent sales model to direct sales model and the increase in price led to increase in sales revenue (adjustment in sales model also increase the sales expenses accordingly and therefore no impact on profit), except for which, the sales of TCM finished drugs business reached a growth rate of 9%. The increase in gross profit margin was due to an increase in sales prices for some finished drug products.

3. TCM decoction pieces

The Group has vigorously developed its decoction pieces business in order to further improve its development plan for whole industry chain coverage and strengthen its control of upstream raw materials. through the TCM intelligent distribution center business model, the decoction pieces business grew rapidly during the reporting period. At the same time, the acquisition of four companies, including Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), which was completed in January 2018, had smoothly consolidated within half a year, and their operating efficiency has improved.

Key financial indicators for the TCM decoction pieces business

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**639,533**	185,226	245.3%
Cost of sales	**545,887**	144,009	279.1%
Gross profit	**93,646**	41,217	127.2%
Gross profit margin	**14.6%**	22.3%	-7.7ppt
Operating profit	**43,881**	18,188	141.3%
Profit for the period	**37,361**	20,538	81.9%
Net profit margin	**5.8%**	11.1%	-5.3ppt

During the reporting period, revenue from the TCM decoction pieces business amounted to approximately RMB639,533,000, representing an approximately 245.3% increase over RMB185,226,000 for the same period last year, and accounting for 11.7% of total revenue. The rapid sales revenue growth of the decoction pieces business was mainly due to: (1) the consolidation of financial statements of four companies including Beijing Huamiao; (2) a favourable national policy environment to promote the development of TCM industry; and (3) rapid development of the intelligent distribution center business. The decrease in gross profit margin was due to the lower gross profit margins of newly acquired decoction pieces enterprises.

4. TCM healthcare complex

Key financial indicators for the TCM healthcare complex

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Revenue	**25,266**	26,312	-4.0%
Cost of sales	**16,966**	13,951	21.6%
Gross profit	**8,300**	12,361	-32.9%
Gross profit margin	**32.9%**	47.0%	-14.1ppt
Operating profit	**-1,933**	3,256	-159.4%
Profit for the period	**-1,456**	2,866	-150.8%
Net profit margin	**-5.8%**	10.9%	-16.7ppt

During the reporting period, the TCM healthcare complex business had three TCM Healthcare Complexes in operation in total. Revenue amounted to approximately RMB25,266,000, representing a 4.0% decrease compared to RMB26,312,000 for the same period last year, and accounting for 0.5% of total revenue. The decrease in revenue was mainly due to Guizhou Tongjitang TCM Healthcare Complex's adjustment of its product mix and termination of marginally profitable projects, resulting in revenue dropping by 26%. While new projects are still in development stage, they contributed very little to sales growth. Their effect on gross profit resulted in a drop in gross profit margin. Meanwhile the Chongqing TCM Healthcare Complex is in the opening stage and also made a certain impact on the TCM healthcare complex gross profit margin. Foshan Fengxiaoxing TCM Healthcare Complex's business maintained a steady growth, with revenue growth of approximately 35%, of which sales of concentrated TCM granules increased by approximately 51% and revenue from TCM physiotherapy increased by approximately 29%.

INVESTMENT PROJECTS

To achieve its long-term development goals and cover the whole TCM industrial chain, the Group must match the corresponding production capacity and promote the layout nationwide. As at the date of this report, industrial park projects had commenced in Yunnan, Jiangxi, Heilongjiang, Shaanxi and Hunan, which are mainly established for processing TCM decoction pieces, extracting concentrated TCM granules, and intelligent TCM distribution centers. The Group completed and will soon be completed acquisition of a further eight projects focusing on the market layouof strengthening decoction pieces and concentrated TCM granules, including: (1) a 100% equity interest in Beijing Huamiao; (2) a 100% equity interest in a subsidiary of Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou"); (3) a 51% equity interest in Jiangsu Jiangkang Pharmaceutical Co., Ltd.; (4) a 51% equity interest in Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd.; (5) a 51% equity interest in Fujian Chengtian Jinling Pharmaceutical Co. Ltd.; (6) a 51% equity interest in Sichuan Sanqiang Modern Chinese Medicine Co., Ltd.; (7) a 51% equity interest in Bozhou Hongda TCM Decoction Pieces Technology Co., Ltd, and (8) a 51% interest in Zhonglian Pharmaceutical. Total investment in self-construction and merger and acquisition projects was approximately RMB1.2 billion.

Save as disclosed above, the Group had no major acquisition and disposal for the six months period ended 30 June 2018.

FUTURE OUTLOOK

Currently, the Group has clearly defined its development plan and strategic objectives for five years. We will focus on the new business model for whole TCM industrial chain coverage, with quality as the top priority, reliance on localized initial processing, logistics driving the procurement and distribution of Chinese medicinal herbs and finally connecting the sales terminals.

- We expect that the registration policy for concentrated TCM granules will be finalized at the end of 2018, and will create both opportunities and challenges. On one hand, the market demand side will open. On the other hand, the supply-side regulating model and supporting policies are not clear. As a leading enterprise in the concentrated TCM granules sector, the Company will continue to adhere to the standard lead and actively carry out research on concentrated TCM granule standards, to uphold its social responsibility as a leading enterprise in the industry, and thereby further consolidate and enhance its competitiveness. The Company will continue to consolidate its three core competencies in terms of safeguarding resources and leading standards and technical processes, and at the same time will accelerate the development of sales channels, in order to better meet the broad prospects arising from the opening of the concentrated TCM granule market in future.

- In the last two years, the concentrated TCM granules business in primary health care institution has developed rapidly. The Group plans to promote the establishment of a small micro-granules smart distribution center project. Market research has been initiated in Chongqing, Sichuan, Tianjin, Beijing, Inner Mongolia, Henan, Guangdong and other locations, with indications showing that demand exists in the market, especially demands of primary healthcare institutions are strong. The Group accordingly plans to build 5 to 10 small micro-TCM granules smart distribution centers in the above areas before the end of the year to provide TCM granules distribution services for community medical institutions and online medical platforms. We believe that upon the opening of concentrated TCM granules market, the small micro-TCM granules smart distribution centers can provide low-cost and efficient services to meet the huge demand of the primary market.

- TCM decoction pieces comprise the Company's new growth point and will become its new growth driver in future. By developing a business model of the TCM intelligent distribution center, it will create a scale effect, enhance the competitiveness of its decoction pieces business, and improve operational efficiency and profitability. We expect that in the second half of 2018, the Group will have 3 to 5 decoction pieces subsidiaries obtaining GMP certification and going into operation. The expansion of production scale will help reduce costs in the decoction pieces business and increase its gross profit margin.

- The Group will conduct all-round research on classical prescription, and has currently undertaken two major national scientific and technological projects in this area. The Company set up a team led by the president to unify these works, formed a technical alliance with the Guangdong Institute of Traditional Chinese Medicine Engineering and Technology, and has begun research on 35 varieties. At present, preliminary experiments have been carried out, and the pharmaceutical research will be fully conducted upon the State's publication of guidelines for technology registration. We aim to complete the standard study of 100 classical prescriptions in the nationally published catalogue within 1 to 2 years.

- TCM finished drugs are still an indispensable business segment for the Group. At present, with the opportunity of integrating Zhonglian Pharmaceutical, the Company is about to conduct the sorting out of TCM finished drug products, re-exploration of potential varieties, further enrichment of TCM product lines, and enhancement of its product groups' competitiveness. Also, in response to consumer feedback, some TCM finished drugs were reformulated to improve patient satisfaction. The Group will develop specific promotion strategy based on newly completed evidence-based research, and will demonstrate the Group's quality-first operational philosophy, enhance the influence of the Company's brand, and bring new drive to the TCM finished drug business.

- The Group will continue to explore the TCM healthcare complex business, respond to the State policy of encouraging private practitioners to operate the TCM business, and enhance its brand awareness and influence.

FINANCIAL REVIEW

Other income

For the reporting period, the Group's other income was approximately RMB54,445,000, a representing 48.1% increase over the approximately RMB36,767,000 for the same period last year. The increase can be largely assigned to the Group's short-term fixed deposit on stock fund, which led to an approximately RMB8,779,000 increase in interest income compared to the same period last year, and by an approximately RMB6,103,000 increase in government grants obtained by the Group as compared to the same period last year. An approximately RMB2,796,000 increased in rental income gain by the Group as compared to the same period last year is mainly due to part of the rental income brought by the newly merged enterprise.

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Interest income	**20,841**	12,062	72.8%
Government grants	**30,518**	24,415	25.0%
Rental income	**3,086**	290	964.1%
Total	**54,445**	36,767	48.1%

Other gains and losses

For the reporting period, the Group's other gains were approximately RMB8,061,000 (for the same period of last year: Other losses of approximately RMB10,986,000). The reasons for changes in other gains and other losses were as follows: changes in exchange rate, such that the actual gain recognized from the amount settled in respect of the forward foreign exchange contract during the last year was approximately RMB16,751,000 less than the fair value recognized for the same period of year before last; for the reporting period: nil.

Selling and distribution costs

For the reporting period, the Group's selling and distribution costs amounted to approximately RMB1,489,713,000, representing a 45.7% increase as compared to the approximately RMB1,022,393,000 for the same period last year. Selling and distribution costs as a percentage of revenue was 27.3%, representing a 1.1 percentage points increase over the 26.2% for the same period last year. This was mainly due to: (1) incurred sales expenses a rising after the concentrated TCM granules business increased its marketing input to development new markets and new customers, increased the number of medicine dispensing machines, and increased the proportion of direct sales; (2) marketing staff and marketing expenses increased after implementation of the "two-invoice system" for the finished drug business and consequently adjusted the Company's sales model; (3) the combining of sales expenses for the four newly acquired TCM decoction pieces enterprises.

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Advertising, promotion and travel expenses	**783,174**	515,191	52.0%
Salary expenses of sales and marketing staff	**217,984**	183,444	18.8%
Distribution costs	**84,769**	39,273	115.8%
Other selling and distribution costs	**403,786**	284,485	41.9%
Total	**1,489,713**	1,022,393	45.7%

Administrative expenses

For the reporting period, the Group's administrative expenses amounted to approximately RMB221,172,000, reprehensive an increase of 33.8% as compared to approximately RMB165,324,000 for the same period last year. Administrative expenses as a percentage of the revenue were 4.0%, representing a 0.2 percentage point decrease as compared with 4.2% for the same period of last year. The administrative expenses increased were mainly due to: (1) the Group adding approximately 15 subsidiaries as compared to the same period last year. Most of these subsidiaries were preparing production bases for concentrated TCM granules and TCM decoration pieces; (2) combining the enterprise costs of newly acquired TCM decoration pieces; (3) increased in the salary expenses, asset depreciation and amortization of existing business following the growth in business volume, the use of new factories, and increased staff.

	Six months ended 30 June		
	2018	2017	Change
	RMB'000	RMB'000	
Salary	**103,534**	81,178	27.5%
Depreciation and amortisation	**28,701**	20,965	36.9%
Office rental and other expenses	**88,937**	63,181	40.8%
Total	**221,172**	165,324	33.8%

Research and development expenses

For the reporting period, the Group's research and development expenses amounted to approximately RMB149,088,000, representing a 22.6% increase over the approximately RMB121,596,000 for the same period last year. The increase in research and development expenses was mainly due to the concentrated TCM granules business's expanded research and development expenses for the formulation of a concentrated TCM granules industry standard.

Profit from operations

For the reporting period, profit from operations was approximately RMB1,133,266,000, representing a 27.9% increase compared to approximately RMB886,291,000 for the same period last year. The operating profit margin (defined as profit from operations divided by revenue) was 20.8%, a decrease of 1.9 percentage points from 22.7% for the same period last year. The decrease in operating profit margin was due to the newly-consolidated company's gross profit margin being lower than the Group's original business. Further, the profitability of production bases for concentrated TCM granules and TCM decoration pieces has not yet been realized during the reporting period. Finally, the Group increased its input in sales and distribution costs to occupy the sales market.

Finance costs

For the reporting period, the Group's finance costs were approximately RMB124,280,000, representing a 45.9% increase over the approximately RMB85,199,000 for the same period last year. The increase in finance costs as compared to same period of last year was mainly due to the corporate bonds issued in June 2017 with nominal values of RMB2.0 billion. Bank and other borrowings held by the Group as at 30 June 2018 amounted to approximately RMB682,464,000, and corporate bonds of approximately RMB4,486,543,000 were also held. By comparison, as at 30 June 2017, bank and other borrowings held by the Group amounted to approximately RMB981,551,000, and corporate bonds of approximately RMB4,476,170,000 were held. For the reporting period, the Group's effective interest rate was 4.22%, compared to 3.58% for the same period last year. The Group will continue to monitor changes in market interest rates and adjust its borrowing and fundraising mechanism as is appropriate. The Group will refinance its existing loans or secure new bank loans when opportunities for price negotiation arise.

Income from investment in associate

For the reporting period, the Group shared losses from associate of approximately RMB6,110,000, while there was shared losses of approximately RMB1,853,000 for the same period last year.

Earnings per share

For the reporting period, basic earnings per share was RMB16.51 cents, representing a 22.2% increase compared to the RMB13.51 cents for the same period last year. During the reporting period, the Group issued 604,296,222 new shares to Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"). The number of shares increased from 4,431,505,630 shares in the same period last year to 5,035,801,852 shares, and the weighted average number of shares increased to 4,605,115,000. The increase in basic earnings per share was attributable to growth in profit attributable to equity holders of the Company for the reporting period, the increase was 27.0%, or approximately RMB760,312,000 (For the same period of last year: RMB598,623,000).

Liquidity and financial resources

As at 30 June 2018, the Group's current assets amounted to approximately RMB13,793,391,000 (31 December 2017: RMB11,384,050,000), which included cash, cash equivalents and deposits with banks of approximately RMB3,364,138,000 (31 December 2017: RMB4,787,781,000), from which the pledged bank deposits amounted to approximately RMB204,000 (31 December 2017: nil). Trade and other receivables amounted to approximately RMB5,161,353,000 (31 December 2017: RMB3,024,076,000). Current liabilities amounted to approximately RMB5,199,210,000 (31 December 2017: RMB4,694,887,000). Net current assets aggregated to approximately RMB8,594,181,000 (31 December 2017: RMB6,689,163,000). The Group's current ratio was 2.7 (31 December 2017: 2.4). The gearing ratio (defined as bank and other borrowings and bonds payable divided by equity attributable to equity shareholders of the Company) decreased to 34.1% from 41.4% as at 31 December 2017. The gearing ratio decrease was mainly due to the issuance of new shares to Ping An Life Insurance during the reporting period, and a share capital increase of approximately RMB2,172,539,000.

Bank and other borrowings and pledge of assets

As at 30 June 2018, the Group's balance of bank and other borrowings was approximately RMB682,464,000 (31 December 2017: RMB671,697,000), of which approximately RMB207,000,000 (31 December 2017: RMB243,824,000) was secured by Group assets with a book value of approximately RMB143,060,000 (31 December 2017: RMB141,409,000). The balance of the Group's bank and other borrowings includes approximately RMB624,464,000, RMB25,000,000 and RMB33,000,000, which are required to be paid within one year, within one to two years and over five years, respectively (31 December 2017: approximately RMB638,697,000, RMB0 and RMB33,000,000 respectively).

Capital source

The Group satisfies its operating capital needs mainly through operating business and external financing. For the reporting period, the Group's main cash inflow generated from financing activities was the cash inflow of approximately RMB2,172,539,000 from the issuance of new shares to Ping An Life Insurance (deducting issuance expenses) in May 2018, the main cash inflow generated from financing activities for the same period last year was the issuance of corporate bonds in June 2017, which resulted in a cash inflow of approximately RMB1,988,000,000. The outstanding bank facilities of the Group were approximately RMB2,003,000,000. The Group has sufficient working capital and its financial position is healthy.

Capital expenditure

For the reporting period, the cash paid by the Group for the purchase of equipment, construction of plants, purchase of land use rights and intangible assets amounted to approximately RMB389,381,000, representing an expenditure increase of 55.2% as compared with approximately RMB250,949,000 for the same period last year. The increase in capital expenditure was due to the promotion of development plans for TCM decoction pieces and concentrated TCM granules industries and the establishment of TCM decoction pieces and concentrated TCM granules production bases in various provinces and cities during the reporting period.

Financing capacity

As at 30 June 2018, capital commitments which the Group has entered but which are outstanding and not provided for in the financial statements were approximately RMB1,148,641,000 (31 December 2017: approximately RMB1,459,726,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group believes that, with the available cash balances, stable cash inflow from operating activities, undrawn bank facilities already granted by the bank, and the fact that it has been recognized and supported by major financial institutions, the Group will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2018 (31 December 2017: nil).

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, of which foreign exchange risk is considered insignificant. As at 30 June 2018, the Group's Hong Kong Dollar bank borrowings of HK$470 million. As at 30 June 2018, the Group had also not entered into any foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 30 June 2018, the Group had a total of 12,802 employees, including directors of the Company (31 December 2017: 10,706), of which 4,748 were sales staff, 5,103 were manufacturing staff, and 2,951 were engaged in R&D, administration and senior management. Remuneration packages mainly comprised of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the reporting period amounted to approximately RMB498,794,000 (For the six months ended 30 June 2017: RMB413,412,000).

EVENT AFTER THE REPORTING PERIOD

Connected Transaction

On 20 July 2018, Jiangyin Tianjiang (the "Purchaser"), China National Traditional Chinese Medicine Co., Ltd. (formerly named as China National Traditional & Herbal Medicine Co., Ltd. (the "Vendor")), Shanghai Shyndec Pharmaceutical Co., Ltd. ("Shyndec"), 武漢光谷產業投資有限公司 (Wuhan Guanggu Industry Investment Co., Limited*) ("Guanggu") and Zhonglian Pharmaceutical (the "Target") entered into the equity transfer and capital increase agreement (the "Agreement") pursuant to which (i) the Purchaser has agreed to acquire approximately 0.71% of the equity interest in the Target from the Vendor at the consideration of approximately RMB1.8 million (equivalent to approximately HK$2.1 million) as at the date of the Agreement; and (ii) the Purchaser has agreed to make capital contribution of approximately RMB260.0 million (equivalent to approximately HK$301.6 million) into the Target. Immediately after completion, the Purchaser will hold 51% of the equity interest in the Target and will become an indirect non-wholly owned subsidiary of the Company.

The Vendor is the holding company of Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is the controlling shareholder holding 1,614,313,642 shares of the Company, representing approximately 32.06% of the total issued Shares as at the date of the Agreement. The Target is currently owned as to approximately 96.95% by Shyndec, which is ultimately controlled by China National Pharmaceutical Group Corporation ("CNPGC"), the ultimate controlling shareholder of the Company. Accordingly, the Vendor and the Target are connected persons of the Company and the Agreement constituted connected transactions of the Company under Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the share transfer and the capital increase exceed 0.1% but are less than 5%, the share transfer and the capital increase are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The concentrated TCM granules business is a major revenue, profit contributor and growth engine of the Group. The Acquisition will create synergic effects in the Group's finished drugs business and granules business. As announced by the Hubei Economy and Information Technology Commission, Health and Family Planning Commission of Hubei Province and Hubei CFDA in September 2017, the Target will become one of the six enterprises with provincial pilot license to develop, manufacture and use concentrated TCM granules in Hubei Province and the Target is currently in the process of onsite inspection of the Hubei CFDA. Once the final approval is obtained, the Target together with its subsidiaries (the "Target Group") will focus on developing the concentrated TCM granules business while steadily promoting its finished drugs business. As the Group's subsidiary producing concentrated TCM granules in Hubei Province in the future, the Target Group will help expand the Group's market share in concentrated TCM granule business in Hubei Province. Moreover, the Target Group's development range of TCM varieties will be a great complement to the Group's existing product varieties. In the future, the Target Group will continue to develop the TCM business. Together with the Group's promotion experience in the TCM segment, the Target Group's TCM sales model will be improved, such as strengthening its academic promotion, repositioning its product and exploring its product value. It is suggested that the Target Group's market coverage will be rapidly expanded in the next few years. At the same time, with the Group's large-scale procurement of TCM raw materials, the Target Group will be able to reduce its procurement cost of raw materials and increase the level of gross profit. For details, please refer to the announcement dated 20 July 2018 of the Company.

INTERIM DIVIDEND

The Board recommended an interim dividend of HK6.04 cents (approximately RMB5.28 cents) per share for the six months ended 30 June 2018 (six months ended 30 June 2017: HK4.75 cents (approximately RMB4.05 cents) per share). The interim dividend will be payable on 15 October 2018 to the shareholders on the register of members of the Company on 5 September 2018.

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 Monday, 3 September 2018 to Wednesday, 5 September 2018, 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, Wan Chai, Hong Kong not later than 4:30p.m. on Friday, 31 August 2018.

ALLOT AND ISSUE OF NEW SHARES

Subscription of new shares by Ping An Life Insurance under Specific Mandate

On 16 March 2018, the Company and Ping An Asset Management (Hong Kong) Company Limited (the investment manager appointed by Ping An Life Insurance (the "Subscriber")) entered into a memorandum of understanding setting out the intention of the Subscriber to subscribe for a certain number of new shares. On 19 March 2018, the Company and the Subscriber entered into the subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, and the Subscriber conditionally agreed to subscribe for, 604,296,222 shares ("Subscription Shares") at the total subscription price of HK$2,677,032,265, equivalent to the issue price of HK$4.43 (the "Issue Price") per Subscription Share. Subscription Shares represented approximately 13.64% of the total number of issued shares of the Company on 19 March 2018. The total subscription price is payable in cash by the Subscriber to the Company at completion. The net proceeds from the subscription is approximately HK$2,674 million so the net issue price is approximately HK$4.42535 per Subscription Share. The Subscriber is subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("Ping An"). For details, please refer to the announcement of the Company dated 19 March 2018.

The Issue Price of HK$4.43 per Subscription Share represented a discount of approximately 19.89% to the closing price of HK$5.53 per Share as quoted on the Stock Exchange on 15 March 2018, being the last trading day on which the Shares were traded on the Stock Exchange prior to the date of the subscription agreement (the "Last Trading Day"). On the other hand, it represented a discount of approximately 9.03% to the average of the closing prices per Share as quoted on the Stock Exchange for the last 30 consecutive trading days up to and including the Last Trading Day of approximately HK$4.87.

The Company use the net proceeds of the Subscription of HK$2,674 million for the following purposes:

Usage		Allocation amount RMB million	Amount utilised as at 30 June 2018 RMB million	Remaining balance as at 30 June 2018 RMB million	Expected timeline of utilisation
The nationwide expansion of coverage of its TCM decoction pieces and concentrated TCM granules businesses	For the establishment of six TCM industrial parks and TCM intelligent distribution centres in different region	454.94	36.50	418.44	2018
	For the expansion of production capacity for TCM decoction pieces and concentrated TCM granules	641.80	0.00	641.80	2018
	For the acquisitions of suitable targets engaged in TCM decoction pieces and concentrated TCM granules businesses	121.86	0.00	121.86	2018
Research and establishment of quality standards in concentrated TCM granules		81.24	3.27	77.97	2018 to 2019
Research and development in classical TCM prescription		81.24	0.00	81.24	2018 to 2019
Repayment of bank loans		365.58	360.00	5.58	2018
the Group's general working capital	For the settlement of outstanding trade payables	243.72	213.27	30.45	2018
	For the purchase of raw materials	81.24	0.00	81.24	2018
	For the payment of other expenses	100.74	90.93	9.81	2018
Total		**2,172.36**	**703.97**	**1,468.39**	

The Hong Kong dollar has been converted into RMB at the exchange rate of HK$1 to RMB0.8124 on 10 May 2018.

The use of the net proceeds from the Subscription meets with the usage as stated in the circular of the Company dated 10 April 2018.

The Group is a leading TCM enterprise in the PRC and is principally engaged in the manufacture and sale of TCM and pharmaceutical products with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces. In order to enhance competitiveness and maintain rapid growth, it is the strategy of the Group to expand the geographical coverage of its TCM business to the whole country and consolidate the entire TCM industry chain.

Ping An and its subsidiaries ("Ping An Group") possesses excellent brand awareness, strong financial strength, diversified sale channels and network resources across the nation. It has made a number of successful investments in the pharmaceutical and healthcare industries in recent years, covering areas such as biomedical engineering and pharmaceutical and healthcare services, and therefore has an in-depth understanding in the pharmaceutical and healthcare industries.

The Group intends to, through the Subscription, introduce Ping An Group as a long-term strategic partner, which will help to bring together the Group's expertise in the TCM medicinal herbs, decoction pieces, concentrated TCM granules and finished drugs businesses, and Ping An Group's customer base, sales network, and technology, platform and resources advantages in the pharmaceutical and healthcare sector for developing the TCM business. In particular, it is the Group's intention to explore and promote strategic cooperation in TCM-related businesses with Ping An Group through a joint venture being established by Ping An Group and Tsumura & Co. (a Japanese leading Kampo medicine manufacturer) as the primary strategic partner, which is expected to bring the global advanced research and development and production technology in the TCM industry to the Group, create synergies and further enhance the value of the Company.

The Company agrees that, as long as the total number of Shares held by the Subscriber and its associates collectively is equal to or exceeds 5% of the total number of Shares in issue and outstanding, the Subscriber shall be entitled to nominate one candidate with such appropriate qualification and experience to serve as a member of the Board to be appointed as a non-executive Director. For the avoidance of doubt, the Nomination Right is not one-off and shall remain enforceable for so long as the aggregate shareholding of the Subscriber and its associates in the Company is equal to or exceeds 5% of the total number of Shares in issue. On 30 May 2018, Mr. KUI Kaipin is appointed as non-executive directors by the Board. For Mr. KUI Kaipin's biographical details, please refer to the announcement of appointment of director dated 30 May 2018.

All transactions contemplated under the subscription shares, subscription agreement and allot and issue the Subscription Shares under specific mandate were approved by the shareholders of the Company at the extraordinary general meeting held on 30 April 2018. Details of the subscription, please to the announcement and circular of the Company dated 19 March 2018 and 10 April 2018 respectively. The Subscription Shares were completed on 10 May 2018 and represent approximately 12.00% of the total number of issued Shares as enlarged by the allotment and issue of the Subscription Shares. please refer to the announcement of the Company for completion of subscription dated 10 May 2018.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 30 June 2018, 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 2018:

Name of Director	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
WANG Xiaochun	Interest of controlled corporation	376,735,042 (long position) *(Note)*	7.48%

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 2018.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2018, 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 2018:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hongkong	Beneficial owner	1,614,313,642 (long position) *(Note 1)*	32.06%
CNPGC	Interest of controlled corporations	1,614,313,642 (long position) *(Note 1)*	32.06%
Ping An Life Insurance	Beneficial owner	604,296,222 (long position) *(Note 2)*	12.00%
Ping An	Interest of controlled corporation	604,296,222 (long position) *(Note 2)*	12.00%
Hanmax	Beneficial owner	376,735,042 (long position)	7.48%

Notes:

1. The 1,614,313,642 shares are held by Sinopharm Hongkong, which is indirectly wholly owned by CNPGC.

2. The 604,296,222 shares are held by Ping An Life Insurance which is a subsidiary of Ping An. Ping An is deemed to be interested in Ping An Life Insurance's interest in the Company under SFO.

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 2018.

CONNECTED TRANSACTIONS

Acquisition of four pharmaceutical companies

On 20 October 2017, Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (國藥集團馮了性（佛山）藥材飲片有限公司) (a wholly-owned subsidiary of the Company) (the "Purchaser") and China National Traditional Chinese Medicine Co., Ltd. (the "Vendor") entered into the following agreements:

(i) The Beijing Huamiao Agreement in relation to the Beijing Huamiao Acquisition

Pursuant to the Huamiao Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Beijing Huamiao free from encumbrances and together with all rights attaching thereto from the date of Beijing Huamiao Completion. The consideration was approximately RMB216.6 million (equivalent to approximately HK$255.6 million) and was determined after arm's length negotiations between the Purchaser and the Vendor taking into account the profitable track record of Beijing Huamiao, the complementary nature of Beijing Huamiao's business with those of the Group and the synergy expected to be created by consolidating the TCM decoction pieces business of Beijing Huamiao with those of the Group. Beijing Huamiao is principally engaged in the manufacture and sale of TCM decoction pieces in Beijing, the PRC.

The completion of the Beijing Huamiao Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 8 February 2018.

(ii) The Beijing Huatai Agreement in relation to the Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai") Acquisition

Pursuant to the Huatai Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Beijing Huatai free from encumbrances and together with all rights attaching thereto from the date of Beijing Huatai Completion. Apart from the lease of certain properties which are being leased to Beijing Huamiao, Huayi Pharmaceutical Co., Ltd. ("Huayi") (an indirect wholly-owned subsidiary of the Company) and Beijing Huatai respectively, Beijing Huatai does not have other business operation. The consideration was approximately RMB139.6 million (equivalent to approximately HK$164.7 million). At the same time, the Purchaser had agreed to guarantee the settlement of the amount owed by Beijing Huatai to the Vendor of approximately RMB163.6 million (equivalent to approximately HK193.0 million) after the Beijing Huatai Completion.

The completion of the Beijing Huatai Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 31 January 2018.

(iii) The HLJ Sinopharm Agreement in relation to the Heilongjiang Sinopharm Medicinal Materials Co., Limited ("HLJ Sinopharm") Acquisition

Pursuant to the HLJ Sinopharm Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of HLJ Sinopharm free from encumbrances and together with all rights attaching thereto from the date of the HLJ Sinopharm Completion. The consideration was approximately RMB61,400,000 (equivalent to approximately HK$72,500,000). HLJ Sinopharm is principally engaged in the distribution of TCM products and chemical drugs to pharmaceutical companies in several regions and hospitals in Heilongjiang Province, the PRC. It also holds certain retail properties in Harbin, the PRC which are being leased to independent third parties. In addition, it owns two plantation bases of medicinal herbs in Heilongjiang Province, the PRC.

The completion of the HLJ Sinopharm Agreement was on 5 January 2018, and the industrial and commercial registration was completed on 12 January 2018.

(iv) The Sichuan Jiangyou Agreement in relation to the Sichuan Jiangyou Acquisition

Pursuant to the Jiangyou Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the entire registered capital of Sichuan Jiangyou free from encumbrances and together with all rights attaching thereto from the date of the Sichuan Jiangyou Completion. The consideration was approximately RMB81,700,000 (equivalent to approximately HK$96,400,000). Sichuan Jiangyou is principally engaged in the manufacture and sale of TCM decoction pieces in Sichuan Province, the PRC. Sichuan Jiangyou had invested approximately RMB50 million in the establishment of a new production plant in Sichuan which completed in late 2016. The production plant is equipped with a production capacity of 4,000 tonnes of TCM decoction pieces of toxic Chinese medicinal herbs.

The completion of the Sichuan Jiangyou Agreement was completed on 5 January 2018, and the industrial and commercial registration was completed on 24 January 2018.

Through the acquisition of Beijing Huamiao and HLJ Sinopharm, the Company can leverage on their mature hospital sales networks to bring synergetic effects and economies of scale into with the existing sales channels of the Group in order to expand the Company's market share of its concentrated TCM granule business in Beijing and the northeast region.

The acquisition of Beijing Huamiao and Sichuan Jiangyou was in line with the Group's mission to strengthen this segment and would immediately enhance the Group's production capacity, market share and distribution channel in Beijing and Sichuan Province respectively. Together with its existing production bases in Guangdong, Shanghai, Guiyang and Gansu, the Group would have nationwide geographical coverage of TCM decoction pieces business in the key regions in the PRC (such as the eastern, northern, southern, southwestern and northwestern regions) after the acquisitions and benefit from integration of resources in terms of management, procurement, production and financial aspects.

These three enterprises have their own characteristics. Beijing Huamiao is the largest manufacturing and processing company for TCM decoction pieces in Beijing which owns more than 800 kinds of TCM decoction pieces. As an authorized manufacturer in respect of 28 kinds of toxic TCM materials designated by Beijing Food and Drug Administration, it also holds the production and processing permit for the processed products of some of the endangered and protected wild animals. Beijing Huamiao's modernized decoction and storage centre built in Beijing greatly facilitates the expansion of the Company's decoction business. Sichuan Jiangyou possesses the largest production base for toxic decoction pieces in the PRC. Leveraging on its special Aconite decoction pieces business, the Company will develop the best Aconite brand in China within the sub-category of toxic decoction pieces after the acquisition. HLJ Sinopharm is the only enterprise in Heilongjiang Province that holds the qualification of poppy shell operation. In the meantime, its possession of retail pharmacies and direct sales qualification is of strategic significance to the Company's business expansion towards retailing of pharmaceutical products in the future. Making use of HLJ Sinopharm's rich TCM resources, distribution channels and retail platforms, it is able to position itself as a northeast TCM resources centre, warehousing and sales centre as well as logistics centre, covering the three northeast provinces and the Northern China region to promote the Company's concentrated TCM granules, finished drugs and decoction pieces businesses in those regions.

Beijing Huatai owns an industrial complex in Beijing, which comprises two production plants currently being leased to Beijing Huamiao and Huayi respectively for their production use. The Beijing Huatai Acquisition merely represents an asset reorganisation to enhance management efficiency and realign the ownership and user of the assets.

On 20 October 2017, the Company was owned as to approximately 36.43% by Sinopharm Hongkong, which was the controlling shareholder of the Company and a wholly-owned subsidiary of the Vendor. Accordingly, the Vendor was a connected person of the Company and the Acquisitions constituted connected transactions of the Company under Chapter 14A of the Listing Rules.

From time to time, Beijing Huamiao, HLJ Sinopharm and Sichuan Jiangyou purchase TCM materials from the CNPGC Group and sell various pharmaceutical products to the CNPGC Group. Upon completion of the Beijing Huamiao Acquisition, the HLJ Sinopharm Acquisition and the Sichuan Jiangyou Acquisition, such three enterprises had become the indirect subsidiaries of the Company and such transactions became continuing connected transactions for the Company under Chapter 14A of the Listing Rules and fall within the transactions contemplated under the master purchase agreement and the master supply agreement as disclosed in the circular of the Company dated 19 December 2016 in relation to the continuing connected transactions. Transaction amount of each of such transactions will account for the usage of the annual caps. The Company will continue to monitor the usage of the annual caps and comply with the Listing Rules as and when necessary.

The acquisition agreements of the above four pharmaceutical factories were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 22 December 2017. For details of such connected transactions, please refer to the announcement and the circular of the Company dated 20 October 2017 and 24 November 2017 respectively.

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 2018, 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 2018 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 2017 (28 March 2018), 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. KUI Kaipin is appointed non-executive director of the Company with effect from 30 May 2018.

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 2018, including the accounting principles, treatments and practices adopted by the Group and the Interim Report 2018. 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, 14 August 2018

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 30 to 76, which comprise the condensed consolidated statement of financial position as of 30 June 2018 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

14 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	NOTES	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Revenue	*3*	**5,461,424**	3,899,168
Cost of sales		**(2,530,691)**	(1,729,345)
Gross profit		**2,930,733**	2,169,823
Other income	*4*	**54,445**	36,767
Other gains and losses	*5*	**8,061**	(10,986)
Selling and distribution expenses		**(1,489,713)**	(1,022,393)
Administrative expenses		**(221,172)**	(165,324)
Research and development expenses		**(149,088)**	(121,596)
Profit from operations		**1,133,266**	886,291
Finance costs	*6*	**(124,280)**	(85,199)
Share of results of associates		**(6,110)**	(1,853)
Profit before tax		**1,002,876**	799,239
Income tax expense	*7*	**(168,423)**	(136,470)
Profit for the period	*8*	**834,453**	662,769
Other comprehensive income (expense) for the period			
Item that may be reclassified subsequently to profit or loss:			
– Debt instruments measured at fair value through other comprehensive income		**1,097**	–
– Income tax relating to items that may be reclassified to profit or loss		**(195)**	–
Total comprehensive income for the period		**835,355**	662,769
Profit for the period attributable to:			
– Owners of the Company		**760,312**	598,623
– Non-controlling interests		**74,141**	64,146
		834,453	662,769
Total comprehensive income attributable to:			
– Owners of the Company		**761,202**	598,623
– Non-controlling interests		**74,153**	64,146
		835,355	662,769
Earnings per share	*10*		
– Basic and diluted (RMB cents)		**16.51**	13.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**3,228,343**	2,386,927
Prepaid lease payments	*12*	**619,701**	346,457
Investment properties		**33,364**	6,840
Goodwill	*13*	**3,545,622**	3,486,372
Other intangible assets	*13*	**6,671,180**	6,703,786
Interests in associates		**97,216**	92,576
Deposits and prepayments		**326,004**	338,894
Deferred tax assets		**132,690**	139,405
		14,654,120	13,501,257
CURRENT ASSETS			
Inventories	*14*	**4,103,649**	3,551,829
Trade and other receivables	*15*	**5,161,353**	3,024,076
Prepaid lease payments	*12*	**26,631**	19,673
Financial assets at fair value through profit or loss ("FVTPL")	*17*	**1,047,834**	–
Debt instruments at fair value through other comprehensive income ("FVTOCI")		**89,786**	–
Held for trading investments		**–**	691
Pledged bank deposits	*18*	**204**	–
Bank balances and cash	*18*	**3,363,934**	4,787,781
		13,793,391	11,384,050
CURRENT LIABILITIES			
Trade and other payables	*19*	**4,187,697**	3,856,512
Contract liabilities		**215,335**	–
Bank and other borrowings	*20*	**624,464**	638,697
Tax liabilities		**171,714**	199,678
		5,199,210	4,694,887
NET CURRENT ASSETS		**8,594,181**	6,689,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,248,301**	20,190,420

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		**143,348**	145,507
Deferred tax liabilities		**1,753,303**	1,714,698
Unsecured notes	*21*	**4,486,543**	4,481,958
Bank and other borrowings	*20*	**58,000**	33,000
		6,441,194	6,375,163
NET ASSETS		**16,807,107**	13,815,257
CAPITAL AND RESERVES			
Share capital	*22*	**11,982,474**	9,809,935
Reserves		**3,158,255**	2,626,843
Equity attributable to owners of the Company		**15,140,729**	12,436,778
Non-controlling interests		**1,666,378**	1,378,479
TOTAL EQUITY		**16,807,107**	13,815,257

Approved and authorised for issue by the board of directors on 14 August 2018.

WANG Xiaochun
Executive Director

ZHAO Dongji
Executive Director

	Attributable to owners of the Company								
	Share capital RMB'000 (note a)	Translation reserve RMB'000	Statutory surplus reserve RMB'000 (note b)	FVTOCI reserve RMB'000	Other reserves RMB'000 (note c)	Accumulated profits RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total RMB'000
At 31 December 2017 (audited)	**9,809,935**	**(165,183)**	**311,388**	**–**	**(53,039)**	**2,533,677**	**12,436,778**	**1,378,479**	**13,815,257**
Adjustments (see note 2)	**–**	**–**	**–**	**(1,885)**	**–**	**(26,317)**	**(28,202)**	**(1,173)**	**(29,375)**
At 1 January 2018 (restated)	**9,809,935**	**(165,183)**	**311,388**	**(1,885)**	**(53,039)**	**2,507,360**	**12,408,576**	**1,377,306**	**13,785,882**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**760,312**	**760,312**	**74,141**	**834,453**
Other comprehensive income for the period	**–**	**–**	**–**	**890**	**–**	**–**	**890**	**12**	**902**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**890**	**–**	**760,312**	**761,202**	**74,153**	**835,355**
Shares issued	**2,175,026**	**–**	**–**	**–**	**–**	**–**	**2,175,026**	**–**	**2,175,026**
Transaction costs attributable to issue of shares	**(2,487)**	**–**	**–**	**–**	**–**	**–**	**(2,487)**	**–**	**(2,487)**
Acquisition of subsidiaries (note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**198,091**	**198,091**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(206,590)**	**(206,590)**	**–**	**(206,590)**
Capital injection from non-controlling equity holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**26,501**	**26,501**
Acquisition of non-controlling interest	**–**	**–**	**–**	**–**	**5,002**	**–**	**5,002**	**(9,673)**	**(4,671)**
Transfer to statutory surplus reserve	**–**	**–**	**2,389**	**–**	**–**	**(2,389)**	**–**	**–**	**–**
At 30 June 2018 (unaudited)	**11,982,474**	**(165,183)**	**313,777**	**(995)**	**(48,037)**	**3,058,693**	**15,140,729**	**1,666,378**	**16,807,107**
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	–	–	–	–	–	–	–	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

Notes:

(a) The Company allotted and issued 604,296,222 ordinary shares at HKD4.43 (approximately RMB3.60) per share on 10 May 2018 to Ping An Life Insurance Company of China, Ltd. The total net proceeds from the share issues amounted to HKD2,674,223,000 (approximately RMB2,172,539,000).

(b) 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.

(c) A debit amount of RMB5,002,000 was recognised during the period ended 30 June 2018, which represents the difference between the fair value of the consideration paid and the carrying amount of the net assets attributable to the additional interest of 3.18% in Foshan Anning Co., Ltd. being acquired from the non-controlling interests in 2018.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		Six months ended 30 June	
	NOTE	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Net cash used in operating activities		**(1,357,134)**	(1,137,973)
Investing activities			
Withdrawal of fixed deposits		**–**	1,050,000
Interest received		**20,841**	12,062
Purchase of financial assets at FVTPL		**(1,650,502)**	–
Proceeds from disposal of financial assets at FVTPL		**610,500**	–
Proceeds from disposal of property, plant and equipment		**1,069**	5,730
Assets-related government grants received		**8,252**	–
Proceeds from disposal of other intangible assets		**–**	79
Purchase of property, plant and equipment and payment for construction in progress		**(236,933)**	(250,712)
Settlement of payables on acquisition of subsidiaries		**(11,242)**	(6,093)
Purchase of prepaid lease payments		**(151,728)**	(237)
Purchase of other intangible assets		**(720)**	–
Capital contribution to associates		**(10,750)**	–
Deposits paid for acquisition of a subsidiary		**(48,400)**	–
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	13	**(308,341)**	(42,936)
Other investing cash flows		**–**	(1,249)
Net cash (used in) from investing activities		**(1,777,954)**	766,644
Financing activities			
Proceeds from issue of unsecured notes		**–**	1,988,000
New bank borrowings raised		**380,000**	976,540
Increase in restricted bank deposits		**(356,981)**	(823,982)
Decrease in restricted bank deposits		**257,304**	1,050,000
Repayment of bank borrowings		**(540,824)**	(1,388,586)
Acquisition of non-controlling interest without a change in control		**(4,671)**	–
Dividend paid		**(212,490)**	(162,420)
Interest paid		**(126,977)**	(42,300)
Proceeds from issue of shares		**2,175,026**	–
Expenses on issue of shares		**(2,487)**	
Capital injection from non-controlling equity holders		**26,501**	–
Increase in pledged deposits with banks		**(204)**	–
Other financing cash flows		**–**	6,943
Net cash from financing activities		**1,594,197**	1,604,195
Net (decrease) increase in cash and cash equivalents		**(1,540,891)**	1,232,866
Cash and cash equivalents at 1 January		**4,530,477**	2,147,338
Effect of foreign exchange rate changes		**17,367**	(17,460)
Cash and cash equivalents at 30 June, represented by unrestricted bank balances and cash		**3,006,953**	3,362,744

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 2017 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 2017 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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from manufacture and sale of pharmaceutical products.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Sale of goods

The Group recognizes revenue at a point in time when there is persuasive evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that affect customer acceptance products.

Product sales represent the sales value of goods, less estimated discounts.

The provision for deduction of estimated income is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Providing a discount to pharmaceutical distributors is in accordance with the practice of the pharmaceutical industry. The Group records discount provision for sales at the time of sale based on the agreed rate and actual collections of accounts receivables from distributors.

The Group regularly reviews the estimates and accordingly adjusts provisions.

Service fee

The Group provides medical diagnosis and health examination services.

The Group's contractual performance is responsible for the delivery of diagnostic results and reports after the completion of a service contract, which is usually in one day. The Group recognizes revenue when the diagnostic results and reports are delivered to the customer, which means that the control of the results is transferred to the customer.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

There was no material impact of transition to HKFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Current Liabilities			
Trade and other payables	3,856,512	(194,429)	3,662,083
Contract liabilities	–	194,429	194,429

Note: As at 1 January 2018, advances from customers of RMB194,429,000 in respect of sales of pharmaceutical products contracts previously included in trade and other payables were reclassified to contract liabilities.

The following table summaries the impact of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line item affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	**Reclassification**	**Amounts without application of HKFRS15**
	RMB'000	RMB'000	RMB'000
Current Liabilities			
Trade and other payables	4,187,697	215,335	4,403,032
Contract liabilities	215,335	(215,335)	–

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities; (2) expected credit losses ("ECL") for financial assets; and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, FVTOCI reserve and non-controlling interests, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including pledged bank deposits, bank balances, trade receivables, bills receivables, other receivables and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and bills receivables, and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Measurement and recognition of ECL (continued)

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Held-for-trading investments RMB'000	Financial assets at FVTPL RMB'000	Debt instruments at FVTOCI RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Deferred tax assets RMB'000	FVTOCI reserve RMB'000	Accumulated profits RMB'000	Non-controlling interests RMB'000
Closing balance at 31 December 2017 – HKAS 39		691	–	–	7,612,548	139,405	–	2,533,677	1,378,479
Effect arising from initial application of HKFRS 9:									
Reclassification									
From held-for-trading investments		(691)	691	–	–	–	–	–	–
From loans and receivables	*(a)*	–	–	137,343	(137,343)	–	–	–	–
Remeasurement									
Impairment under ECL model	*(b)*	–	–	–	(34,066)	6,664	56	(26,317)	(1,141)
From amortised cost to fair value		–	–	(2,354)	–	381	(1,941)	–	(32)
Opening balance at 1 January 2018		–	691	134,989	7,441,139	146,450	(1,885)	2,507,360	1,377,306

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(a) Loans and receivables

As part of the Group's cash flow management, the Group has the practice of discounting some of the bills receivables to financial institutions or transferring bank-issued bills receivables to its suppliers to settle the payables through endorsing the bank-issued bills to its suppliers before maturity of the bills. The Group derecognises bills discounted to financial institutions on the basis that the Group has transferred substantially all the risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB137,343,000 as at 1 January 2018 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value losses of RMB2,354,000 was adjusted to debt instruments at FVTOCI, FVTOCI reserve, deferred tax assets and non-controlling interests as at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. Pledged bank deposits and bank balances are subject to ECL model but the impairment is immaterial.

All of the Group's debt instruments at FVTOCI are bills receivables that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at 1 January 2018, the additional credit loss allowance of RMB34,066,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognised against the FVTOCI reserve.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Impairment under ECL model (continued)

All loss allowances for financial assets including trade and other receivables, and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade and other receivables RMB'000	**Debt instruments at FVTOCI** RMB'000
At 31 December 2017		
– HKAS 39	138,741	–
Amounts remeasured through opening retained profits	34,066	56
Amount recognized in FVTOCI reserve	–	(56)
At 1 January 2018	172,807	–

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current assets				
Property, plant and equipment	2,386,927	–	–	2,386,927
Prepaid lease payments	346,457	–	–	346,457
Investment properties	6,840	–	–	6,840
Goodwill	3,486,372	–	–	3,486,372
Other intangible assets	6,703,786	–	–	6,703,786
Interests in associates	92,576	–	–	92,576
Deposits and prepayments	338,894	–	–	338,894
Deferred tax assets	139,405	–	7,045	146,450
	13,501,257	–	7,045	13,508,302
Current assets				
Inventories	3,551,829	–	–	3,551,829
Trade and other receivables	3,024,076	–	(171,409)	2,852,667
Prepaid lease payments	19,673	–	–	19,673
Financial assets at FVTPL	–	–	691	691
Debt instruments at FVTOCI	–	–	134,989	134,989
Held-for-trading investments	691	–	(691)	–
Bank balances and cash	4,787,781	–	–	4,787,781
	11,384,050	–	(36,420)	11,347,630
Current liabilities				
Trade and other payables	3,856,512	(194,429)	–	3,662,083
Contract liabilities	–	194,429	–	194,429
Bank borrowings	638,697	–	–	638,697
Tax liabilities	199,678	–	–	199,678
	4,694,887	–	–	4,694,887
Net current assets	6,689,163	–	(36,420)	6,652,743
Total assets less current liabilities	20,190,420	–	(29,375)	20,161,045

2. PRINCIPAL ACCOUNTING POLICIES (continued)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (continued)

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current liabilities				
Deferred government grants	145,507	–	–	145,507
Deferred tax liabilities	1,714,698	–	–	1,714,698
Unsecured notes	4,481,958	–	–	4,481,958
Bank borrowings	33,000	–	–	33,000
	6,375,163	–	–	6,375,163
Net assets	13,815,257	–	(29,375)	13,785,882
Capital and reserves				
Share capital	9,809,935	–	–	9,809,935
Reserves	2,626,843	–	(28,202)	2,598,641
Equity attributable to owners of the Company	12,436,778	–	(28,202)	12,408,576
Non-controlling interests	1,378,479	–	(1,173)	1,377,306
Total equity	13,815,257	–	(29,375)	13,785,882

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of pharmaceutical products		
– Finished drugs	**1,306,031**	1,144,335
– Concentrated Traditional Chinese Medicine ("TCM") granules	**3,490,594**	2,543,295
– TCM decoction pieces	**639,533**	185,226
– TCM healthcare complex	**25,266**	26,312
	5,461,424	3,899,168

All of the Group's revenue is recognised at a point in time during six months ended 30 June 2018.

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 2017: 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.

The Group presented the following four reportable and operating segments, namely (i) finished drugs; (ii) concentrated TCM granules; (iii) TCM decoction pieces; and (iv) TCM healthcare complex.

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

(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, fair value changes on financial assets at FVTPL, 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, financial assets at FVTPL, deferred tax assets and unallocated head office and corporate assets. Segment liabilities include trade and other payables, contract liabilities, 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.

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.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

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 2018 (unaudited)					
Reportable segment revenue	**1,322,821**	**3,502,923**	**702,663**	**25,266**	**5,553,673**
Eliminated of inter-segment revenue	**(16,790)**	**(12,329)**	**(63,130)**	**–**	**(92,249)**
Revenue from external customers	**1,306,031**	**3,490,594**	**639,533**	**25,266**	**5,461,424**
Reportable segment profit (adjusted EBITDA)	**361,377**	**915,360**	**65,210**	**1,655**	**1,343,602**
Interest income	**4,065**	**15,671**	**1,083**	**22**	**20,841**
Finance costs	**60,647**	**60,959**	**2,674**	**–**	**124,280**
Depreciation and amortisation	**73,603**	**146,398**	**26,463**	**3,697**	**250,161**
As at 30 June 2018 (unaudited)					
Reportable segment assets	**9,158,856**	**19,501,760**	**2,306,135**	**210,248**	**31,176,999**
Reportable segment liabilities	**3,678,355**	**8,202,999**	**1,486,732**	**5,276**	**13,373,362**
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 31 December 2017 (audited)					
Reportable segment assets	8,009,975	19,229,770	973,948	178,323	28,392,016
Reportable segment liabilities	3,844,653	7,891,874	552,577	13,647	12,302,751

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Reportable segment profit (adjusted EBITDA)	**1,343,602**	1,075,561
Depreciation and amortisation	**(250,161)**	(184,199)
Interest income	**20,841**	12,062
Finance costs	**(124,280)**	(85,199)
Rental income	**3,086**	290
Fair value changes on derivative financial instruments	**–**	(16,751)
Fair value changes on held for trading investments	**–**	334
Fair value changes on financial assets at FVTPL	**144**	–
Net exchange gain	**21,503**	8,803
Share of results of associates	**(6,110)**	(1,853)
Head office and corporate expenses	**(5,749)**	(9,809)
Consolidated profit before taxation	**1,002,876**	799,239

3. REVENUE AND SEGMENT INFORMATION (continued)

Segment reporting (continued)

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

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Assets		
Reportable segment assets	**31,176,999**	28,392,016
Elimination of inter-segment receivables	**(4,204,648)**	(3,669,786)
	26,972,351	24,722,230
Held for trading investments	**–**	691
Financial assets at FVTPL	**1,047,834**	–
Deferred tax assets	**132,690**	139,405
Unallocated head office and corporate assets	**294,636**	22,981
Consolidated total assets	**28,447,511**	24,885,307
Liabilities		
Reportable segment liabilities	**13,373,362**	12,302,751
Elimination of inter-segment payables	**(4,204,648)**	(3,669,786)
	9,168,714	8,632,965
Tax liabilities	**171,714**	199,678
Deferred tax liabilities	**1,753,303**	1,714,698
Unallocated head office and corporate liabilities	**546,673**	522,709
Consolidated total liabilities	**11,640,404**	11,070,050

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 non-current assets 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants		
– Unconditional subsidies	**24,768**	6,765
– Conditional subsidies	**5,750**	17,650
Interest income on bank deposits	**19,374**	12,062
Interest income on financial assets at FVTPL	**1,467**	–
Rental income	**3,086**	290
	54,445	36,767

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**(502)**	(762)
Fair value changes on foreign currency forward contracts	**–**	(16,751)
Fair value changes on held for trading investments	**–**	334
Fair value changes on financial assets at FVTPL	**144**	–
Net exchange gain	**21,503**	8,803
Impairment losses reversed (recognised) in respect of		
– trade receivables	**1,732**	1,297
– other receivables	**(4,879)**	(643)
– bill receivables	**(898)**	–
– debt instruments at FVTOCI	**19**	–
Others	**(9,058)**	(3,264)
	8,061	(10,986)

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**27,395**	35,382
Interest on unsecured notes	**96,885**	49,817
	124,280	85,199

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax ("EIT")	**160,550**	119,291
Under (over) provision in prior years:		
PRC EIT	**(2,156)**	5,276
	158,394	124,567
Deferred tax charge	**10,029**	11,903
	168,423	136,470

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Depreciation		
– investment properties	**773**	67
– property, plant and equipment	**156,183**	99,023
Amortisation of prepaid lease payments	**9,815**	6,948
Amortisation of other intangible assets (included in cost of sales)	**83,390**	78,161
Total depreciation and amortisation	**250,161**	184,199
Write down (reversal of) of inventories	**5,172**	(764)
Minimum lease payments under operating leases in respect of land and buildings	**11,212**	12,453
Gross rental income from investment properties	**(1,960)**	(542)
Less: direct operating expenses incurred for investment properties	**507**	143
	(1,453)	(399)

9. DIVIDENDS

During the current interim period, a final dividend of HK4.96 cents per share in respect of the year ended 31 December 2017 (six month ended 30 June 2017: HK3.59 cents per share in respect of the year ended 31 December 2016) was declared and paid to the owners of the Company. The aggregate amount of the 2017 final dividend declared and paid in the current interim period amounted to HK$249,776,000 (approximately RMB206,590,000) (six months ended 30 June 2017: HK$159,091,000, approximately RMB137,017,000). Subsequent to the end of the current interim period, the directors of the Company have resolved that an interim dividend of HK6.04 cents per share, amounting to HK$304,162,000 in aggregate, will be paid to the shareholders of the Company whose name appear in the Registry of Members on 5 September 2018.

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	
	2018	2017
	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	**760,312**	598,623

	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,605,115**	4,431,505

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 2018, the Group incurred approximately RMB366,569,000 (six months ended 30 June 2017: RMB190,587,000) on acquisition of property, plant and equipment.

Certain of the Group's buildings with carrying value of RMB109,948,000 (31 December 2017: RMB31,477,000) were pledged to secure certain bank borrowings granted to the Group.

12. PREPAID LEASE PAYMENTS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Analysed for reporting purposes as:		
Current portion	**26,631**	19,673
Non-current portion	**619,701**	346,457
	646,332	366,130

Certain of the Group's prepaid lease payments with carrying value of RMB9,112,000 (31 December 2017: RMB3,581,000) 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 2018 (audited)	3,486,372	6,703,786
Addition acquired through business combination	59,250	50,064
Additions	–	720
Amortisation for the period	–	(83,390)
At 30 June 2018 (unaudited)	3,545,622	6,671,180

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 2017: nil).

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note:

(a) Acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou

During the period ended 30 June 2018, the Group acquired 100% of the equity interest of Beijing Huamiao Pharmaceutical Co., Limited ("Huamiao Pharmaceutical"), Heilongjiang Sinopharm Medicinal Materials Co., Limited ("Heilongjiang Sinopharm"), Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai") and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou") for a total consideration of RMB499,237,000 from China National Traditional Chinese Medicine Co., Ltd., a subsidiary of CNPGC and also the Company's intermediate holding company. This acquisition has been accounted for using the purchase method. The amount of goodwill which was determined provisionally, arising as a result of the acquisition was RMB12,766,000.

Consideration transferred

	RMB'000
Cash	499,237

Goodwill arose on the acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou are principally engaged in the manufacture and sale of TCM decoction pieces. The acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou are 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.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

The information for these acquisitions was disclosed on an aggregated basis as they were individually immaterial to the Group. Fair value of 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	364,575
Prepaid lease payments	98,725
Investment properties	19,594
Other intangible assets	47,500
Inventories	212,237
Trade and other receivables	181,992
Bank balances and cash	191,736
Trade and other payables	(300,522)
Amount due to intermediate holding company	(168,751)
Contract liabilities	(7,941)
Bank borrowings	(110,000)
Tax liabilities	(532)
Deferred tax liabilities	(42,142)
	486,471
Consideration transferred	499,237
Less: Fair value of identifiable net assets acquired	(486,471)
Provisional goodwill arising on acquisition	12,766

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note: (continued)

(a) Acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou (continued)

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	499,237
Less: Bank balances and cash acquired	(191,736)
	307,501

The directors of the Company are in process of assessing fair value of the identifiable net assets and liabilities assumed of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou at the date of the acquisition and goodwill was determined provisionally.

In the opinion of the directors of the Company, goodwill arose in the acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou 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 Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou. 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 receivable.

Acquisition-related costs are not material and have been excluded from the consideration transferred and have been recognised as an expense during the period, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Impact of acquisition on the results of the Group

During the period ended 30 June 2018, Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou contributed RMB462,690,000 to the Group's revenue and profit of RMB20,325,000 to the Group's results.

The acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou was completed on 5 January 2018. The impact to the Group's revenue and profit are immaterial had the acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou been effected on 1 January 2018.

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note: (continued)

(b) Acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda

During the period ended 30 June 2018, the Group acquired 5 companies which were engaged in production and sale of TCM decoction pieces and concentrated TCM granules from independent third parties for an aggregated cash consideration of RMB252,658,000. The consideration consists of two parts, (i) acquired the equity interests of the companies from the ex-shareholders in cash of RMB54,167,000; (ii) injection of capital RMB198,491,000 to the acquired companies by way of capital increase. These acquisitions have been accounted for using the purchase method. The amount of goodwill which was determined provisionally, arising as a result of the acquisitions was RMB46,484,000.

The date of acquisition and interest acquired of the 5 companies were listed below.

Name of Entity	Date of acquisition	% of interest acquired
Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd. (“Shuanglanxing Pharmaceutical”)	21 March 2018	51%
Jiangsu Jiangkang Pharmaceutical Co., Ltd. (“Jiangkang Pharmaceutical”)	23 March 2018	51%
Sichuan Sanqiang Modern Chinese Medicine Co., Ltd. (“Sichuan Sanqiang”)	20 April 2018	51%
Fujian Chengtian Jinling Pharmaceutical Co., Ltd. (“Fujian Chengtian”)	23 April 2018	51%
Bozhou Hongda TCM Decoction Pieces Technology Co., Ltd. (“Bozhou Hongda”)	22 June 2018	51%

Consideration transferred

	RMB’000
Cash	252,658

Goodwill arose on the acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda are principally engaged in production and sale of TCM decoction pieces and concentrated TCM granules. The acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda are 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.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note: (continued)

(b) Acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda (continued)

The information for these acquisitions was disclosed on an aggregated basis as they were individually immaterial to the Group. Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	Amount recognised at the date of acquisition RMB'000 (Provisional basis)
Property, plant and equipment	268,784
Prepaid lease payments	45,902
Other intangible assets	2,564
Deposits and prepayments	3,100
Inventories	26,243
Trade and other receivables	156,544
Financial assets at FVTPL	6,998
Bank balances and cash	198,777
Trade and other payables	(247,740)
Bank borrowings	(56,900)
Contract liabilities	(7)
	404,265
Consideration transferred	252,658
Plus: Non-controlling interests	198,091
Less: Fair value of identifiable net assets acquired	(404,265)
Provisional goodwill arising on acquisition	46,484

Net cash outflow arising on acquisition

	RMB'000
Consideration transferred	252,658
Outstanding consideration payable for capital injection	(53,041)
	199,617
Less: Bank balances and cash acquired	(198,777)
	840

13. GOODWILL/OTHER INTANGIBLE ASSETS (continued)

Note: (continued)

(b) Acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda (continued)

Net cash outflow arising on acquisition (continued)

The directors of the Company are in process of assessing fair value of the identifiable net assets and liabilities assumed of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda at the date of the acquisition and goodwill was determined provisionally.

In the opinion of the directors of the Company, goodwill arose in the acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda 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 Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda. 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 receivable.

Acquisition-related costs are not material and have been excluded from the consideration transferred and have been recognised as an expense during the period, within the 'administrative expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

The non-controlling interests in the acquiree at the respective acquisition date was measured by reference to the proportionate share of the recognised amount of the acquiree's net assets.

Impact of acquisition on the results of the Group

During the period ended 30 June 2018, Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda contributed RMB8,777,000 to the Group's revenue and loss of RMB12,931,000 to the Group's results.

Had the acquisition of Shuanglanxing Pharmaceutical, Jiangkang Pharmaceutical, Sichuan Sanqiang, Fujian Chengtian and Bozhou Hongda been effected at 1 January 2018, the total amount of revenue of the Group for the period ended 30 June 2018 would have been RMB5,621,164,000 and the amount of the profit of the Group for the period would have been RMB836,544,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

14. INVENTORIES

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Raw materials	**1,482,536**	1,189,805
Work in progress	**909,910**	978,679
Finished goods	**1,711,203**	1,383,345
	4,103,649	3,551,829

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 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Trade receivables, aged		
0-90 days	**2,553,244**	858,472
91-180 days	**977,331**	532,221
181-365 days	**440,686**	326,145
Over 365 days	**100,031**	41,420
	4,071,292	1,758,258
Bills receivables, aged		
0-90 days	**500,294**	647,085
91-180 days	**111,046**	226,250
181-365 days	**1,150**	111,215
	612,490	984,550
Deposits, prepayments and other receivables	**477,571**	281,268
	5,161,353	3,024,076

The Group allows a credit period ranging from 30 to 270 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 365 days.

16. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS

As part of the Group's credit risk management, the Group applies internal credit rating for its customers in relation to its operation. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Low risk	0.49%	2,539,620	12,477
Fair risk	2.59%	970,150	25,137
Substandard	8.69%	486,830	42,327
Doubtful	24.82%	205,681	51,048
Loss	100.00%	10,048	10,048
		4,212,329	141,037

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group reversed RMB1,732,000 impairment loss allowance based on the provision matrix.

Allowance for impairment

The movement in the allowance for impairment in respect of trade and bills receivables and other receivables during the current interim period was as follows.

	RMB'000
Balance at 1 January 2018*	172,807
Net remeasurement of loss allowance	4,045
Balance at 30 June 2018	176,852

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Structured deposits (note)	**1,047,000**	–
Equity investments	**834**	–
	1,047,834	–

Note: Structured deposits represented investments in various instruments issued by financial institutions in the PRC, with expected rate of return (not guaranteed), depending on the returns of a pool of assets, including bank deposits and trust products. The Directors consider the fair value of the structured deposits are measured by discounting the expected future cash flows using appropriate discount rates.

18. PLEDGED BANK DEPOSITS/BANK BALANCE AND CASH

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Pledged bank deposits		
– Guarantee deposits with maturity less than three months	**204**	–
Bank balances and cash		
– Restricted bank deposits	**356,981**	257,304
– Unrestricted bank balances and cash	**3,006,953**	4,530,477
	3,364,138	4,787,781

19. TRADE AND OTHER PAYABLES

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Trade payables	**1,955,799**	1,782,943
Notes payable	**185**	–
Deposits received	**634,659**	531,442
Advances received from customers (note a)	**–**	194,429
Advances of government grants (note b)	**79,569**	20,962
Salary and welfare payables	**95,963**	134,345
Other tax payables	**127,970**	126,137
Accrual of operating expenses	**525,685**	526,084
Interest payables	**59,218**	66,500
Dividend payable	**30,150**	36,050
Consideration payable for acquisitions of subsidiaries	**72,413**	30,614
Amount due to intermediate holding company (note c)	**168,751**	–
Other payables	**437,335**	407,006
	4,187,697	3,856,512

Note:

(a) As at 30 June 2018, advances from customers of RMB215,335,000 in respect of sales of pharmaceutical products contracts were recorded in contract liabilities.

(b) As at 30 June 2018 and 31 December 2017, 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.

(c) The balance was brought forward for the Group following the acquisition of Beijing Huatai which is unsecured, interest free and repayable on demand.

19. TRADE AND OTHER PAYABLES (continued)

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 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
0-90 days	**1,261,115**	1,248,177
91-180 days	**286,412**	256,254
181-365 days	**258,585**	170,254
Over 365 days	**149,687**	108,258
	1,955,799	1,782,943

20. BANK AND OTHER BORROWINGS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Bank borrowings comprised bank loans and other loans and analysed as follows:		
Bank loans	**682,464**	587,873
Other loans	**–**	83,824
	682,464	671,697
Secured	**207,000**	243,824
Unsecured	**475,464**	427,873
	682,464	671,697

20. BANK AND OTHER LOAN (continued)

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Carrying amount repayable*:		
Within one year	**624,464**	638,697
More than one year, but not exceeding two years	**25,000**	–
More than five years	**33,000**	33,000
	682,464	671,697
Amounts due within one year shown under current liabilities	**624,464**	638,697
Add: Amounts shown under non-current liabilities	**58,000**	33,000
	682,464	671,697

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

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

	Carrying amount	
	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Fixed rate borrowings	**284,900**	278,824
Floating rate borrowings	**397,564**	392,873
	682,464	671,697

The Group's floating rate borrowings carried interest at Hong Kong Inter-bank Offered Rate ("HIBOR") plus 1.65% (31 December 2017: HIBOR plus 1.65%).

21. UNSECURED NOTES

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Carrying amount repayable:		
Within two to five years	**4,486,543**	4,481,958
RMB2,500,000,000 notes carries fixed coupon rate of 3.4% per annum, interest payable annually with maturity on 15 November 2019	**2,494,549**	2,491,961
RMB2,000,000,000 notes carries fixed coupon rate of 4.98% per annum, interest payable annually with maturity on 12 June 2020	**1,991,994**	1,989,997
	4,486,543	4,481,958

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.

22. SHARE CAPITAL

	Number of shares	**Amount**
	'000	RMB'000
Issued and fully paid:		
At beginning of the period	4,431,505	9,809,935
New shares issued	604,296	2,172,539
At end of the period	5,035,801	11,982,474

23. 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).

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

Financial assets	Fair value as at 30 June 2018 RMB'000	Fair value as at 31 December 2017 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL				
1. Listed equity securities	**834**	691	Level 1	Quoted bid prices in active markets.
2. Structured Deposits	**1,047,000**	–	Level 2	Discounted cash flow at a discount rate that reflects the expected future economic benefits at the end of the reporting period
Financial assets at FVTOCI				
1. Bills receivables	**89,786**	–	Level 2	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the reporting period

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

Fair value measurements and valuation processes

Except as detailed in the following table, 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.

	30 June 2018 Carrying amount RMB'000	Fair value hierarchy at 30 June 2018 Level 2 RMB'000
Unsecured notes	**4,486,543**	**4,459,332**

	31 December 2017 Carrying amount RMB'000	Fair value hierarchy at 31 December 2017 Level 2 RMB'000
Unsecured notes	4,481,958	4,392,531

24. CAPITAL COMMITMENTS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Contracted for but not provided in the condensed consolidated financial statements:		
– Investments in PRC entities (note)	**653,750**	640,000
– Acquisition of property, plant and equipment	**489,391**	287,026
– Acquisition of subsidiaries	**5,500**	499,300
– Subscribe new shares in subsidiaries	**–**	33,400
	1,148,641	1,459,726

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 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 these condensed consolidated financial statements.

25. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of finished goods to CNPGC's subsidiaries other than the Group	**245,119**	185,819
Rental income from CNPGC's subsidiaries other than the Group	**1,085**	–
Purchase of raw materials from CNPGC's subsidiaries other than the Group	**4,401**	7,435
Acquisition of Huamiao Pharmaceutical, Heilongjiang Sinopharm, Beijing Huatai and Sichuan Jiangyou from China National Traditional Chinese Medicine Co., Ltd., (the Company's intermediate holding company), CNPGC's subsidiaries other than the Group	**499,237**	–

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

	At 30 June 2018	At 31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade and other receivables due from CNPGC's subsidiaries other than the Group	**213,769**	150,649
Trade and other payables due to CNPGC's subsidiaries other than the Group	**203,700**	20,642

25. RELATED PARTY TRANSACTIONS (continued)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Key management remuneration		
Remuneration for key management personnel of the Group is as follows:		
Short-term employee benefits	**3,097**	2,891
Post-employments benefits	**96**	117
	3,193	3,008

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.

26. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 July 2018, the Group entered into investment agreements with the respective shareholders of 國藥集團中聯藥業有限公司 (Sinopharm Group Zhonglian Pharmaceutical Co., Ltd.) ("Zhonglian Pharmaceutical") which is ultimately controlled by CNPGC, pursuant to which the Group agreed to acquire the interest from one shareholder of Zhonglian Pharmaceutical at a consideration of approximately RMB1.8 million and to make capital contribution of approximately RMB260 million into Zhonglian Pharmaceutical. After completion, the Group will hold 51% of the equity interest in Zhonglian Pharmaceutical. As of the review report date, the acquisition has not been completed.