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

(*Incorporated in Hong Kong with limited liability*)

(Stock Code: 570)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2016	2015	Change
	RMB'000	*RMB'000*	
		(Restated)	
Continuing operations			
Revenue	**6,532,867**	3,709,406	76.1%
Gross Profit	**3,787,680**	2,200,673	72.1%
Profit for the year from continuing operations	**1,086,540**	570,054	90.6%
Discontinued operation			
Profit from discontinued operation (net of tax)	–	73,995	N/A
Profit attributable to owners of the Company	**966,927**	625,596	54.6%
– Continuing operations	**966,927**	545,993	77.1%
– Discontinued operation	–	79,603	N/A
Basic earnings per share *(RMB cents)*	**21.73**	16.97	28.0%
– Continuing operations *(RMB cents)*	**21.73**	14.81	46.7%
– Discontinued operation *(RMB cents)*	–	2.16	N/A

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to China Traditional Chinese Medicine Holdings Co. Limited (the "Company" or "we"). On behalf of the board of directors (the "Board") of the Company, I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 (the "reporting period" or "year under review") with comparative figures for the year ended 31 December 2015 and the Company's consolidated financial statements have been prepared according to the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Financial Reporting Standards ("HKFRS").

2016 was the first complete financial year for the Company to fully consolidate the financial statements of Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Tianjiang Pharmaceutical") and its subsidiaries following the completion of acquisition of 87.3% equity interests of Tianjiang Pharmaceutical. The audited revenue of the Group for the year 2016 was approximately RMB6,532,867,000, representing an increase of 76.1% compared to approximately RMB3,709,406,000 in the previous year. The profit attributable to owners of the company was approximately RMB966,927,000, representing an increase of 54.6% compared to approximately RMB625,596,000 in the previous year. The basic earnings per share increased from RMB16.97 cents last year to RMB21.73 cents in 2016, representing an increase of 28.0%.

REVIEW FOR THE YEAR OF 2016

The regulatory environment for pharmaceutical industry was even more challenging in 2016, a year when the government also promoted the development of Traditional Chinese Medicine ("TCM"). In 2016, in response to the changing TCM finished drugs market, the Group adjusted its strategy, relieved its historical burden, while maintaining the growth pace of our concentrated TCM granules with high technical standards, which further consolidated our leading position in the market.

(I) Continuously optimizing the Group's management with full integration of resources

In order to further facilitate the in-depth integration of internal management and progressively formulating an effective long-term mechanism based on regulated management and scientific development, the Group thoroughly rationalized and adjusted the organization structure and management system of subsidiaries for the purpose of continuous improvement in its management platform.

First, integration of management resources. During the year under review, the Group successfully launched a centralized business information system and mobile operation platform to replace the various information systems operated by its subsidiaries, which helped connect each business segment and manage information and achieved information-sharing across the Group and decision-making based on big data, resulting in better management efficiency and lower management cost.

Second, integration of procurement resources. In order to actively deal with the impact from the different characteristics of Chinese medicinal herbs and their price volatility, further reduce the procurement cost and strengthen our overall bargaining power, the Company established an integrated Chinese medicinal herbs procurement center at the end of April 2016, and the first meeting of suppliers was convened at the end of May 2016, which promoted the integration of procurement system between the Company and its subsidiaries.

Third, integration of production resources. Applying an intensive, energy-saving and environmental friendly development model, the Company put all pre-production process of the subsidiaries in Guangdong Province in the workshop in Gaoming District, Foshan. Through building the Gaoming workshop as the technologically leading pre-production base for extraction of Chinese medicinal herbs across the country in terms of production capacity, intelligent technology, quality control, energy-saving, etc., the Company gained experience for establishing 8 major extraction bases in the PRC in the coming three years.

Fourth, integration of financial resources. In order to further optimize our debt structure, avoid foreign exchange risk, facilitate the matching of investment and financing, the Company successfully issued three-year panda bonds in an amount of RMB2,500 million in November 2016, which significantly reduced financing costs and ensured sufficient funding for the Group's future development.

(II) Proactively prepared for the rapid development of the concentrated TCM granules segment

In 2016, the "Regulations on the Administration of Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒管理辦法(徵求意見稿)》) drafted by China Food and Drug Administration and the "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)》) drafted by China Pharmacopoeia were issued to solicit public opinions. It is expected that these two documents will be officially issued in 2017. At such time, there will be unified production and quality standards for the concentrated TCM granules and decoction pieces sectors and the market will gradually open, leading to more healthy development of the industry.

As such, the Company decided to put in all its efforts of the Group and centralise its strengths and resources to grasp such historic opportunity to achieve rapid expansion in the concentrated TCM granules business.

Under the coordination and support of the Group, the relevant procedures of optimizing management structure and integrating resources of Tianjiang Pharmaceutical were actively commenced, which allowed Tianjiang Pharmaceutical to quickly integrate into the Group's management and operation platform to achieve a year-on-year growth target of 20% in revenue.

The Group built a scientific research team comprising nearly 100 members and focused on the research and establishment of the quality standards in concentrated TCM granules. By consolidating our knowledges in research, production and procurement, together with external experts, the Group further strengthened its market leader position with high technical standards.

The Group has formulated a layout plan for concentrated TCM granule production and decoction piece processing base, involving for the construction of 8 major Chinese medicinal herb extraction bases and concentrated TCM granule production bases across various provinces, which is expected to be completed within three years. The targeted production capacity for extraction and concentrated TCM granules are 3 times and 2.5 times of existing production capacity respectively. Annual production value will exceed RMB20 billion at full product capacity. Such plan has started to implement.

(III) Adjusting the strategy for TCM finished drugs segment to reduce burden

2016 was a difficult year for TCM finished drugs segment, the implemention of "two-invoice system" in the pharmaceutical distribution sector, secondary price negotiation, requirement of drug sales as a percentage of total hospital revenue, and zero mark-up policy, etc., brought tremendous impact to both the TCM and western drug markets. As such, the Company promptly adjusted strategy to stabilize the terminal sales and kept exploring new sources of profit growth at the same time.

First, in order to adapt promptly to the new policy and market environment, the Company promoted the destocking process in the distribution channels across the country, actively reduced shipment to distributors and accelerated the elimination of inventory in distribution channels, and initial results were achieved. The sales are likely to return to normal in 2017. Meanwhile, the Company established responsible person and partnership scheme as well as effectively integrated and carefully invested its sales resources so as to lay a solid foundation for long-term and sustainable development.

Second, the Company has completed the merger and acquisition of Huayi Pharmaceutical Company Limited ("Huayi Pharmaceutical") and its subsidiary, Ji Lin Baiqi Pharmaceutical Co., Ltd. With Qili Capsule produced by Huayi Pharmaceutical, the number of our exclusive EDL products has increased to eight. The Company continued to promote Blockbusters Development Program with numerous inputs in evidence-based clinical research and continuously increased product value. Academic promotion and marketing strategy supported by our evidence-based clinical research has achieved initial success, which will have positive impact on product sales in the next few years.

Third, the Company increased prices of certain OTC products (OTC drugs) and rebuilt their market value, and remarkable results were seen in market expansion. For example, sales volume of a Tibetan formula Chongcao Qingfei Capsule (蟲草清肺膠囊), a key OTC variety and of superstore program, experienced a year-on-year growth exceeding 80% after its introduction, which will become a new core product in 2017. Another examples are traditional minor varieties, such as Po Chai Pill (保濟丸), Snake Bile Chuan Bei Powder (蛇胆川貝散), Snake Bile Chenpi Powder (蛇胆陳皮散), Angong Niuhuang Honeyed Bolus (安宮牛黃丸), Yao Shen Herbal Paste (腰腎膏), Renshenzaizao Honeyed Bolus (人參再造丸), Dahuoluo Honeyed Bolus (大活絡丸), etc, which, through innovative promotion and marketing, including changing sales mode, cultivating the consumer base of the younger generation, have been progressively becoming a new source of growth.

Fourth, the Company continuously enhanced the professional training of sales team and built up expert networks in orthopedics, dermatology, otolaryngology, paediatrics, respiration, and rheumatology, etc, in order to adapt to the New Normal for sales under the continued healthcare reform.

(IV) Creating a complete value chain for TCM, achieving inter-segment interaction and synergized development

As a traditional segment in TCM business, decoction pieces segment has been enjoying strong support from the government policy. In 2016, the market size of decoction piece business exceeded RMB200 billion. As the only listing TCM platform of China National Pharmaceutical Group Corporation ("CNPGC"), it is our mission to strengthen the decoction pieces business.

Through accelerating the development in TCM decoction pieces business, the Company is able to improve the source reliability tracking process and quality control on the upstream raw materials for concentrated TCM granules and TCM finished drugs segments on one hand, and develop TCM decoction business and penetrate into more hospitals on the other, which will provide better support to the expansion of sales channel for the concentrated TCM granules and achieve satisfactory results in both the decoction pieces and the concentrated TCM granules segments.

Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. and Foshan TCM Hospital have jointly established a "TCM Decoction Center", which provides decoction services for the TCM prescribed by the hospital doctors and the decocted medicine is delivered directly to the patient's address by courier. There is considerable market demand for TCM decoction business in Guangzhou and Foshan, which is now in a benign development stage. In November 2016 and December 2016 respectively, the merger and acquisition of Guizhou Tongjitang Herbal Co., Ltd. and Shanghai Tongjitang Pharmaceutical Co., Ltd. was completed, which represented a breakthrough in the development of decoction pieces business in Guizhou and Shanghai. Leveraging on the years of business experience in upstream Chinese medicinal herbs of CNPGC, the Company cooperated with local plantation bases in various production regions, continued upholding of operation strategy focusing on key varieties of local Chinese medicinal herbs and expanded the scale of certain local Chinese medicinal herbs plantation bases, which laid a solid foundation for the source tracking of TCM products as well as meeting the quality requirement of Chinese medicinal herbs in future.

Business of Sinopharm Group Foshan Feng Liao Xing Medical Complex Co., Ltd. (國藥集團佛山馮了性國醫館有限公司) (TCM healthcare complex), which commenced operation at the end of 2015, was in good shape, providing outpatient and physiotherapy services to more than 30,000 customers in the first year of operation. In September 2016, the Company completed the acquisition of 60% registered capital of Guizhou Tongjitang Pharmacy Chain Co. Ltd. and its TCM clinics in order to continue exploring and promoting the brand new business model of TCM healthcare complex.

PROSPECTS AND OUTLOOK FOR 2017

2017 will be an important year for the TCM industry. "TCM Development Strategy Plan Summary (2016-2030)" (《中醫藥發展戰略規劃綱要(2016-2030年)》) outlines a promising future for the development of TCM business. Traditional Chinese Medicine Act (《中醫藥法》), which has been proposed for many years, has finally been introduced, which further strengthened the position of TCM in China's development strategy. The white paper on Traditional Chinese Medicine (《中國的中醫藥》) further promotes the TCM business and Chinese medicine culture to the world.

Recently, the Ministry of Human Resources and Social Security of the People's Republic of China has promulgated the "2017 National Drugs List for Basic Medical Insurance". 15 products of the Company are new additions to the list, of which Yao Shen Herbal Paste (腰腎膏), Chaishi Tuire Granule (柴石退熱顆粒) and Liuwei Dingxiang Pill (六味丁香片) are exclusive products. Also, 282 products of the Company are listed on the new drugs list for basic medical insurance, 26 of which are exclusive products. Those products listed on the reimbursement drug list are valuable assets of the Company as well as the growth driver in finished products in future. Besides, the extensive product mix and exclusive products significantly enhance the Company's risk resistance ability.

With the deregulation of the industry and progressive implementation of relevant ancillary policies, the Company expects that the concentrated TCM granules market will experience an explosive growth in the coming 5-10 years. To cope with challenges from the new comers and grasp the historic opportunity for the development of the industry, the Group will put in considerable efforts and core resources to continuously consolidate Tianjiang Pharmaceutical's leading position in the concentrated TCM granules industry and maintain our advantages.

(I) Promoting the expansion of production capacity and setting up standards of concentrated TCM granules to consolidate our leading position

The government policy concerning concentrated TCM granules industry may soon to be introduced, which may lead to a disruptive growth of the market and more intensive market competition. The Company will concentrate in expansion of production capacity and setting up standards to capitalize on the window period of the favourable policy and first-mover advantage to consolidate our position as the market leader and to be the pioneer in capturing the development opportunity so as to realize robust development in the concentrated TCM granules business.

(II) Accelerating the construction of extraction bases, guaranteeing the planning and development of TCM industry

After fully considering the aggregation, optimization and centralized allocation of internal resources, the Company makes forward looking deployment based on the demand of planning and development of the concentrated TCM granules as well as the TCM finished drugs. Also, with our existing bases, the Company will accelerate the construction of extraction bases through various methods, including investing in new construction, technology modification, etc., so as to guarantee the pre-processing capability for planning and development of modern TCM manufacturing.

(III) Commencing construction of initial processing bases in production regions, realizing TCM source tracking

Based on the demand for the production of concentrated TCM granules and TCM finished drugs, the Company will accelerate the extension of upstream business in the industrial chain. The Company will adopt innovative cooperation model and commence construction of initial processing bases in key production regions of local Chinese medicinal herbs by cooperating with selected partners, which is systemically linked to the Chinese medicinal herb procurement platform and leads to more health development of the industry.

As the flagship of TCM segment of CNPGC, the Group will firmly grasp the great opportunity in the thriving development of TCM industry. With the concentrated TCM granules and finished drug segment as its base, the Company will achieve its rapid expansion covering the whole-industry chain with the plantation of Chinese medicinal herbs, processing of decoction pieces and healthcare services to set for a stunning growth in scale and profits.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading TCM manufacturer in China. Its products include concentrated TCM granules, TCM finished drugs, TCM decoction pieces and healthcare products. Currently, TCM finished drugs and concentrated TCM granules are two major segments of the Company. The Group has over 700 concentrated TCM granules products and 979 finished drugs, of which 282 finished drugs listed on 2017 National Drugs List for Basic Medical Insurance (15 more as compared to the 2009 version), including 26 exclusive products (3 more as compared to the 2009 version), of which Xianling Gubao Capsule and Tablet, Yu Ping Feng Granule, Bi Yan Kang Tablet, Jingshu Granules, Moisturizing and Anti-Itching Capsules, Fengshi Gutong Capsules, Zaoren Anshen Capsules and Qili Capsule are exclusive products on the National Essential Drug List.

Currently, the Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of traditional and modern Chinese medicine and sustained or controlled release preparation. The Group has manufacturing facilities in Foshan of Guangdong Province, Guiyang of Guizhou Province, Jiangyin of Jiangsu Province, Xuancheng and Bozhou of Anhui Province, Jining and Linyi of Shandong Province, Longxi of Gansu Province, Mianyang of Sichuan Province and Xining of Qinghai Province. All production lines are certified with GMP as required by law. 48,000 tonnes of Chinese medicinal herbs can be preprocessed and extracted annually. The annual production capacity is 8,000 tonnes of concentrated TCM granules, 7,000 tonnes of TCM decoction pieces, 10.2 billion packs of TCM finished granules, 5.65 billion tablets and 3.65 billion capsules.

INDUSTRY ENVIRONMENT

With the deepening reform in pharmaceutical industry, more and more industry policies were launched in 2016, which has posed unprecedented challenges to the pharmaceutical industry. Under the impact of various policies, including lower drug tender prices, cost control on medical insurance reimbursement, "two-invoice system", and removal of the drug price markups in public hospitals, etc, the growth of pharmaceutical industry has been markedly slowing down. According to the statistics of the Ministry of Industry and Information Technology of the People's Republic of China, sales revenue of pharmaceutical industry for the year 2016 recorded a year-on-year growth of 6.5%, showing a significant decline as compared to 9.5% and 10.14% in 2015 and the first half of 2016 respectively. This indicated that the industry still suffered from the impact from the adjusted policies, and there are increasing pressure on the growth rate of the industry. However, in the long-term, given the continuous development of the economy and the aging population, the demand for pharmaceutical products and services in the PRC maintains an uptrend. The central government has been implementing various policies to promote the modernization and standardization of TCM production as well as the sound development of TCM healthcare services. The Company believes that there are new opportunities arising within the challenging industrial environment. We will grasp these opportunities to expand market and strengthen management, which ensure the sustainable growth of revenue and profit.

BUSINESS REVIEW

During the reporting period, the Group's revenue were approximately RMB6,532,867,000, representing an increase of 76.1% from approximately RMB3,709,406,000 in last year, which was mainly due to the fact that 2016 was the first whole financial year following the acquisition of Tianjiang Pharmaceutical. Among these, the revenue from concentrated TCM granules business amounted to RMB4,358,546,000, accounting for 66.7% of total revenue. Finished drug business achieved revenue of RMB2,174,321,000, representing 33.3% of total revenue.

Profit for the year and profit attributable to owners of the Company was approximately RMB1,086,540,000 and RMB966,927,000 respectively, representing an increase of 90.6% and 54.6% as compared with the same period of last year respectively.

The Group's net cash inflow from operating activities for the year was RMB1.463 billion, representing an increase of over 180% compared to last year of RMB0.519 billion.

Audited earnings per share for the reporting period increased by 28.0% to RMB21.73 cents from RMB16.97 cents for 2015.

The Board has recommended the distribution of a final dividend of HK3.59 cents per share (approximately RMB3.19 cents) for the year ended 31 December 2016. The Company has paid an interim dividend of HK6.44 cents per share (approximately RMB5.54 cents), and the total dividends for the year amounted to HK10.03 cents per share (approximately RMB8.73 cents).

Concentrated TCM granule business

Table 1: Main Financial Indicators for the Concentrated TCM Granules Business (the comparative figures for the same period of 2015 were prepared based on the assumption that the Group had consolidated Tianjiang Pharmaceutical on 1 January 2015, which have not been audited by the auditors)

	Twelve months ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	
Turnover	**4,358,546**	3,579,502	21.8%
Cost of sales	**1,762,653**	1,591,404	10.8%
Gross profit	**2,595,893**	1,988,098	30.6%
Profit before taxation	**1,007,650**	786,152	28.2%
Profit for the year	**854,043**	653,804	30.6%
Gross profit margin	**59.6%**	55.5%	4.1ppt
Net profit margin	**19.6%**	18.3%	1.3ppt

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

During the reporting period, the concentrated TCM granules business recorded satisfactory results, with turnover reaching approximately RMB4,358,546,000, representing an increase of 21.8% from RMB3,579,502,000 for the same period of last year. Tianjiang Pharmaceutical achieved a healthy growth in turnover, mainly attributable to the following:

(1) Concentrated TCM granules inheritage the TCM theory of "treatment based on syndrome differentiation and modification based on symptoms", ensure the quality of TCM drugs, and are aligning with the trend of Chinese medicine modernisation. Concentrated TCM granules have been accepted by more doctors and patients, and maintained a continuous growth in market demand;

(2) Development of TCM industry is supported by national policies. The regulations on the administration of concentrated TCM granules refer to those for TCM decoction pieces. Coverage of local medical insurance has extended and public hospitals retain the mark-up policy for the sales of concentrated TCM granules;

(3) Tianjiang Pharmaceutical has rapidly expanded its market presence with two models, i.e., direct sales and agency sales, effectively controls its sales terminals, maintains the sales and marketing network, and has formed extensive sales coverage in each province of China;

(4) Tianjiang Pharmaceutical has improved the products' added-value through academic promotion and strengthened service quality, which further polished its leading brand image of "Tianjiang" and "Yifang", in concentrated TCM granules business and distinguished itself from competitors;

(5) The number of medicine dispensing machines provided by Tianjiang Pharmaceutical to the hospitals has recorded a significant increase, which significantly boosted the clinical usage volume of concentrated TCM granules and improved operating efficiency.

Revenue Analysis by regions

(in RMB million)

Regions	**2016**	**Proportion**	**2015**	**Proportion**	**Growth amount**	**Growth rate**
East China	1,553	36%	1,241	35%	312	25%
South China	795	18%	608	17%	187	31%
North China	560	13%	470	13%	90	19%
Central China	546	13%	414	12%	132	32%
Northwest China	304	7%	239	7%	65	27%
Northeast China	286	6%	376	11%	(90)	(24%)
Southwest China	221	5%	158	4%	63	40%
Other	94	2%	74	2%	20	27%
Total	4,359	100%	3,580	100%	779	22%

East China, South China, North China and Central China contributed 80% of total concentrated TCM granule revenue, higher concentration compared to that of the 77% in last year. Leading by Southwest China's outstanding growth of 40%, other regions also achieved a growth rate exceeding 25%, except for Northeast China and North China.

Notes:

East China (including Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong);
South China (including Guangdong, Guangxi and Hainan);
North China (including Beijing, Tianjin, Shanxi, Hebei and Inner Mongolia);
Central China (including Henan, Hubei and Hunan);
Northwest China (including Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang);
Northeast China (including Heilongjiang, Jilin and Liaoning);
Southwest China (including Sichuan, Guizhou, Yunnan, Chongqing and Tibet)

Revenue Analysis by terminal channels

(in RMB million)

Sectors	2016	Proportion	2015	Proportion	Growth amount	Growth rate
Class III hospitals	1,515	35%	1,251	35%	264	21%
of which: TCM hospitals	*1,133*	*75%*	*963*	*77%*	*171*	*18%*
Class II hospitals	1,259	29%	955	27%	304	32%
of which: TCM hospitals	*758*	*60%*	*586*	*61%*	*172*	*29%*
Primary health care institutions	493	11%	372	10%	121	33%
of which: TCM hospitals	*88*	*18%*	*82*	*22%*	*6*	*7%*
Sales through agents	1,092	25%	1,002	28%	90	9%
Total	4,359	100%	3,580	100%	779	22%

Each class of hospitals has experienced strong growth, Class II hospital and primary health care institutions, especially, witnessed a significant growth rate of exceeding 30%. The proportion of sales through agents decreased to 25% from 28% in 2015.

TCM hospital contributed the most of our sales and non-TCM health care institutions recorded the highest growth rate in the sales volume, which illustrated that the policy of mark-up can only be retained by selling TCM decoction pieces and concentrated TCM granules has started showing impact on the profit structure of western medical hospitals.

Revenue Analysis by sales methods

(in RMB million)

Sales method	2016	Proportion	2015	Proportion	Growth amount	Growth rate
Medicine dispensing machine	1,305	30%	689	19%	616	89%
Individual package	3,054	70%	2,891	81%	163	6%
Total	4,359	100%	3,580	100%	779	22%

Medicine dispensing machine is an important means for promoting sales volume of concentrated TCM granules. In 2016, 30% of total sales of concentrated TCM granules was generated by medicine dispensing machines, representing a significant increase from 19% in 2015; Tianjiang Pharmaceutical has established a comprehensive system for the usage, management and maintenance of medicine dispening machines in order to boost the sales volume of concentrated TCM granules in hospitals.

Finished drug business

Table 2: Key financial indicators for continuing operations of finished drug business

	Twelve months ended 31 December		
	2016	2015	Changes
	RMB'000	*RMB'000*	
Turnover	**2,174,321**	2,730,514	-20.4%
Cost of sales	**982,534**	1,079,016	-8.9%
Gross profit	**1,191,787**	1,651,498	-27.8%
Profit before taxation	**296,154**	491,017	-39.7%
Profit for the year	**232,497**	402,204	-42.2%
Gross profit margin	**54.8%**	60.5%	-5.7ppt
Net profit margin	**10.7%**	14.7%	-4.0ppt

During the reporting period, the continuing operations of finished drug business achieved sales revenue of approximately RMB2,174,321,000, representing a decrease of 20.4% from approximately RMB2,730,514,000 for the same period of last year, which was mainly due to:

(1) the impact of cost control on medical insurance payment and the "two-invoice system", which forced distributors reduced the inventory. As such, the Group adapted to the new normal of the industry with active destocking activities throughout the supply chain and reduced the volume of products delivered to the distributors;

(2) the tender prices of certain drugs sold to hospitals declined slightly, and the implementation of "secondary price negotiation" in Anhui Province, Ningbo City, Zhejiang Province and Northern Jiangsu district during last year led to the withdrawl of tenders in these regions, which affected the sales of this year.

The Group digested the pressure on the finished drug sector exerted by industry policies through adjusting the pace of the production and sales of finished drugs and reforming the marketing and sales models to lay a solid foundation for a long-term and sustainable development. Such adjustment to the pace of the production and sales of finished drugs resulted in fluctuating sales revenue in the short-term.

Given the impact of "two-invoice system", our distributor network tends to be flattened, coupled with obvious change in the number of distributors. It is expected that with the implementation of "two-invoice system" and consolidation of pharmaceutical distribution industry, the large pharmaceutical distributors will gradually capture an increasing market share. The number of secondary and lower-tier distributors will continue to decrease. At the end of 2016, the Group had 1,821 tier-one distributors, 62 more as compared to 1,759 at the end of 2015; while the number of tier-two and grassroots distributors decreased by 319 from 1,313 at the end of 2015 to 994. In the short-term, "two-invoice system" brings pressure for companies engaging in pharmaceutical distribution business as well as challenges for pharmaceutical manufacturers in channel management. However, in the long-term, flattened sales channel makes pharmaceutical distribution business more transparent and convenient for management. It also helps to save distribution cost and strengthens our control over sales channel and terminals.

In the beginning of 2016, the Company introduced the "system of responsible persons/partners" for sales team, which specifies the rights and responsibilities of each responsible person in each sales frontline. It gave more reasonable and effective authorization to them in human, financial and material resources, which improved the team efficiency and fully motivated the front-line management and sales staff. In the second half of the year, the Company further optimized the sales system and the management system in order to improve our team efficiency, which achieved a continuous growth in terminal sales.

Research and Development ("R&D")

Concentrated TCM granules

During the reporting period, the R&D departments of the Group continued to advance on various concentrated TCM granules research projects. The Group conducted 60 research projects focusing on the production and quality control of concentrated TCM granules, 8 on the development of health products, and 1 on clinical development phase. It has obtained 8 utility model patents, 3 invention patents and made 38 new patent applications.

R&D on national standards for concentrated TCM granules has fully commenced. In accordance with "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)》) issued by the Chinese Pharmacopoeia Commission on 5 August 2016, the Company, by aggregating the R&D capacity of Jiangyin Tianjiang, GD Yifang and finished drugs R&D center, established the concentrated TCM granule standard R&D team to start the R&D on setting up national quality standards for concentrated TCM granules. At the end of 2016, the Company set up the team and acquired sufficient equipment and made steady progress on the preparation of developing national quality standards for concentrated TCM granules. Currently, the regulations for concentrated TCM granules are still subject to revision. However, the concentrated TCM granules industry will be liberalized along with unified national standards eventually. The Company will continue to pay attention to the national policy trends and get well-prepared for the release of regulations on unifying national standards for concentrated TCM granules.

(1) Persistently focusing on the researches of key technical platforms and key varieties to improve the core competitiveness of concentrated TCM granules. Emphasis was put on the research of key technologies for improving product quality, improving production efficiency and reducing production cost, and has made significant progresses in extraction, solid-liquid seperation and granulation. It also conducted researches on key TCM medicinal herbs from the selection, processing, production technologies, quality standard and quality control.

(2) Study on improving the internal quality control standard of concentrated TCM granules. Based on the Chinese Pharmacopoeia (2015 edition) and the research results of Tianjiang Pharmaceutical on the quality of medicinal herbs, decoction pieces, extracts and finished products, the internal quality control standards of the Company were revised. Further studies were made to improve TLC (Thin-layer Chromatography) identification, content determination and other qualitative and quantitative methods. The verification on the HPLC (High Performance Liquid Chromatography) characteristics of medicinal herbs and finished products continued. So far, it has identified HPLC characteristics of over 150 concentrated TCM granules. The study is particularly important in improving the quality control of concentrated TCM granules.

(3) In order to maintain the competitiveness of concentrated TCM granules in the future, the Group formed a dedicated research team and initiated the study on unifying internal standards for concentrated TCM granules and has achieved unification for some of the key varieties in the following aspects: (1) unified place of origin and production base of medicinal herbs, achieving the unification of basic standards of raw materials; (2) unified preparation yield and specification yield, achieving the unification of key parameters in preparation standards; and (3) unified nominal equivalent weight, specification, content of the index ingredients, amount of extract and identification methods, achieving the unification of basic standards of finished products.

Finished drugs

The Group currently has 3 TCM new drugs and 5 chemical generic drugs under preclinical research and 4 TCM new drugs under clinical research. During the reporting period, the Group has been awarded 9 invention patents and 18 utility model patents and 15 design patents. It also applied for 43 invention patents, 21 utility model patents and 2 design patents.

The Group has initiated the quality consistency evaluation for some of the generic drugs. It is conducting the overall pharmaceutical research on Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I)), Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III)) and Acetaminophen Tablets (和對乙酰氨基酚片).

The projects of TCM standardization for Yu Ping Feng Granules (玉屏風顆粒) and Xianling Gubao Capsule (仙靈骨葆膠囊) have been approved by the State Administration of Traditional Chinese Medicine. The projects of TCM standardization is jointly organized and implemented by NDRC and State Administration of Traditional Chinese Medicine, aiming at promoting the technical optimization of TCM industry, increasing the core competitiveness of TCM industry and practically improving the quality of TCM products.

In order to comply with the requirements on the adoption of clinical pathways in public hospitals promoted by the regulatory authorities, the Group has been gradually conducting large evidence-based clinical researches to enhance the influence of the Company in the academic world since the end of 2015. Large RCTs (Randomized Control Trials) were conducted on Yu Ping Feng Granules (玉屏風顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) and Jingshu Granules (頸舒顆粒).

During the reporting period, clinical trials on Yu Ping Feng Granules for the treatment of COPD (chronic obstructive pulmonary disease) and RRTI (recurrent respiratory tract infection) entered the stage of data processing and follow-up visits. Currently, the initial results are encouraging. The trials on Jingshu Granules and Moisturising & Anti-Itching Capsule have been under the process of recruiting patients since March 2016 and are in steady and orderly progress. On such basis, we also initiated clinical researches on Zaoren Anshen Capsule (棗仁安神膠囊) and Fengshi Gutong Capsule (風濕骨痛膠囊). So far, the clinical researches on all key products have been initiated.

In addition, as the regulatory authorities attaches importance not only to the efficacy but also the economics of the EDL products. During the reporting period, the Group also initiated the pharmacoeconomics researches on its major EDL products, which can prove the cost effectiveness of products. As at the end of June 2016, the researches on Xianling Gubao Capsule (仙靈骨葆膠囊) and Yu Ping Feng Granules (玉屏風顆粒) have obtained initial results; the researches on Jingshu Granules (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊) were also in progress. All projects under progress are conducted under the cooperation with top experts in the corresponding fields, which will significantly improve the influence of the Group in the industry. It also demonstrates the Group's efforts in the academic promotion of pharmaceuticals. We will continue to focus on academic researches to improve the brand recognition of the products and support sales volume growth.

Investment Projects

Huayi Pharmaceutical

During the reporting period, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd., an indirectly wholly-owned subsidiary of the Company, completed the acquisition of 100% equity interests in Huayi Pharmaceutical and related shareholder's loan through the tender with RMB83,500,000 (equivalent to approximately HK$100,200,000) on 6 April 2016. Seven products of Huayi Pharmaceutical are listed on the latest National Drugs List for Basic Medical Insurance (2017), including 2 exclusive products, namely Weimaining Capsule (威麥寧膠囊), an anti-tumour prescription medicine and Qili Capsule (七厘膠囊), a bone-setting prescription medicine in national essential drug list.

For details of the acquisition, please refer to the announcements of the Company dated 26 February 2016 and 6 April 2016.

Shanghai Tongjitang Pharmaceutical Co., Ltd. (上海同濟堂藥業有限公司) and Guizhou Tongjitang Herbal Co., Ltd. (貴州同濟堂中藥飲片有限公司)

During the reporting period, Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interests in Guizhou Tongjitang Herbal Co., Ltd. with RMB60,900,000 (equivalent to approximately HK$70,600,000) on 14 November 2016, and completed the acquisition of 100% equity interests in Shanghai Tongjitang Pharmaceutical Co., Ltd. with RMB510,000,000 (equivalent to approximately HK$591,600,000) on 7 December 2016. The acquisition helps the Group to accelerate the planning and layout of TCM decoction pieces business, consolidate upstream resources and the coverage of its industrial chain. Guizhou Tongjitang Herbal Co., Ltd. and Shanghai Tongjitang Pharmaceutical Co., Ltd. strategically operates in Southwest and East China respectively, which can provide stable supply of raw materials for manufacturing the Group's downstream products with lower costs, and facilitate the Group to plan the development of each segment simultaneously with more effective internal synergy, and better product quality.

For details of the acquisition, please refer to the announcements of the Company dated 27 September 2016 and 24 October 2016.

Guizhou Tongjitang Pharmacy Chain Co. Ltd. (貴州同濟堂藥房連鎖有限公司)

During the reporting period, Sinopharm Group Guangdong Medi-World Pharmaceutical Company Limited (國藥集團廣東環球製藥有限公司), an indirectly wholly-owned subsidiary of the Company, completed the acquisition of 60% equity interests in Guizhou Tongjitang Pharmacy Chain Co. Ltd. ("Tongjitang Pharmacy Chain") with RMB87,720,000 (equivalent to approximately HK$101,800,000) on 3 January 2017. Tongjitang Pharmacy Chain is principally engaged in the operation of chain pharmacies and TCM clinics in Guizhou Province. The acquisition facilitates the Group to continuously explore and promote TCM healthcare complex business, representing an effective channel for promoting the brands and products of the Group and will create synergies with the Group by sharing operating costs and distribution network. Based on cost control and profit-driven principle, the Group will steadily develop TCM healthcare complex business through self-construction and acquisition, and progressively establish network layout in major cities of the country.

For details of the acquisition, please refer to the announcement of the Company dated 29 September 2016.

Construction of headquarters

The Company has been cooperating with an independent third party to build a headquarters building, R&D center and ancillary facilities in Chancheng district, Foshan. The construction of the project started in 2015 and it is expected to be completed in 2017 and commence operation in 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations			
Revenue	4	**6,532,867**	3,709,406
Cost of sales		**(2,745,187)**	(1,508,733)
Gross profit		**3,787,680**	2,200,673
Other income	5	**82,363**	128,428
Other gains and losses	6	**(8,010)**	12,426
Selling and distribution expenses		**(1,968,432)**	(1,195,636)
Administrative expenses		**(329,986)**	(272,590)
Research and development expenses		**(186,832)**	(112,324)
Finance costs		**(73,423)**	(70,180)
Share of results of associates		**444**	(1,637)
Profit before tax	8	**1,303,804**	689,160
Income tax expense	7	**(217,264)**	(119,106)
Profit for the year from continuing operations		**1,086,540**	570,054
Discontinued operation			
Profit for the year from discontinued operation (net of tax)		**–**	73,995
Profit for the year		**1,086,540**	644,049

	NOTE	2016 **RMB'000**	2015 *RMB'000* *(Restated)*
Other comprehensive (expense) income for the year			
Item that will not be reclassified to profit or loss:			
– Exchange differences arising on translation of functional currency to presentation currency		**(104,605)**	56,331
Item that may be reclassified subsequently to profit or loss:			
Cash flow hedge:			
– Effective portion of changes in fair value of hedging instruments recognised during the year		–	(122,887)
– Amount transferred to initial carrying amount of hedged item		–	122,887
Other comprehensive (expense) income for the year, net of income tax		**(104,605)**	56,331
Total comprehensive income for the year		**981,935**	700,380
Profit for the year attributable to owners of the Company			
– from continuing operations		**966,927**	545,993
– from discontinued operation		–	79,603
Profit for the year attributable to owners of the Company		**966,927**	625,596
Profit (loss) for the year attributable to non-controlling interests			
– from continuing operations		**119,613**	24,061
– from discontinued operation		–	(5,608)
Profit for the year attributable to non-controlling interests		**119,613**	18,453
		1,086,540	644,049
Total comprehensive income attributable to:			
Owners of the Company		**862,322**	681,927
Non-controlling interests		**119,613**	18,453
		981,935	700,380
EARNINGS PER SHARE	*10*		
From continuing and discontinued operations			
Basic and diluted *(RMB cents)*		**21.73**	16.97
From continuing operations			
Basic and diluted *(RMB cents)*		**21.73**	14.81

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTE	**2016** **RMB'000**	2015 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment		**2,019,036**	1,669,254
Prepaid lease payments		**334,244**	302,562
Investment properties		**2,376**	2,513
Goodwill	*11*	**3,456,353**	3,341,045
Other intangible assets		**6,763,921**	6,680,449
Interests in associates		**88,784**	88,136
Deposits and prepayments		**161,946**	135,678
Deferred tax assets		**139,716**	111,367
		12,966,376	12,331,004
Current assets			
Inventories	*14*	**1,894,169**	1,235,861
Trade and other receivables		**2,716,250**	3,398,227
Prepaid lease payments		**10,122**	5,104
Held for trading investments		**591**	594
Derivative financial instruments		**23,694**	–
Other financial assets		**–**	100,000
Pledged bank deposits		**2,226**	36,030
Fixed deposits		**1,050,000**	–
Bank balances and cash		**2,373,356**	2,101,856
		8,070,408	6,877,672
Current liabilities			
Trade and other payables	*13*	**2,303,735**	2,676,614
Deferred government grants		**–**	59,776
Bank borrowings		**1,001,392**	1,600,059
Tax liabilities		**201,697**	148,580
		3,506,824	4,485,029
Net current assets		**4,563,584**	2,392,643
Total assets less current liabilities		**17,529,960**	14,723,647
Non-current liabilities			
Deferred government grants		**142,630**	64,389
Deferred tax liabilities		**1,722,917**	1,668,745
Unsecured notes		**2,485,604**	–
Bank borrowings		**422,947**	850,300
		4,774,098	2,583,434
Net assets		**12,755,862**	12,140,213

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Capital and reserves		
Share capital	**9,809,935**	9,809,935
Reserves	**1,778,392**	1,323,437
Equity attributable to owners of the Company	**11,588,327**	11,133,372
Non-controlling interests	**1,167,535**	1,006,841
Total equity	**12,755,862**	12,140,213

1. GENERAL

China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is a public listed company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. In the opinion of directors of the Company, the Company's ultimate controlling party is China National Pharmaceutical Group Corporation ("CNPGC"), a company established in the People's Republic of China (the "PRC") which is a Chinese state-owned enterprise. The address of the registered office and principal place of business of the Company is Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong. Pursuant to a special resolution in the annual general meeting held on 28 June 2016 which approved by the shareholders of the Company, the name of the Company has been changed from China Traditional Chinese Medicine Co. Limited to China Traditional Chinese Medicine Holdings Co. Limited with effect from 22 July 2016.

The principal activities of the Company and its subsidiaries (the "Group") are research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

The application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

3. ADJUSTMENTS TO PROVISIONAL VALUES FOR BUSINESS COMBINATION IN 2015

The Group acquired 87.3% of the equity interest in Jiangyin Tianjiang Pharmaceutical Co., Ltd. and its subsidiaries ("Jiangyin Tianjiang Group") in October 2015. The Group recognised in its consolidated financial statements for the year ended 31 December 2015 provisional amounts of purchase considerations, fair value of identifiable assets acquired and liabilities assumed and goodwill. The identification and determination of fair value of the net identifiable assets of Jiangyin Tianjiang Group have been updated during the measurement period and as a result the Group retrospectively adjusted the 2015 comparative information on the consolidated statement of financial position as at 31 December 2015 as follows:

	As previously reported	**Adjustments**	**Restated**
	RMB'000	*RMB'000*	*RMB'000*
Goodwill	5,389,508	(2,048,463)	3,341,045
Other intangible assets	3,638,341	3,042,108	6,680,449
Deferred tax assets	125,546	(14,179)	111,367
Trade and other payables	(2,660,470)	(16,144)	(2,676,614)
Deferred government grants (current)	(81,880)	22,104	(59,776)
Deferred government grants (non-current)	(148,663)	84,274	(64,389)
Deferred tax liabilities	(901,497)	(767,248)	(1,668,745)
		302,452	
Equity attributable to owners of the Company	11,129,468	3,904	11,133,372
Non-controlling interests	708,293	298,548	1,006,841
		302,452	

4. REVENUE

Revenue

Continuing operations

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

	2016	2015
	RMB'000	*RMB'000*
Sale of pharmaceutical products		
– Finished drugs	**2,174,321**	2,730,514
– Concentrated TCM granules	**4,358,546**	978,892
	6,532,867	3,709,406

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2015: Nil).

5. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Continuing operations		
Government grants		
– Unconditional subsidies	**64,537**	26,675
– Conditional subsidies	**2,356**	4,589
Interest income on bank deposits	**8,155**	94,621
Interest income on other financial assets	**6,435**	1,677
Rental income	**880**	866
	82,363	128,428

6. OTHER GAINS AND LOSSES

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Continuing operations		
Loss on disposal of property, plant and equipment	**(1,528)**	(650)
Fair value changes in foreign currency forward contracts	**23,694**	9,842
Fair value changes on held for trading investments	**(3)**	(68)
Net exchange gain	**54,987**	7,433
Impairment losses recognised in respect of		
– trade receivables	**(78,368)**	–
– other receivables	**(1,811)**	–
Others	**(4,981)**	(4,131)
	(8,010)	12,426

7. INCOME TAX EXPENSE

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Current tax:		
PRC Enterprise Income Tax	**238,802**	160,327
(Over) underprovision in prior years:		
PRC Enterprise Income Tax	**(2,661)**	741
	236,141	161,068
Deferred tax charge	**(18,504)**	(41,962)
Effect of change in tax rate	**(373)**	–
	217,264	119,106

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

8. PROFIT BEFORE TAX

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Continuing operations		
Profit before taxation has been arrived at after charging		
Directors' remuneration	**4,924**	6,419
Other staff costs		
Salaries, wages and other benefits	**653,177**	528,167
Contributions to defined contribution retirement plans	**76,838**	35,384
	734,939	569,970
Auditors' remuneration	**8,181**	8,591
Depreciation		
– investment properties	**137**	138
– property, plant and equipment	**182,208**	84,478
Amortisation of prepaid lease payments	**10,122**	5,015
Amortisation of other intangible assets	**144,293**	70,727
Total depreciation and amortisation	**336,760**	160,358
Impairment losses recognised in respect of		
– trade receivables	**78,368**	56,039
– other receivables	**1,811**	6,155
Write down of inventories	**16,008**	6,186
Minimum lease payments under operating leases in respect of land and buildings	**6,399**	2,604

9. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2016	2015
	RMB'000	*RMB'000*
2016 interim – HK6.44 cents (2015: nil) per share	**245,148**	–

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2016 of HK3.59 cents per share (HK$ nil per share in respect of the year ended 31 December 2015) has been proposed by the Directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share from continuing and discontinuing operations attributable to the owners of the Company is based on the following data:

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Continuing and discontinued operations		
Profit attributable to the owners of the Company	**966,927**	625,596
Basic earnings per share (RMB per share)	**21.73 cents**	16.97 cents
Continuing operations		
Profit attributable to the owners of the Company	**966,927**	545,993
Basic earnings per share (RMB per share)	**21.73 cents**	14.81 cents
Discontinued operation		
Profit attributable to the owners of the Company	**–**	79,603
Basic earnings per share (RMB per share)	**–**	2.16 cents

(b) Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**4,483,747**	2,533,899
Effect of shares issued	**–**	1,152,974
Effect of shares repurchased	**(33,312)**	–
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,450,435**	3,686,873

No diluted earnings per share for both 2016 and 2015 were presented as there were no potential ordinary shares in issue for both 2016 and 2015.

11. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2015	1,191,052
Acquired through business combination (restated)	2,243,980
Disposal of a subsidiary	(93,987)
At 31 December 2015 and 1 January 2016 (restated)	3,341,045
Acquired through business combination	150,308
Adjustment for provisional consideration	(35,000)
At 31 December 2016	3,456,353

12. TRADE RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Trade receivables	**1,899,835**	2,166,430
Less: Allowance for doubtful debts	**(141,325)**	(74,979)
	1,758,510	2,091,451

The Group normally allows a credit period ranging from 30 to 180 days to its trade customers. The bills receivables have maturity period ranging from 90 to 180 days as at 31 December 2016 and 2015.

13. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
		(Restated)
Trade payables	**852,330**	508,688
Deposits received	**279,820**	199,002
Advances received from customers	**75,582**	175,560
Advances of government grants	**11,884**	16,144
Salary and welfare payables	**116,799**	115,338
Other tax payables	**142,414**	138,675
Accrued charges	**316,523**	319,194
Consideration payable for acquisition of Jiangyin Tianjiang Group	**88,110**	1,011,227
Others	**420,273**	192,786
	2,303,735	2,676,614

14. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Inventories comprise:		
Raw materials	**384,032**	375,590
Work in progress	**706,919**	497,737
Finish goods	**803,218**	362,534
	1,894,169	1,235,861

FINANCIAL REVIEW

The Group completed the acquisition of 87.3% equity interest of Tianjiang Pharmaceutical and began to consolidate the financial statements of Tianjiang Pharmaceutical in October 2015.

During the year under review, the Group completed the acquisition of 100% equity interest of Huayi Pharmaceutical, Guizhou Tongjitang Herbal Co., Ltd. and Shanghai Tongjitang Pharmaceutical Co., Ltd., respectively, in May 2016, November 2016 and December 2016, respectively, and began to consolidate the financial statements of the above three companies into finished drug business of the Group.

Continuing Operations

Revenue

During the year under review, the Group's revenue amounted to approximately RMB6,532,867,000, representing an increase of 76.1% from approximately RMB3,709,406,000 of last year. The growth of revenue was mainly attributable to full consolidation of the financial statements of Tianjiang Pharmaceutical and its subsidiaries and the growth of revenue of newly acquired concentrated TCM granules business after the acquisition of Tianjiang Pharmaceutical. Of which, the revenue of finished drug business was approximately RMB2,174,321,000, representing a decrease of 20.4% compared to approximately RMB2,730,514,000 of last year. It is mainly due to (1) a slight decrease in tender prices and the cancellation of tenders in some regions due to secondary price negotiation, and (2) a decrease in inventory demand from the secondary distributors impacted by the business environment. The concentrated TCM granules business contributed revenue of approximately RMB4,358,546,000, representing an increase of RMB3,379,654,000 as compared with last year.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was approximately RMB2,745,187,000, representing an increase of 82.0% as compared to approximately RMB1,508,733,000 for last year. Gross profit for the year was approximately RMB3,787,680,000, representing an increase of 72.1% from RMB2,200,673,000 of last year. Gross profit margin was 58.0%, representing a fall of 1.3 percentage points as compared to 59.3% of last year. The decrease in gross profit margin is mainly attributable to a decrease in gross profit margin of finished drug business as compared to last year and the gross profit margin for the concentrated TCM granules business was less than that of the finished drug business for last year.

During the year under review, the cost of sales for the finished drug business was approximately RMB982,534,000, representing a decrease of 8.9% as compared with RMB1,079,016,000 of last year. Gross profit amounted to approximately RMB1,191,787,000, representing a decrease of 27.8% from RMB1,651,498,000 of last year. Gross profit margin was 54.8%, representing a fall of 5.7 percentage points as compared to 60.5% of last year. The decrease in gross profit margin is mainly attributable to a decrease in tender prices of certain products and a decrease in revenue due to adjustment of sales strategy. Affected by the changes in sales volume, production volume has experienced a decline with higher fixed unit production cost, which led to a decrease in gross profit.

During the year under review, the cost of sales of the concentrated TCM granules business was approximately RMB1,762,653,000, including the amount of approximately RMB102,526,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical, which was allocated to the cost of sales in the consolidated statements. Gross profit amounted to approximately RMB2,595,893,000 and the gross profit margin was 59.6%, representing an increase of 3.5 percentage points from 56.1% of last year.

Other income

During the year under review, the Group's other income was RMB82,363,000, representing a decrease of 35.9% compared to approximately RMB128,428,000 for last year.

Finished drug business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Interest income	**9,690**	92,639	-89.5%
Government grants	**34,262**	31,013	10.5%
Rental income	**880**	866	1.6%
Total	**44,832**	124,518	-64.0%

Interest income decreased was due to the interest income from new share placement in 2015 was discontinued as at the end of 2015.

Concentrated TCM granules business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Interest income	**4,900**	3,659	33.9%
Government grants	**32,631**	251	12,900.4%
Total	**37,531**	3,910	859.9%

Other gains and losses

During the year under review, the Group's other losses was approximately RMB8,010,000 (2015: other gains was approximately RMB12,426,000). For finished drug business, other gains increased to RMB37,657,000 from RMB13,369,000 for last year, mainly due to net exchange gain of approximately RMB13,257,000 resulting from changes in foreign exchange from Renminbi to Hong Kong Dollar during the year and gain on fair value changes on the HK$1.44 billion foreign exchange forward contracts of approximately RMB32,224,000. During the year, other losses of concentrated TCM granules business was approximately RMB45,667,000 and other losses was approximately RMB943,000 for last year.

Selling and distribution costs

During the year under review, the Group's sales and distribution costs amounted to approximately RMB1,968,432,000 (2015: RMB1,195,636,000).

Finished Drug Business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Advertising, promotion and travelling expenses	**323,121**	483,529	-33.2%
Salary expenses of sales and marketing staff	**288,694**	335,095	-13.8%
Distribution costs	**16,550**	26,930	-38.5%
Other selling and distribution costs	**103,984**	115,183	-9.7%
Total	**732,349**	960,737	-23.8%

Selling and distribution costs decreased by 23.8% as compared to that of last year, which was mainly due to a decrease in revenue. During the year under review, selling and distribution costs as a percentage to the revenue of finished drugs was 33.7%, as compared to 35.2% for last year.

Concentrated TCM granules business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Advertising, promotion and travelling expenses	**598,351**	137,826	334.1%
Salary expenses of sales and marketing staff	**78,439**	14,395	444.9%
Distribution costs	**53,638**	9,018	494.8%
Other selling and distribution costs	**505,655**	73,660	586.5%
Total	**1,236,083**	234,899	426.2%

The amount of approximately RMB718,000 resulted from the profit and loss effect of fair value adjustment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the selling and distribution costs in the consolidated statements. The selling and distribution costs of concentrated TCM granules business in the consolidated financial statements accounted for 28.4% of its revenue, representing an increase from 24.0% for last year, which were mainly due to an increase in marketing and promotion expenses in line with business development.

Research and development expenses and administrative expenses

During the year under review, the Group's research and development expenses and administrative expenses amounted to approximately RMB516,818,000 (2015: RMB384,914,000).

Finished drug business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Staff salary	**74,401**	68,893	8.0%
Depreciation and amortisation	**19,177**	15,600	22.9%
Office rental cost and other expenses	**68,250**	101,335	-32.6%
Subtotal	**161,828**	185,828	-12.9%
Research and development expenses	**45,338**	79,985	-43.3%
Total	**207,166**	265,813	-22.1%

Research and development expenses and administrative expenses decreased by 22.1% as compared to that of last year, which was mainly due to a decrease in revenue and the expenses such as professional service fee related to the acquisition of Tianjiang Pharmaceutical of RMB10,849,000 for the same period of last year, such expenses were periodic expenses, while such expenses did not occur in 2016. During the period under review, the research and development expenses and administrative expenses as a percentage to the revenue of finished drug business was 9.5%, representing a decrease of 0.2 percentage point from 9.7% for last year.

Concentrated TCM granules business:

	2016	2015	**Change**
	RMB'000	*RMB'000*	
Staff salary	**77,609**	22,549	244.2%
Depreciation and amortisation	**13,573**	3,843	253.2%
Office rental cost and other expenses	**76,976**	60,370	27.5%
Subtotal	**168,158**	86,762	93.8%
Research and development expenses	**141,494**	32,339	337.5%
Total	**309,652**	119,101	160.0%

The amount of approximately RMB1,287,000, resulted from the profit and loss effect of fair value adjustment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the administrative expenses in the consolidated statements. The research and development expenses and administrative expenses of the concentrated TCM granules business accounted for 7.1% of its revenue, representing a decrease of 5.1 percentage points from 12.2% for last year.

Profit from operations

During the year under review, the profit from operations of the Group was RMB1,376,783,000, representing an increase by 80.9% from RMB760,977,000 for last year, while operating profit margin (defined as profit from operations divided by revenue) was 21.1%, representing an increase from 20.5% for last year. The increase in operating profit margin was mainly due to the selling and distribution costs and administrative expenses of the Group did not experience a significant increase given the effective cost control of the Group.

Regarding the finished drug business, the profit from operations was approximately RMB334,761,000, representing a decrease of 40.5% as compared to RMB562,834,000 for last year. The operating profit margin decreased from 20.6% for last year to 15.4% for the year under review. Regarding the concentrated TCM granules business, the profit from operations was approximately RMB1,042,022,000 (after deducting depreciation and amortisation of approximately RMB104,531,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated statements). The operating profit margin was increased to 23.9% from 20.2% for last year.

Finance Costs

During the year under review, the Group's finance costs amounted to approximately RMB73,423,000 (2015: RMB70,180,000). The increase as compared to last year was mainly due to the issue of corporate bonds with nominal value of RMB2.5 billion in November 2016. As at 31 December 2016, the bank and other loans held by the Group was approximately RMB1,424,339,000 and the corporate bond was approximately RMB2,485,604,000. During the year under review, the effective interest rate of the Group was 2.34% (2015: 3.91%). The Group will continue to pay attention to the changes in market interest rates and adjust the borrowings and fund raising mechanism on a timely basis. The Group has successively repaid some of bank loans and issued corporate bonds with a rate lower than the bank loan benchmark interest rate (the effective interest rate was approximately 3.62%) to meet the financial needs of Company and reduce the cost of capital use.

Income from investment in associate

During the year under review, the Group shared income from its associate companies, Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries, Foshan Shunde Cili Biological Technology Company Limited and its subsidiaries of approximately RMB444,000, while there was an investment loss of approximately RMB1,637,000 for last year.

Earnings per share

During the year under review, basic earnings per share of continuing and discontinued operation was RMB21.73 cents, representing an increase of 28.0% as compared to RMB16.97 cents for last year. Basic earnings per share increased was due to profit attributable to equity shareholders of the Company for the year increased by 54.6% to approximately RMB966,927,000 (2015: RMB625,596,000). During the year under review, the Company repurchased and cancelled 52,242,000 ordinary shares, so that the number of issued ordinary shares was reduced to 4,431,505,000 shares. The weighted average number of issued ordinary shares for the year was approximately 4,450,435,000 shares as compared with approximately 3,686,873,000 shares for last year.

Liquidity and financial resources

As at 31 December 2016, the Group's current assets amounted to RMB8,070,408,000 (31 December 2015: RMB6,877,672,000), which included cash, cash equivalents and deposits with banks of RMB3,425,582,000 (31 December 2015: RMB2,137,886,000), among which the carrying amount pledged bank deposits amounted to approximately RMB2,226,000 (31 December 2015: RMB36,030,000). Those pledged bank deposits were mainly pledged as securities for gas facilities and others. Trade and other receivables of RMB2,716,250,000 (31 December 2015: RMB3,398,227,000). Current liabilities amounted to RMB3,506,824,000 (31 December 2015: RMB4,485,029,000). Net current assets aggregated to approximately RMB4,563,584,000 (31 December 2015: RMB2,392,643,000). The Group's current ratio was 2.3 (31 December 2015: 1.5). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to owner of the Company) increased to 34% from 22% as at 31 December 2015. Gearing ratio increased as the issue of corporate bond with nominal value of RMB2.5 billion during the year resulting in the bank and other loans and bonds payable increased to approximately RMB3,909,943,000 from approximately RMB2,450,359,000 as at 31 December 2015.

Bank and other Loans and Pledge of Assets

As at 31 December 2016, the balance of the Group's bank and other loans was approximately RMB1,424,339,000 (31 December 2015: RMB2,450,359,000), of which RMB144,479,000 (31 December 2015: RMB462,080,000) was secured by the Group's assets with book value of approximately RMB39,028,000 (31 December 2015: RMB346,279,000) in total. Bank loans decreased was mainly due to the Group, in view of changes in market interest rates, chose to issue corporate bonds with the balance of approximately RMB2,485,604,000, a low-cost financing method, during the year. The balance of the bank and other loans includes RMB1,001,392,000 and RMB422,947,000, which are required to be paid within 1 year and 1 to 3 years respectively (31 December 2015: RMB1,600,059,000 and RMB850,300,000 respectively).

Financial risks

The Group mainly operates in mainland China with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. However, as the loan of the Company denominated in Hong Kong dollar due to the acquisition of Tianjiang Pharmaceutical last year, any exchange rate fluctuation of RMB against USD or Hong Kong dollar will expose the Group to foreign exchange risk. During the year, the Group executed a forward foreign exchange purchasing contract amounting to HK$1.44 billion to mitigate the impact of fluctuations in RMB exchange rate on repayment of the Company's borrowings in HK$. On 31 December 2016, a forward foreign exchange contract amounting to HK$1.17 billion has not yet expired. In future, the Group will continue to perform regular reviews on its net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by taking appropriate measures on a timely basis.

Employee and Remuneration Policies

As at 31 December 2016, the Group had a total of 9,539 (31 December 2015: 9,420) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,716, 3,768 and 2,055 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year under review was RMB734,939,000 (2015: RMB569,970,000).

FINAL DIVIDEND

The Board recommended a final dividend of HK3.59 cents (approximately RMB3.19 cents) per share for the year ended 31 December 2016 (2015: Nil). The final dividend is expected to be payable on 28 June 2017 to the shareholders on the register of members of the Company on 19 June 2017.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2016, the Company bought back 52,242,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for an aggregate amount (excluding expenses) of HK$188,150,160. Details of the buy-backs are for the following

Month of buy-back	No. of shares bought back	Highest price paid per share	Lowest price paid per share	Aggregate amount paid (excluding expenses)
		HK$	*HK$*	*HK$*
March 2016	15,206,000	3.80	3.44	53,692,760
April 2016	19,728,000	3.80	3.56	72,412,680
May 2016	17,308,000	3.65	3.50	62,044,720
	52,242,000			188,150,160

All 52,242,000 shares bought back were cancelled on delivery of the share certificates during the reporting period. The aggregate amount of HK$188,150,160 was paid out from the Company's retained profits.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules throughout the year ended 31 December 2016.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the directors, all the directors have complied with the required standard of Model Code throughout reporting period.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control system and risk management of the Group and to provide advice and comments to the Board. The Audit Committee comprises three members who are independent non-executive directors and two members who are non-executive directors, namely Mr. Xie Rong, Mr. Zhou Bajun, Mr. Lo Wing

Yat. Ms. Huang He and Ms. Tang, and Mr. Xie Rong who has appropriate professional qualifications and experience in accounting matters was appointed as the chairman of the Audit Committee. The Company's audit committee has met with the Group's senior management and the auditors to review the annual results and the financial statements for the year ended 31 December 2016.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT

This results announcement is published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk).

The Company's 2016 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk).

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

Hong Kong, 21 March 2017

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