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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 2017

The board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is 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 2017 (the "reporting period"):

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue			
– Concentrated TCM granules	**5,499,679**	4,358,546	26.2%
– Finished drugs	**2,381,202**	2,061,341	15.5%
– TCM decoction pieces	**398,742**	104,106	283.0%
– TCM healthcare complex	**58,172**	8,874	555.5%
Total	**8,337,795**	6,532,867	27.6%
Gross profit	**4,651,582**	3,787,680	22.8%
Adjusted EBITDA	**2,196,963**	1,634,877	34.4%
Profit from operations	**1,786,453**	1,376,783	29.8%
Profit for the year	**1,311,433**	1,086,540	20.7%
Profit for the year attributable to owners of the Company	**1,170,434**	966,927	21.0%
Basic earnings per share (RMB cents)	**26.41**	21.73	21.5%
Proposed dividend per share at the end of the year (HK cents)	**4.96**	3.59	38.2%

CHAIRMAN'S STATEMENT

Dear shareholders,

Since the incorporation into China National Pharmaceutical Group Corporation ("CNPGC") in 2013, the Company experienced an extraordinary development in the past five years.

Through two major acquisitions of Guizhou Tongjitang Pharmaceutical Co., Ltd. and Jiangyin Tianjiang Pharmaceutical Co., Ltd. and its subsidiaries ("Tianjiang Pharmaceutical"), the Group achieved a historic leap forward in its development and expanded its sole business of finished drugs to cover the whole Traditional Chinese Medicine ("TCM") industry chain with TCM decoction pieces, concentrated TCM granules, finished drugs and healthcare services.

The CAGR of revenue, profit attributable to owners of the Company and basic earnings per share of the Group for the past five years was 56.4%, 55.8% and 28.5%, respectively.

During the reporting period, revenue of the Group was RMB8,337,795,000, representing an increase of 27.6% compared to RMB6,532,867,000 in the previous year. The profit attributable to owners of the Company was RMB1,170,434,000, representing an increase of 21.0% compared to RMB966,927,000 in the previous year. The basic earnings per share increased from RMB21.73 cents last year to RMB26.41 cents in 2017, representing an increase of 21.5%.

In 2017, the Company formulated an overall layout plan in the TCM industry chain while devoted to maintaining stable growth under the leadership of the management of the Company and with the concerted efforts of all staff, and fruitful achievements were made. I would like to express my sincere gratitude to all of them on behalf of the board of directors (the "Board") of the Company.

The Board has recommended a distribution of a final dividend of HK$4.96 cents per share (approximately RMB3.97 cents) for the year ended 31 December 2017, with a payout ratio of 30% for the year.

I. The golden era of TCM industry

Since the implementation of the "Traditional Chinese Medicine Act" on 1 July 2017, the TCM business entered a new era in history with its development and management regulated according to the law. The ongoing and forthcoming changes in the TCM industry will have a profound impact on the TCM market, and will even reshape the industry landscape for the coming decades.

According to the information published by the Ministry of Industry and Information of the PRC, the total sales of TCM manufacturers above designated size in China amounted to over RMB860 billion in 2016, accounting for approximately one-third of the total sales of the pharmaceutical industry. With the continued attention to and support for the development of TCM industry by the Government, as well as the increasing public demand for TCM products and services, it is expected that the growth of the TCM industry will outpace that of the pharmaceutical industry with a rising proportion.

Among the sales of over RMB860 billion in the TCM industry, sales of decoction pieces (including concentrated TCM granules) amounted to over RMB190 billion and accounted for approximately one-fourth. With the gradual liberalization of policies, concentrated TCM granules will replace part of decoction pieces and TCM finished drugs' market. In addition, with the prosperous development of the TCM services as well as prescription and decoction in a more convenient way, decoction pieces will also be used to replace finished drugs to some extent. Therefore, it is expected that the growth of decoction pieces (including concentrated TCM granules) will outpace that of the TCM industry in the future, with a rapid increase in proportion.

According to the estimation of Frost & Sullivan, it is expected that the sales of concentrated TCM granules will increase at a CAGR of 40% in the coming four years, reaching a market scale of approximately RMB44 billion by 2020, and account for about 15% in the market of TCM decoction pieces. In view of the huge market potential, more and more pilot projects were conducted in various provinces and preferential policies were introduced to support local enterprises, which resulted in more protective measures in favour of local enterprises.

As a retrospection after five to ten years, we have now entered a golden era of the rapid-growing TCM industry. The biggest challenge that we are facing and the most urging issue that we are concerned about is how to grasp this historical opportunity for another take-off.

II. Chinese medicinal herbs of good quality, essential to excellent efficacy of TCM Products

The healthy development of the TCM industry, no matter finished drugs, concentrated TCM granules, decoction pieces or herbal paste, are all ultimately determined by the quality of Chinese medicinal herbs. Without quality assurance in Chinese medicinal herbs, there will be no reliable traditional Chinese medicine. Without traditional Chinese herbs of high quality, there will be no TCM products of high quality.

In the past, the decoction pieces segment was difficult to be regulated by GMP due to its small scale, fragmented and disorderly structure as a result of low concentration. From 2015 to 2017, a total of 445 pharmaceutical companies had their GMP certificates revoked, of which 219, or 49% were decoction pieces producers. Decoction pieces were not produced according to the standards and with poor quality, the efficacy of downstream TCM finished drugs was not warranted and there were no stringent requirements on the quality of Chinese medicinal herbs upstream. If such vicious cycle is formed, the assertion that "Chinese medical science will be ruined by traditional Chinese medicine" will not be a false alarm.

In light of the foregoing, the government places great emphasis on standardizing and strengthening the quality standards and regulatory systems for Chinese medicinal herbs, decoction pieces and concentrated TCM granules and promoting the industry integration to achieve standardized plantation and full traceability of Chinese medicinal herbs, support key decoction pieces companies to grow bigger and stronger, which will lay a solid foundation for the quality of TCM and healthy development of the industry.

III. Overall layout plan for the entire TCM industry chain

Being the largest concentrated TCM granules producer in China, the Company must build up its own production capacity of the upstream decoction pieces and Chinese medicinal herbs bases, develop the decoction pieces and concentrated TCM granules businesses at an equal pace and formulate an overall layout for the entire TCM and healthcare complex industry chain so as to ride on the rapid development of the industry and achieve unwavering success in an increasingly competitive business environment.

The source of Chinese medicinal herbs is important to the efficacy and safety of drugs, and also the sustainable development of the TCM industry. The resources of Chinese medicinal herbs determine the future of the TCM industry. We should have that grand passion and vision to place resources of Chinese medicinal herbs as one of the Group's core strategies. Our plan for the Chinese medicinal herbs resources is (1) to construct production bases and increase industrial production capacity across the country; (2) to establish a strong scientific research force as support; and (3) to make available the required seed breeding, warehouse logistics and source tracking ancillary systems.

To avoid policy risks of the industry and break the barriers of protection by local governments, as well as to expand our industrial scale and consolidate our leading position in the industry, we have to accelerate the construction of production bases across the country so as to have full coverage of Chinese medicinal herbs extraction, production of concentrated TCM granules, TCM decoction pieces, and TCM intelligent distribution centers in key areas nationwide.

We will continue to provide downstream TCM healthcare services through TCM healthcare complexes, TCM pharmacies and TCM intelligent distribution centers in a more convenient and efficient way to enable that our products and services reach to more people, so as to achieve continuous growth in sales and profits.

IV. Introduce Ping An Life Insurance as Strategic Investor

On 19 March 2018, the Company and Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), a company under Ping An Group, entered into the Share Subscription Agreement. Ping An Life Insurance will subscribe for 604,296,222 new shares of the Company at the price of HK$4.43 per share. Upon the completion of the subscription, Ping An Life Insurance will hold approximately 12.0% of the total number of issued shares as enlarged of the Company. The Company is expected to raise total net proceeds of approximately HK$2,674 million through the share issue.

The Group intended to, through the share issue, introduce Ping An Group as a long-term strategic partner, which will help 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 Life through a joint venture being established by Ping An Life and Tsumura & Co. (a Japanese leading Kampo medicine manufacturer) as the primary strategic partner, which may 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.

We will closely focus on the development strategy of the "overall layout plan for the entire TCM healthcare industry chain" and formulate a blueprint for the construction of "a large-scale TCM healthcare industry group with the most significant competitiveness". 2018 will be the year for us to achieve a sales target of RMB10 billion. Let us look forward to a new record of performance and create greater value for our shareholders.

Once again I would like to express my sincere gratitude to our shareholders and other stakeholders for their continued attention and substantial support to the Group.

Chairman
Wu Xian

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

China Traditional Chinese Medicine Holdings Co. Limited is a leading TCM manufacturer in China, and a core TCM platform of CNPGC. The Company has a complete industry chain which integrates R&D, manufacturing and sales, including cultivation and harvesting of medicinal herbs, TCM decoction pieces, concentrated TCM granules, TCM finished drugs, and TCM healthcare complex. The Group offers more than 700 individual concentrated TCM granule products, over 60 classical formulated granule products, and 979 finished drugs. 282 of 979 finished drugs are listed on 2017 National Drugs List for Basic Medical Insurance, including 26 exclusive products, of which Xianling Gubao Capsules/Tablets, Yu Ping Feng Granules, Bi Yan Kang Tablets, Jingshu Granules, Moisturizing and Anti-Itching Capsules, Fengshi Gutong Capsules, Zaoren Anshen Capsules and Qili Capsules are exclusive products on the National Essential Drug List.

Headquartered in Foshan, Guangdong Province, the Company has more than 10,000 employees. Manufacturing facilities are located in Foshan, Guangdong Province; Guiyang, Guizhou Province; Jiangyin, Jiangsu Province; Xuancheng and Bozhou, Anhui Province; Jining and Linyi, Shandong Province; Longxi, Gansu Province; Mianyang, Sichuan Province; and Xining, Qinghai Province. All production lines are GMP certified as required by law. In total, 48,000 tonnes of Chinese medicinal herbs can be preprocessed and extracted annually. Annual production capacity is 14,300 tonnes of concentrated TCM granules, 40,000 tonnes of TCM decoction pieces, 10.2 billion packs of TCM finished granules, 5.65 billion tablets and 3.65 billion capsules.

BUSINESS REVIEW

As per the Group's strategic plan, in the reporting period, the Company focused on developing TCM decoction pieces and concentrated TCM granules segments, steadily promoting the TCM finished drugs business, and exploring extensions of the TCM healthcare complex segment. At the same time, we pursued mergers and acquisitions in an active but prudent manner, and reserved enterprise development resources to enhance the potential for corporate development and facilitate the Company's whole-industry chain construction. Below is a review of major accomplishments in 2017:

1. *Strengthening the industrial structure of TCM decoction pieces and concentrated TCM granules*

The Company ultimately plans to establish approximately 26 production bases in over 20 provinces (municipalities) across China, to synergize warehousing and production of TCM decoction pieces and concentrated TCM granules, integrate procurement with the medicinal herb source tracking system, and to break through the local protection policies by combining the Group's concentrated TCM granules industry access qualification and production quality technical standards with local quality resources.

After the completion of the industrial base structure, it is expected that the annual extraction capacity for Chinese medicinal herbs could reach 80,000 tonnes. Annual production capacity for concentrated TCM granules and TCM decoction pieces may reach 25,000 and 80,000 tonnes, respectively. The development of our production bases for TCM decoction pieces, concentrated TCM granules, and multipurpose TCM intelligent distribution centres nationwide are as follows:

- Production bases for TCM decoction pieces

  As part of its focus on developing the TCM decoction pieces industry, the Group established production bases for TCM decoction piece in more than 6 provinces (municipalities) with a total capacity of nearly 40,000 tonnes. We expect to double the production capacity of TCM decoction pieces through self-construction and acquisitions.

  The development plan of TCM decoction pieces is of great strategic significance to the Group, as they comprise both the raw materials of concentrated TCM granules and of TCM finished drugs. The products also are on the National Reimbursement Drugs List and Essential Drug List, and are directly available for sale at medical institutions and retail pharmacies. A mark-up is reserved for TCM decoction pieces when they are sold from public medical institutions. The TCM decoction pieces segment will be the major source of growth for the Group in future.

- Production bases for concentrated TCM granules

  During the reporting period, the Company operated eight self-constructed concentrated TCM granule bases in 8 provinces (municipalities), with a capacity of 14,300 tonnes. We plan to construct TCM Industrial Parks in Shaanxi, Jiangxi, Hunan, Chongqing, Yunnan and other provinces (municipalities) so as to accelerate the expansion of the production capacity of concentrated TCM granules. These will comprise an industrial chain system for the processing and extraction of medicinal herbs, production of concentrated TCM granules, and the decoction and delivery of TCM decoction pieces.

  Additionally, in order to achieve the capacity target of the eight major medicinal herb extraction bases from their current 48,000 tonnes, we continued upgrading existing extraction facilities in the reporting period.

- Multipurpose intelligent TCM distribution centers

  The rapid development of the internet and Internet of Things has made "intelligent TCM distribution" a feasible business model for delivering the supporting services of "smart medical treatment, diversified pharmacy services, real-time logistics".

  Multipurpose intelligent TCM distribution centers can provide medical institutions and retail pharmacies with "all dosage form", "personalized" and "one-stop" overall solutions with respect to quality TCM products and services. Its products and services include distribution for TCM decoction pieces and concentrated TCM granules, TCM decoction (ointment production) and delivery, in-hospital TCM preparation, TCM and Western finished drugs distribution, and medicinal wine making. Its business objectives are to improve service quality, reduce the costs of medical institutions, and enhance patient satisfaction.

  As at 28 March 2018, we have established and operated six intelligent TCM distribution centers. They are located in areas of the greatest consumption of TCM decoction pieces and concentrated TCM granules, namely Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang"), Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("Jiangyin Tianjiang") and Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices"), Feng Liao Xing (Zhongshan) Intelligent TCM Distribution Center ("Zhongshan Feng Liao Xing") and Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Sinopharm Tongjitang"). In 2017, 54.5% of sales revenue from the Group's TCM decoction pieces was contributed by the intelligent TCM distribution centers.

2. *Procurement of Chinese medicinal herbs and its development plan for plantation bases*

During the reporting period, the varieties of the Chinese medicinal herbs as procured by the centralized procurement platform of the Group increased from 105 to 211. At the end of the year, the inventory of the medicinal herbs was 18,000 tonnes, representing an increase of 11,000 tonnes as compared with the beginning of the year. The average price of procurement for the existing inventory decreased as compared with the beginning of 2017.

To ensure that the Group's medicinal herbs are procured from the place of origins, with optimized control over source traceability and stability of quality, the Company plans to set up plantation bases for 136 core Chinese medicinal herbs all over China in the next few years. During the reporting period, the Group completed 39 jointly-constructed plantation base projects for 29 domestic herb varieties, covering approximately 27,900 acres in total. At the same time, we also carried out resource protection and natural cultivation research for wild herb varieties, and maintained a system of strategic inventory and procurement. The Group also actively explored ways to guarantee the quality and supply of medicinal herbs through self-or joint-construction of initial processing bases in production regions.

3. *Accelerating research on concentrated TCM granules standards*

In response to the requirements of the "Technical Requirements on Quality Control and Standards Establishment for Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)》) issued by the Chinese Pharmacopoeia Commission, the Group completed standard decoction research on more than 100 medicinal herbs and standards for 56 concentrated TCM granules are ready for application. To improve the quality of research on concentrated TCM granules, we worked with third-party research institutions on solving technical issues such as fingerprint detection and concentrated TCM granule content determination. In the process of formulating standards, we revised and upgraded internal quality controls for some medicinal herbs, decoction pieces and extracts. The Group occupied a leading position in respect to standards establishment for concentrated TCM granules in the industry.

In February 2018, the Chinese Pharmacopoeia Commission opened consultation panel for the standards establishment for concentrated TCM granules. This signified that the CFDA and Pharmacopoeia Commission had begun to actively facilitate the work of the national standards establishment for concentrated TCM granules. The Company's efforts in this regard are in line with the government's positioning and development planning for the industry, and have created a solid foundation for the Group to maintain its leading position in an increasingly competitive market.

4. *Promoting clinical research on strategic blockbusters of finished drugs*

The finished drug sector is an important component of the Group's businesses. During the reporting period, we continued to carry out blockbuster cultivation programs to drive the market strategy of academic promotion, with evidence-based research on six core varieties progressing smoothly.

	Name of clinical research project	**Initiated hospital**	**Progress**
Xianling Gubao Capsule (仙靈骨葆膠囊)	Post-market safety evaluation on Xianling Gubao Capsules (10,000 participants)	Beijing Wangjing Hospital	Expected to be completed by the end of 2020
	Research on Xianling Gubao Capsule for preventing bone mass loss caused by aromatase inhibitor for treatment of post-menopause breast cancer	Shanghai Longhua Hospital	Expected to be completed in the middle of 2019
Jingshu Granules (頸舒顆粒)	Multi-centered, randomized, double-blinded and placebo-controlled clinical research on the effectiveness, safety and economic effects of Jingshu Granules for treatment of nerve root type cervical spondylosis (神經根型頸椎病)	Beijing Union Medical College Hospital	Expected to be completed within the year of 2018
Fengshi Gutong Capsules (風濕骨痛膠囊)	Randomized, double-blinded, double-stimulation and multi-centered clinical research on Fengshi Gutong Capsules for treatment of ankylosing spondylitis	The Third Affiliated Hospital of Zhongshan University	Expected to be completed in April 2018

	Name of clinical research project	Initiated hospital	Progress
Yu Ping Feng Granule (玉屏風顆粒)	Randomized, double-blinded, placebo parallel controlled and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treatment of COPD (chronic obstructive pulmonary disease)	Guangzhou Institute of Respiratory Disease	Completed
	Randomized, double-blinded and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treatment of repeated respiratory tract infection in children (小兒反復呼吸道感染)	The First Affiliated Hospital of Tianjin Chinese Medicine University Beijing Children's Hospital	Completed
	Multi-centered, randomized and placebo parallel controlled clinical trial for chronic urticaria with combined treatment of Yu Ping Feng Granules and Desloratadine Citrate Disodium Tablets	The Second Affiliated Hospital of Suzhou University	Completed
Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊)	Multi-centered, randomized, double-blinded and placebo parallel controlled clinical research on Moisturizing and Anti-Itching Capsules for the treatment of chronic eczema	Dermatology Hospital affiliated to Chinese Academy Of Medical Science	Completed
Zaoren Anshen Capsules (棗仁安神膠囊)	Randomized, double-blinded, double-stimulation and multi-centered parallel controlled clinical research on the efficacy and safety of Zaoren Anshen Capsules for the treatment of insomnia combined with Zolpidem Tartrate	Zhejiang Provincal Hospital of TCM	Expected to be completed in December 2018

5. *Continued launch of smart dispensing machine system for concentrated TCM granules*

The Company is committed to advancing the level of intelligent prescription of concentrated TCM granules in hospitals and improving medication experience of patients. In the past three years, we accelerated the launch of smart dispensing machine systems in medical institutions at all levels, with a focus on the more advanced third-generation of multi-stage dispensing machines.

- Number and annual growth rate of medicine dispensing machines in the market

	2017	2016	2015
Number of units at the beginning of the year	**2,541**	1,474	721
Increase	**1,332**	1,067	753
Growth rate	**52.4%**	72.4%	104.4%
Number of units at the end of the year	**3,873**	2,541	1,474

• Number and annual growth rate of healthcare institutions with medicine dispensing machines

	2017	2016	2015
Number of healthcare institutions at the beginning of the year	**1,661**	950	492
Increase	**1,007**	711	458
Growth rate	**60.6%**	74.8%	93.1%
Number of healthcare institutions at the end of the year	**2,668**	1,661	950

6. Concentrated TCM granules successfully entered the Hong Kong market

In December 2017, Jiangyin Tianjiang's concentrated TCM granules were awarded a two-year (from 1 April 2018 to 31 March 2020) procurement contract by Hong Kong Hospital Authority, covering 18 traditional Chinese medicinal clinics and centers under the Authority. This successful tender further improved the overseas popularity of Jiangyin Tianjiang and promoted expansion of the concentrated TCM granules business.

Analysis of business segments

During the reporting period, the Group's revenue was approximately RMB8,337,795,000, representing an increase of 27.6% from approximately RMB6,532,867,000 in last year. The increase was mainly attributable to rapid growth of the concentrated TCM granules business; revenue contributions from the new business segments of TCM decoction pieces and TCM healthcare complex; and recovery of the finished drugs business. An analysis of the four business segments is as follows:

1. Concentrated TCM granules

Key financial indicators for concentrated TCM granules

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue	**5,499,679**	4,358,546	26.2%
Cost of sales	**2,310,722**	1,762,653	31.1%
Gross profit	**3,188,957**	2,595,893	22.8%
Gross profit margin	**58.0%**	59.6%	-1.6ppt
Operating profit	**1,334,901**	1,042,022	28.1%
Profit for the year	**1,034,732**	854,043	21.2%
Net profit margin	**18.8%**	19.6%	-0.8ppt

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

During the reporting period, Tianjiang Pharmaceutical achieved satisfactory results and realized a rapid growth in revenue to RMB5,499,679,000, representing an increase of 26.2% compared with approximately RMB4,358,546,000 for the same period of last year, which accounted for 66.0% of total revenue.

The rapid growth in sales was mainly due to: (1) concentrated TCM granules conform to the concept of traditional Chinese medicine syndrome differentiation and the rhythm of modern life, driving continuous increase in market demand; (2) retaining sales mark-up for TCM decoction pieces (including concentrated TCM granules) in public hospitals; (3) in addition to an extensive sales network covering 30 provinces (municipalities), market penetration and hospital coverage were strengthened, and rapid expansion of terminal channels was achieved; (4) increased academic marketing so that average sales of concentrated TCM granules in class II and class III hospitals was significantly improved; and (5) further consolidation of market share in the face of a significant increase in the number of medicine dispensing machines provided to the market.

Gross profit margin decreased by 1.6 percentage points to 58.0%, compared to 59.6% for the same period of last year. The main reason for the decline was the rising prices of some medicinal herbs. The concentrated TCM granule business's operating profit and profit for the period were RMB1,334,901,000 and RMB1,034,732,000 respectively, representing respective increases of 28.1% and 21.2% compared with the same period of last year.

Revenue analysis by region

(in RMB million)

Regions	**2017**	**Proportion**	2016	Proportion	Growth amount	Change
East China	**1,884.39**	**34.3%**	1,553.47	35.6%	330.92	21.3%
South China	**1,077.58**	**19.6%**	794.60	18.2%	282.98	35.6%
Central China	**718.29**	**13.1%**	546.01	12.5%	172.28	31.6%
North China	**649.96**	**11.8%**	560.22	12.9%	89.74	16.0%
Northwest China	**386.34**	**7.0%**	303.55	7.0%	82.79	27.3%
Northeast China	**367.53**	**6.7%**	285.81	6.6%	81.72	28.6%
Southwest China	**342.27**	**6.2%**	221.29	5.1%	120.98	54.7%
Overseas and others	**73.32**	**1.3%**	93.60	2.1%	(20.28)	(21.7%)
Total	**5,499.68**	**100%**	4,358.55	100%	1,141.13	26.2%

Sales in East China, South China, Central China and North China accounted for 78.8% of total revenue, similar to last year's 79.2%. South China, Central China and Southwest China each achieved a year-on-year increases of over 30%, while Southwest China was the most prominent area of sales growth with a year-on-year increase of 54.7%. Sales in Northeast China have significantly recovered.

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).

Revenue analysis by terminal channel

(in RMB million)

	2017	**Proportion**	2016	Proportion	Growth amount	Change
Class III hospitals	**2,056.53**	**37.4%**	1,515.03	34.8%	541.50	35.7%
Class II hospitals	**1,584.96**	**28.8%**	1,258.60	28.9%	326.36	25.9%
Primary health care institutions	**735.96**	**13.4%**	493.29	11.3%	242.67	49.2%
Sales through agents	**1,122.23**	**20.4%**	1,091.63	25.0%	30.60	2.8%
Total	**5,499.68**	**100%**	4,358.55	100%	1,141.13	26.2%

Sales income from concentrated TCM granules of hospitals posted strong growth, and revenues from sales to class III hospitals and primary health care institutions particularly show an accelerating upward trend, representing year-on-year increases of 35.7% and 49.2% respectively. The sales structure was further optimized and the proportion of sales through agents decreased to 20.4% from 25.0% in 2016.

2. *Finished drugs*

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue	**2,381,202**	2,061,341	15.5%
Cost of sales	**1,018,717**	891,456	14.3%
Gross profit	**1,362,485**	1,169,885	16.5%
Gross profit margin	**57.2%**	56.8%	0.4ppt
Operating profit	**419,318**	336,222	24.7%
Profit for the year	**243,339**	233,348	4.3%
Net profit margin	**10.2%**	11.3%	-1.1ppt

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

During the reporting period, revenue from the finished drugs business was approximately RMB2,381,202,000, increased by 15.5% as compared to RMB2,061,341,000 for the same period of last year, representing 28.6% of total revenue.

The increase in revenue mainly derived from: (1) promotion of the blockbuster cultivation program and sales strategies. Core prescription products reported sales recovery, while core OTC products and other products achieved significant sales growth; (2) 2017 was the first full financial year of consolidation following the acquisition of Huayi Pharmaceutical Co., Ltd. ("Huayi Pharmaceutical") (its financial statements began to be consolidated from May 2016), and the prices of its products increased as a result of sales channel refinement during the reporting year.

Revenue analysis by product type

(in RMB million)

Type of product	**2017**	**Proportion**	**2016**	**Proportion**	**Change**
Core prescription products	1,223.03	51.4%	1,180.07	57.2%	3.6%
Core OTC products	457.31	19.2%	356.72	17.3%	28.2%
Other products	700.86	29.4%	524.55	25.4%	33.6%
Total	2,381.20	100.0%	2,061.34	100.0%	15.5%

Core prescription products: Products including Xianling Gubao Capsules/Tablets (仙靈骨葆膠囊／片), 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)

Core OTC products: 12 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), Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Vitamin C Yinqiao Tablets (維C銀翹片), Sheng Tong Luo/Nifedipine Sustained-release Tablets (III) (聖通洛／硝苯地平緩釋片(III)) and Po Chai Pills (保濟丸)

3. TCM decoction pieces business

To improve the source reliability, tracking process and quality control of upstream raw materials for the concentrated TCM granules and TCM finished drugs segments, as well as to develop the TCM decoction business and penetrate into more hospitals, the Group accelerated the expansion of its TCM decoction pieces business. The merger and acquisition of Guizhou Tongjitang Herbal Co., Ltd. (貴州同濟堂中藥飲片有限公司) ("Tongjitang Herbal") and Shanghai Tongjitang (上海同濟堂) were completed in November and December 2016, respectively. During the reporting period, their integration with the Group was completed smoothly and contributed to the steady growth of the segment.

Key financial indicators for continuing operation in the TCM decoction pieces business

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue	**398,742**	104,106	283.0%
Cost of sales	**320,758**	86,238	271.9%
Gross profit	**77,984**	17,868	336.4%
Gross profit margin	**19.6%**	17.2%	2.4ppt
Operating profit	**31,368**	2,364	1226.9%
Profit for the year	**33,081**	2,975	1012.2%
Net profit margin	**8.3%**	2.9%	5.4ppt

During the reporting period, revenue from TCM decoction pieces business amounted to approximately RMB398,742,000, representing an increase of approximately 283.0% as compared to RMB104,106,000 for the same period of last year, and accounting for 4.8% of total revenue. The rapid sales revenue growth was mainly due to: (1) the start of consolidation for financial statements of "Tongjitang Herbal" and "Shanghai Tongjitang"; (2) continued to benefit from the support of national policy on the TCM decoction pieces industry, and good market environment; and (3) rapid growth of the TCM decoction business.

Sales revenue by segment

(in RMB million)

Sales revenue by segment	**2017**	**Proportion**	2016	Proportion	Change
Decoction business	**217.45**	**54.5%**	14.37	13.8%	1,413.0%
Decoction pieces business	**181.29**	**45.5%**	89.74	86.2%	102.0%
Total	**398.74**	**100.0%**	104.11	100.0%	283.0%

During the reporting period, the TCM decoction pieces business's gross profit margin was 19.6%, representing an increase of 2.4 percentage points from 17.2% at the same period last year. The improvement was mainly due to the consolidation of decoction business financial statements from Shanghai Tongjitang, which had a higher gross profit margin and rapid growth. Operating profit of the TCM decoction pieces business was approximately RMB31,368,000, representing a 1226.9% increase over the same period last year. Profit for the period from TCM decoction pieces was approximately RMB33,081,000, representing an increase of 1012.2% compared to the same period last year.

4. *TCM healthcare complex*

Key financial indicators of continuing operation in TCM healthcare complex

	Twelve months ended 31 December		
	2017	2016	Change
	RMB'000	*RMB'000*	
Revenue	**58,172**	8,874	555.5%
Cost of sales	**36,016**	4,840	644.1%
Gross profit	**22,156**	4,034	449.2%
Gross profit margin	**38.1%**	45.5%	-7.4ppt
Operating profit	**865**	-3,825	122.6%
Profit for the year	**279**	-3,825	107.3%
Net profit margin	**0.5%**	-43.1%	43.6ppt

In January 2017 the Company completed the acquisition of 60% registered capital in Guizhou Tongjitang Pharmacy Chain Co., Ltd. ("Guizhou Tongjitang Pharmacy Chain"), which promoted the development of the TCM healthcare complex business and began to achieve a profit.

During the reporting period, revenue from the TCM healthcare complex business amounted to approximately RMB58,172,000, representing an increase of approximately 555.5% as compared to RMB8,874,000 for the same period last year. The rapid growth of sales revenue was mainly due to: (1) financial statements of Guizhou Tongjitang Pharmacy Chain began to be consolidated; (2) rapid growth of Feng Liao Xing TCM Healthcare Complex. During the reporting period, a positive marketing strategy has increased the brand awareness of Feng Liao Xing TCM Healthcare Complex; there were nearly 37,000 outpatients and physiotherapy visits, representing an increase of approximately 82.0% compared with the same period last year. In September 2017, the Chongqing TCM Healthcare Complex started operation as well.

Revenue analysis by segment *(in RMB million)*

	2017	**Proportion%**	2016	Proportion %	Change
Medicine/healthcare products	**39.17**	**67.3%**	6.42	72.4%	509.8%
Outpatient clinic	**2.03**	**3.5%**	0.77	8.6%	165.0%
Medical service	**16.97**	**29.2%**	1.68	19.0%	910.1%
Total	**58.17**	**100.0%**	8.87	100.0%	555.5%

INVESTMENT PROJECTS

In February 2018, the acquisitions of four companies by the Group from China National Traditional Chinese Medicine Corporation at approximately RMB499.3 million were completed. The four companies included Beijing Huamiao, Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company ("Beijing Huatai"), Heilongjiang Sinopharm Medicinal Materials Co., Limited ("HLJ Sinopharm") and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou"). The completion of the acquisitions allowed the company to achieve rapid expansion of the production capacity and sales network of the decoction pieces business.

Beijing Huamiao

Feng Liao Xing Material & Slices, an indirect wholly-owned subsidiary of the Group, completed the acquisition of 100% equity interest of Beijing Huamiao at approximately RMB216.6 million (equivalent to approximately HK$255.6 million) on 8 February 2018. Beijing Huamiao is principally engaged in the manufacture and sale of TCM decoction pieces in Beijing, the PRC. Beijing Huamiao produces more than 800 kinds of TCM decoction pieces products which are mainly sold to hospitals and medical institutions in Beijing as well as TCM manufacturers. It also produces health products for end-users and provides decoction services to several hospitals in Beijing.

Beijing Huatai

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of Beijing Huatai at approximately RMB139.6 million (equivalent to approximately HK$164.7 million) on 31 January 2018. The major asset of Beijing Huatai is an industrial complex in Beijing. Phase I and Phase II of the industrial complex are currently leased to Huayi Pharmaceutical and Beijing Huamiao respectively for production use.

HLJ Sinopharm

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of HLJ Sinopharm at approximately RMB61.4 million (equivalent to approximately HK$72.5 million) on 24 January 2018. 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 which are being leased to independent third parties for rental income and operates a retail pharmacy through its wholly-owned subsidiary. In addition, HLJ Sinopharm owns two plantation bases of medicinal herbs in Heilongjiang Province, the PRC.

Sichuan Jiangyou

Feng Liao Xing Material & Slices completed the acquisition of 100% equity interest of Sichuan Jiangyou at approximately RMB81.7 million (equivalent to approximately HK$96.4 million) on 12 January 2018. 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 commenced production at the end of 2016, with an annual production capacity of 4,000 tonnes.

For details of the acquisitions of four companies., please refer to the announcement dated 22 October 2017 and the circular dated 23 November 2017 of the Company.

The newly acquired companies, together with the Group's existing decoction pieces business in Shanghai, Guiyang, Guangdong and Gansu, form extensive geographical coverage of TCM decoction pieces business in the key regions in the PRC. Through the acquisitions, the Group also achieved the localization of the concentrated TCM granules business in regions such as Beijing and Heilongjiang, and made use of the mature hospital network of the newly acquired subsidiaries, and the synergy and scale advantage of the Group's existing sales channels in order to achieve the rapid expansion of the shares for the concentrated TCM granules and decoction pieces market.

OUTLOOK FOR 2018

The Group has formulated mid-and-long-term strategic objectives. We will focus on the following aspects: the whole-industry chain layout of TCM, as we believe that an extensive and in-depth industrial structure will help us to resist industrial policy and operational risks; research on standards for concentrated TCM granules and classical formulated granule products to elevate our technological position in the industry; clinical research on finished drug blockbusters, exploring the clinical value of products to bring new vitality into our product line; pursuing technological innovation and accelerating the development of intelligent TCM distribution centres and TCM workshops; the cultivation of core Chinese medicinal herbs whilst ensuring controllable source tracking and consistent quality.

In 2018, to achieve the strategic planned objectives of the Group, we will pay close attention to changes in national industry policies and focus on principal operations to promote the continuous development and expansion of the Company's four core business segments.

- **Accelerating expansion in the layout and development of the TCM decoction pieces and concentrated TCM granules segments**

  In 2018, we will continue to expedite the layout planning of production bases for the TCM decoction pieces and concentrated TCM granules across the country and focus on business development targeting at top 100 large-scale hospitals to ensure the achievement of our annual operation and management goals. The Group will further establish "Tianjiang" and "Yifang" as leading brands of concentrated TCM granules, create barriers to competition and consolidate the leading industry position through participating in the formulation of the industry standard of concentrated TCM granules.

- **Expediting the development of intelligent TCM distribution centers**

  We will expedite the development of multipurpose intelligent TCM distribution centers by integrating quality TCM resources including medicinal herb bases, traditional decoction pieces and concentrated TCM granules, and leveraging on the Big Data platform of "Internet + medical treatment". In 2018, we plan to set up and operate approximately 30 intelligent TCM service centers in major provinces of China in cooperation with regional leading hospitals, one of which will be a automatic TCM distribution center in Beijing. In this way, we aim to gradually achieve regional network coverage of hospitals and rapid expansion of market share.

- **Bringing vitality to finished drug products to achieve sustainable growth**

  In respect to the key varieties of finished drugs, the Group will conduct a series of academic research projects, including evidence-based clinical studies, drug safety, and pharmacoeconomic studies, to enhance the academic value of its products. At the same time, we will strengthen the market planning and brand-building of OTC products and cooperate with large-scale chain pharmacies to realize product revitalization and achieve sustainable growth.

- **Accelerating the extension of TCM healthcare complex business**

  In 2018, we will speed up the development of TCM Healthcare Complex business and launch the construction and opening of Foshan Nanhai TCM Healthcare Complex and Jiangyin Complex, so as to gradually achieve scale effect and brand effect of the TCM healthcare complex business and reduce supply chain and management costs.

- **Improving the TCM source tracking system**

  Sources of the Group's Chinese medicinal herbs procured from local production bases will traceable and quality controllable to the maximum possible extent. To achieve this, the Group cooperated with herb-producing companies and households to gradually establish and improve a management system for medicinal herb bases and guarantee their quality and supply. At the same time, we will accelerate the construction of initial processing bases in production regions and optimize our industrial structure to reduce production costs and improve operational efficiency. The Group is also committed to enhancing the quality of domestic medicinal herbs and making contributions to the conservation of herb resources.

- **Advancing the "development strategy of granules of TCM classical prescriptions"**

  In response to national policy support for TCM classical prescriptions, the Company will take the lead in declaring the national key science and technology project of "TCM classical prescriptions development based on TCM classics " in alliance with Tianjiang Pharmaceutical, Yifang Pharmaceutical, Beijing University of Chinese Medicine and Guangdong Second Traditional Chinese Medicine Hospital. The Company will take this project as an opportunity to accumulate experience and ideas on the research of TCM classical prescriptions.

- **Constructing a large-scale TCM warehousing and trading platform**

  We will construct a TCM warehousing and trading platform in strict accordance with GMP requirements. Standard warehouses with a gross floor area of 600,000 square meters will be established in Longxi, Gansu Province; Bozhou, Anhui Province; Mianyang, Sichuan Province; Guilin, Guangxi Province; and other locations. The trading platform will establish a TCM quality inspection center recognized by CNCA and CNAS (Laboratory accreditation, inspection institution accreditation and national qualification accreditation).

  The TCM warehousing and trading platform will integrate transactions, delivery, storage, logistics, inspection, financing and quality tracking services under the new "Internet + TCM industry + financial service + modern logistics" model. It will provide services to upstream Chinese medical herb suppliers and downstream herb purchasing enterprises, and aims to completely change the current industrial situation of fragmentation, non-transparency and mixed counterparties.

- **Initiating a cloud computing data center project**

  In future, a cloud computing data center will coordinate with the Company's specialized backbone network to provide business system services and network support for its national business sections and branches. The business activities of all segments will be shared to the data center for centralized operation and maintenance, and provide external service support. Subsequently, distribution centers, industrial parks, TCM healthcare complex and subsidiaries in various regions will see dramatic decrease in the costs of construction, operation and maintenance of machine rooms and servers, thus reducing mid-and long-term cost input.

- **Implementing the profit-oriented evaluation and incentive model**

  On the premise of compliance, we will implement a new evaluation and incentive model centered on profit, safe production, environmental production and quality, and delegate powers sufficiently to lower levels to further stimulate the vitality and creativity of the Group.

FINANCIAL INFORMATION

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** ***RMB'000***	2016 *RMB'000*
Revenue	*3*	**8,337,795**	6,532,867
Cost of sales		**(3,686,213)**	(2,745,187)
Gross profit		**4,651,582**	3,787,680
Other income	*4*	**119,544**	82,363
Other gains and losses		**4,103**	(8,010)
Selling and distribution expenses		**(2,437,167)**	(1,968,432)
Administrative expenses		**(349,449)**	(329,986)
Research and development expenses		**(202,160)**	(186,832)
Profit from operations		**1,786,453**	1,376,783
Finance costs		**(221,068)**	(73,423)
Share of results of associates		**1,852**	444
Profit before tax	*6*	**1,567,237**	1,303,804
Income tax expense	*5*	**(255,804)**	(217,264)
Profit for the year		**1,311,433**	1,086,540
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		–	674,584
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		–	(779,189)
Other comprehensive (expense) income for the year, net of income tax		–	(104,605)
Total comprehensive income for the year		**1,311,433**	981,935
Profit for the year attributable to:			
Owners of the Company		**1,170,434**	966,927
Non-controlling interests		**140,999**	119,613
		1,311,433	1,086,540
Total comprehensive income attributable to:			
Owners of the Company		**1,170,434**	862,322
Non-controlling interests		**140,999**	119,613
		1,311,433	981,935
EARNINGS PER SHARE	*8*		
Basic and diluted (RMB cents)		**26.41**	21.73

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,386,927**	2,019,036
Prepaid lease payments		**346,457**	334,244
Investment properties		**6,840**	2,376
Goodwill	9	**3,486,372**	3,456,353
Other intangible assets		**6,703,786**	6,763,921
Interests in associates		**92,576**	88,784
Deposits and prepayments		**338,894**	161,946
Deferred tax assets		**139,405**	139,716
		13,501,257	12,966,376
CURRENT ASSETS			
Inventories	12	**3,551,829**	1,894,169
Trade and other receivables	10	**3,024,076**	2,716,250
Prepaid lease payments		**19,673**	10,122
Held for trading investments		**691**	591
Derivative financial instruments		–	23,694
Pledged bank deposits		–	2,226
Fixed deposits		–	1,050,000
Bank balances and cash		**4,787,781**	2,373,356
		11,384,050	8,070,408
CURRENT LIABILITIES			
Trade and other payables	11	**3,856,512**	2,303,735
Bank borrowings		**638,697**	1,001,392
Tax liabilities		**199,678**	201,697
		4,694,887	3,506,824
NET CURRENT ASSETS		**6,689,163**	4,563,584
TOTAL ASSETS LESS CURRENT LIABILITIES		**20,190,420**	17,529,960
NON-CURRENT LIABILITIES			
Deferred government grants		**145,507**	142,630
Deferred tax liabilities		**1,714,698**	1,722,917
Unsecured notes		**4,481,958**	2,485,604
Bank borrowings		**33,000**	422,947
		6,375,163	4,774,098
NET ASSETS		**13,815,257**	12,755,862
CAPITAL AND RESERVES			
Share capital		**9,809,935**	9,809,935
Reserves		**2,626,843**	1,778,392
Equity attributable to owners of the Company		**12,436,778**	11,588,327
Non-controlling interests		**1,378,479**	1,167,535
TOTAL EQUITY		**13,815,257**	12,755,862

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

	2017	2016
	RMB'000	*RMB'000*
Operating activities		
Profit before tax	**1,567,237**	1,303,804
Adjustments for:		
Depreciation and amortisation	**423,389**	336,760
Amortisation of deferred government grants	**(33,017)**	(2,356)
Impairment losses (reversed) recognised in respect of		
– trade receivables	**(18,462)**	78,368
– other receivables	**5,751**	1,811
(Reversal of) write down of inventories	**(8,088)**	16,008
Finance costs	**221,068**	73,423
Interest income	**(32,561)**	(14,590)
Loss on disposal of property, plant and equipment	**892**	1,528
Gain on disposal of other intangible assets	**(278)**	–
Fair value changes on held for trading investments	**(100)**	3
Fair value changes on foreign currency forward contracts	**16,751**	(23,694)
Net foreign exchange gain	**(15,546)**	(54,987)
Compensation from ex-shareholder of Jiangyin Tianjiang Group	**(22,970)**	–
Share of results of associates	**(1,852)**	(444)
Operating cash flows before movements in working capital	**2,102,214**	1,715,634
Increase in inventories	**(1,622,566)**	(600,092)
(Increase) decrease in trade and other receivables	**(316,891)**	155,463
Decrease in pledged bank deposit	**2,226**	33,804
Increase in trade and other payables	**1,363,476**	364,161
Cash generated from operations	**1,528,459**	1,668,970
PRC Enterprise Income Tax paid	**(292,865)**	(204,330)
Net cash from operating activities	**1,235,594**	1,464,640

	2017	2016
	RMB'000	*RMB'000*
Investing activities		
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	**(108,457)**	(1,328,209)
Remaining proceeds received from disposal of a subsidiary	–	10,618
Placement of fixed deposits	–	(1,050,000)
Withdrawal of fixed deposits	**1,050,000**	–
Cash paid to acquire other financial assets	–	(300,000)
Proceeds on disposal of other financial assets	–	400,000
Purchase of property, plant and equipment and payment for construction in progress	**(595,069)**	(227,972)
Proceeds from disposal of property, plant and equipment	**1,069**	2,400
Deposit paid for acquisition of a subsidiary	–	(26,317)
Purchase of prepaid lease payments	**(24,599)**	(20,263)
Purchase of other intangible assets	**(7,875)**	(7,607)
Assets-related government grants received	**44,972**	32,705
Proceeds from disposal of other intangible assets	**357**	–
Capital contribution to an associate	–	(204)
Interest received	**32,561**	14,590
Net cash from (used in) investing activities	**392,959**	(2,500,259)
Financing activities		
New bank borrowings raised	**1,406,322**	1,093,957
Repayment of bank borrowings	**(2,169,913)**	(1,758,074)
Dividend distribution	**(316,083)**	(245,148)
Payment for repurchase shares	–	(162,219)
Interest paid	**(156,682)**	(59,450)
Dividends paid to non-controlling interests of a subsidiary	**(21,757)**	(117)
Proceeds from issue of unsecured notes	**2,000,000**	2,500,000
Expenses on issue of unsecured notes	**(12,170)**	(15,000)
Capital injection from non-controlling equity holders	**80,218**	–
Increase in restricted bank deposits	**(257,304)**	(226,018)
Decrease in restricted bank deposits	**226,018**	–
Net proceed received on maturity of derivative financial instruments	**6,943**	–
Net cash from financing activities	**785,592**	1,127,931
Net increase in cash and cash equivalents	**2,414,145**	92,312
Cash and cash equivalents at beginning of the year	**2,147,338**	2,101,856
Effect of foreign exchange rate changes	**(31,006)**	(46,830)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**4,530,477**	2,147,338

1. GENERAL

China Traditional Chinese Medicine Holdings Co. Limited (the "Company") is a listed company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

As a result of a substantial increase in the Company's Renminbi ("RMB") revenue stream and debt levels in 2016, the directors of Company re-assessed and considered that RMB is the functional currency of the Company.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company and all the Group's subsidiaries.

2. APPLICATION OF NEW AND 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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

The application of the 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]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

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 2021.

3. REVENUE AND SEGMENT INFORMATION

Revenue

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

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Sale of pharmaceutical products		
– Finished drugs	**2,381,202**	2,061,341
– Concentrated Traditional Chinese Medicine ("TCM") granules	**5,499,679**	4,358,546
– TCM decoction pieces	**398,742**	104,106
– TCM healthcare complex	**58,172**	8,874
	8,337,795	6,532,867

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenue in both current and prior years.

Segment reporting

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

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

During the current year, in view of the significance of the operation of the TCM decoction pieces business segment upon the acquisitions of Tongjitang Herbal and Shanghai Tongjitang in late 2016, and the acquisition of Guizhou Tongjitang Pharmacy Chain and Sichuan Tianxiong Pharmaceutical Co., Ltd. ("Sichuan Tianxiong") in the current year, the CODM revised the organisation of the finished drugs segment that were used to allocate resources and assess performance, and changed its analysis to (i) finished drugs; (ii) TCM decoction pieces and (iii) TCM healthcare complex, which is currently the basis used for the purpose of allocating resources and assessing their performance, and also the basis of organisation of the Group for managing the business operations. Other than finished drugs, TCM decoction pieces and TCM healthcare complex business, the CODM continues to review the performance of concentrated TCM granules on a similar basis as prior years.

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

Consequently, the comparative segment information for the year ended 31 December 2016 or as at 31 December 2016 have been updated in order to conform with the presentation adopted in current year. The changes in the segment information do not have any impact on the Group's condensed consolidated financial statements.

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

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive 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. To arrive at adjusted EBITDA, the Group's earnings are further adjusted for items not specifically attributed to individual segments. Further details of the adjusted items are set out in note 3(ii).

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

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

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.

	Finished drugs *RMB'000*	Concentrated TCM granules *RMB'000*	TCM decoction pieces *RMB'000*	TCM healthcare complex *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017					
Reportable segment revenue	**2,415,838**	**5,514,655**	**490,508**	**58,172**	**8,479,173**
Eliminated of inter-segment revenue	**(34,636)**	**(14,976)**	**(91,766)**	**–**	**(141,378)**
Revenue from external customers	**2,381,202**	**5,499,679**	**398,742**	**58,172**	**8,337,795**
Reportable segment profit (adjusted EBITDA)	**557,082**	**1,579,672**	**48,986**	**11,223**	**2,196,963**
Interest income	**5,624**	**25,383**	**1,505**	**49**	**32,561**
Finance costs	**95,993**	**124,334**	**672**	**69**	**221,068**
Depreciation and amortisation	**118,358**	**275,500**	**19,122**	**10,409**	**423,389**
As at 31 December 2017					
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**

	Finished drugs *RMB'000*	Concentrated TCM granules *RMB'000*	TCM decoction pieces *RMB'000*	TCM healthcare complex *RMB'000*	Total *RMB'000*
For the year ended 31 December 2016 (restated)					
Reportable segment revenue	2,061,341	4,358,789	144,644	8,874	6,573,648
Eliminated of inter-segment revenue	–	(243)	(40,538)	–	(40,781)
Revenue from external customers	2,061,341	4,358,546	104,106	8,874	6,532,867
Reportable segment profit (loss) (adjusted EBITDA)	383,193	1,251,618	3,699	(3,633)	1,634,877
Interest income	7,953	4,900	1,735	2	14,590
Finance costs	38,719	34,372	332	–	73,423
Depreciation and amortisation	112,243	221,257	3,065	195	336,760
As at 31 December 2016 (restated)					
Reportable segment assets	6,113,657	14,946,411	830,445	14,266	21,904,779
Reportable segment liabilities	3,573,177	2,812,688	739,793	3,461	7,129,119

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

	2017	2016
	RMB'000	*RMB'000*
Reportable segment profit (adjusted EBITDA)	**2,196,963**	1,634,877
Depreciation and amortisation	**(423,389)**	(336,760)
Interest income	**32,561**	14,590
Finance costs	**(221,068)**	(73,423)
Rental income	**1,162**	880
Fair value changes on derivative financial instruments	**(16,751)**	23,694
Fair value changes on held for trading investments	**100**	(3)
Net exchange gain	**15,546**	54,987
Share of results of associates	**1,852**	444
Head office and corporate expenses	**(19,739)**	(15,482)
Consolidated profit before taxation	**1,567,237**	1,303,804

	2017	2016
	RMB'000	*RMB'000*
		(Restated)
Assets		
Reportable segment assets	**28,392,016**	21,904,779
Elimination of inter-segment receivables	**(3,669,786)**	(1,951,873)
	24,722,230	19,952,906
Held for trading investments	**691**	591
Derivative financial instruments	**–**	23,694
Deferred tax assets	**139,405**	139,716
Unallocated head office and corporate assets	**22,981**	919,877
Consolidated total assets	**24,885,307**	21,036,784
Liabilities		
Reportable segment liabilities	**12,302,751**	7,129,119
Elimination of inter-segment payables	**(3,669,786)**	(1,951,873)
	8,632,965	5,177,246
Tax liabilities	**199,678**	201,697
Deferred tax liabilities	**1,714,698**	1,722,917
Unallocated head office and corporate liabilities	**522,709**	1,179,062
Consolidated total liabilities	**11,070,050**	8,280,922

(iii) Geographical information

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

4. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Government grants		
– Unconditional subsidies *(note i)*	**29,834**	64,537
– Conditional subsidies	**33,017**	2,356
Interest income on bank deposits	**32,561**	8,155
Interest income on other financial assets	**–**	6,435
Compensation from ex-shareholder of Jiangyin Tianjiang Group *(note ii)*	**22,970**	–
Rental income from investment properties	**1,162**	880
	119,544	82,363

Notes:

(i) The amount represents subsidy income received from various government authorities as incentives to the Group to recognise their contribution to the local economy with conditions which have been satisfied.

(ii) The amount represented compensation received from an ex-shareholder of a subsidiary for the potential loss of the acquired subsidiaries as more fully explained in note 11 (b).

5. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**279,443**	259,979
Under (over) provision in prior years	**9,893**	(2,661)
	289,336	257,318
Deferred tax credit	**(33,532)**	(39,681)
Effect of change in tax rate	**–**	(373)
	255,804	217,264

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.

6. PROFIT BEFORE TAX

	2017	2016
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Directors' remuneration	**4,249**	4,924
Other staff costs		
Salaries, wages and other benefits	**825,298**	692,867
Contributions to defined contribution retirement plans	**65,233**	42,072
	890,531	734,939
Auditors' remuneration	**4,320**	4,402
Depreciation		
– investment properties	**159**	137
– property, plant and equipment	**234,827**	182,208
Amortisation of prepaid lease payments	**19,673**	10,122
Amortisation of other intangible assets	**168,730**	144,293
Total depreciation and amortisation	**423,389**	336,760
(Reversal of) impairment losses recognised in respect of		
– trade receivables	**(18,462)**	78,368
– other receivables	**5,751**	1,811
(Reversals of) write-down of inventories	**(8,808)**	16,008
Minimum lease payments under operating leases in respect of land and buildings	**9,464**	6,399
Gross rental income from investment properties	**(1,162)**	(880)
Less: direct operating expenses incurred for investment properties	**326**	131
	(836)	(749)

7. DIVIDENDS

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

	2017	2016
	RMB'000	*RMB'000*
2017 interim – HK4.75 cents (2016 interim: HK6.44 cents) per share	**184,966**	245,148
2017:2016 final dividend of HK3.59 cents (2016: nil) per share	**137,017**	–
	321,983	245,148

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2017 of HK4.96 cents per share has been proposed by the directors of the Company and is subject to approval by the shareholders at the forthcoming annual general meeting. The total amount of the proposed final dividend amounting to HK$219,803,000, calculated based on the Company's number of shares issued at the date of this announcement, is not recognised as a liability in the consolidated statement of financial position.

8. EARNINGS PER SHARE

(a) Basic earnings per share

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

	2017	2016
	RMB'000	*RMB'000*
Profit attributable to the owners of the Company	**1,170,434**	966,927

(b) Weighted average number of ordinary shares

	2017	2016
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,431,505**	4,450,435

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in issue for both 2017 and 2016.

9. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2016 (restated)	3,341,045
Acquired through business combination	150,308
Adjustment for provisional consideration *(note)*	(35,000)
At 31 December 2016	3,456,353
Acquired through business combination	30,019
At 31 December 2017	3,486,372

Note:

As at 31 December 2015, the directors of the Company were in the process of assessing fair values of the consideration and the identifiable net assets and liabilities assumed of the Jiangying Tianjiang Group at the date of the acquisition and goodwill was determined provisionally in accordance with HKFRS 3 "Business Combinations". On 31 May 2016, the Company further agreed a compensation of RMB35,000,000 with two of the remaining ex-shareholders and the compensation was deducted against the goodwill in the consolidated financial statements for the year ended 31 December 2016.

10. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**1,871,350**	1,899,835
Less: Allowance for doubtful debts	**(113,092)**	(141,325)
	1,758,258	1,758,510
Bills receivables	**984,550**	756,966
Deposits and prepayments	**144,326**	101,029
Deposit for acquisition of a subsidiary	**–**	26,317
Consideration receivable from disposal of Guizhou Zhongtai	**3,332**	3,332
Value added tax recoverable	**54,983**	22,457
Other receivables	**78,627**	47,639
	3,024,076	2,716,250

The Group allows a credit period ranging from 30 to 180 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 365 days as at 31 December 2017 and 2016.

The aged analysis of the Group's trade receivables, net of allowance, based on invoice date at the end of each reporting period are as follows:

	2017	2016
	RMB'000	*RMB'000*
0-90 days	**858,472**	856,247
91-180 days	**532,221**	483,646
181-365 days	**326,145**	392,515
Over 365 days	**41,420**	26,102
	1,758,258	1,758,510

11. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**1,782,943**	852,330
Deposits received	**531,442**	279,820
Advances received from customers	**194,429**	75,582
Advances of government grants *(note a)*	**20,962**	11,884
Salary and welfare payables	**134,345**	116,799
Other tax payables	**126,137**	142,414
Accrual of operating expenses	**526,084**	316,523
Interest payable	**66,500**	11,889
Dividend payable	**36,050**	–
Consideration payable for acquisition of Jiangyin Tianjiang Group *(note b)*	**18,130**	88,110
Contingent consideration payable for acquisition of Shanghai Tongjitang *(note c)*	**10,000**	10,000
Consideration payable for acquisition of Sichuan Tianxiong	**2,484**	–
Other payables *(note d)*	**407,006**	398,384
	3,856,512	2,303,735

Notes:

(a) As at 31 December 2017 and 2016, advances of government grants to the Group mainly included various conditional government grants to compensate the Group's research and development projects of new or existing pharmaceutical products. Such government grants are recognised as income in the period when the recognition criterias are met in according to the Group's accounting policy.

(b) During the year ended 31 December 2017, the Company paid RMB47,010,000 out of the outstanding consideration payable as at 31 December 2016 of RMB88,110,000. As agreed with the ex-shareholders following the acquisition of Jiangyin Tianjiang Group in 2015 in relation to the compensation for the potential loss of future revenue due to a litigation against three distributors of the Jiangyin Tianjiang Group incurred before the acquisition, an amount of RMB22,970,000 deducted from the consideration payable to one of the ex-shareholders during the year and the balance of consideration payable as at 31 December 2017 was RMB18,130,000.

(c) The vendors have guaranteed that the audited net profit after tax (excluding non-recurring gains and losses) of Shanghai Tongjitang for each of the two years ended 31 December 2016 and 2017 shall be not less than RMB43,000,000 (the "Target Profits"). In the event that the audited net profit after tax (excluding non-recurring gains and losses) for any of the two years ended 31 December 2016 and 2017 is less than the Target Profits, the consideration for the acquisition will be adjusted to RMB500,000,000. Given that the profit after tax recorded by Shanghai Tongjitang for the two years ended 31 December 2016 and 2017 have exceeded the Target Profits, the directors of the Company considered that it is unlikely that adjustment will be made to the consideration.

(d) Included in other payables is RMB257,304,000 (31 December 2016: RMB226,018,000) which represents the cash from settlement of receivables under the non-recourse factoring arrangement. The Group has an obligation to remit the cash flows to the financial institution without material delay.

12. INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Inventories comprise:		
Raw materials	**1,189,805**	384,032
Work in progress	**978,679**	706,919
Finished goods	**1,383,345**	803,218
	3,551,829	1,894,169

FINANCIAL REVIEW

The Group completed the acquisition of 100% equity interest of Huayi Pharmaceutical, Tongjitang Herbal and Shanghai Tongjitang, in May 2016, November 2016 and December 2016, respectively, and completed the acquisition of 60% equity interest in Guizhou Tongjitang Pharmacy Chain in January 2017. During the year, Tongjitang Herbal, Shanghai Tongjitang and Feng Liao Xing Material & Slices were consolidated into the TCM decoction pieces business of the Group, and Guizhou Tongjitang Pharmacy Chain and Feng Liao Xing TCM Healthcare Complex were consolidated into the TCM healthcare complex business of the Group. The comparative segment information during the year under review have been restated to comform with the presentation adopted in current year.

Revenue

During the year under review, the Group's revenue amounted to approximately RMB8,337,795,000, representing an increase of 27.6% from approximately RMB6,532,867,000 for last year, mainly attributable to the rapid growth of the concentrated TCM granules business, revenue contribution brought by the new businesses of the TCM decoction pieces and TCM healthcare complex and the sale improvement in the finished drug business.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was approximately RMB3,686,213,000, representing an increase of 34.3% from approximately RMB2,745,187,000 for last year. Gross profit for the year was approximately RMB4,651,582,000, representing an increase of 22.8% from approximately RMB3,787,680,000 for last year. Gross profit margin for the year dropped by 2.2 percentage points to 55.8% from 58.0% of last year. The decrease in gross profit margin was mainly due to the raw material costs increased and the gross profit margins of the newly consolidated companies were lower than the gross profit margins of the original businesses of the Group.

During the year under review, the cost of sales for the concentrated TCM granules business was approximately RMB2,310,722,000, representing an increase of 31.1% as compared with approximately RMB1,762,653,000 for last year. Gross profit amounted to approximately RMB3,188,957,000, representing an increase of 22.8% from approximately RMB2,595,893,000 for last year. The gross profit margin for the year was 58.0%, representing a drop of 1.6 percentage points as compared to 59.6% for last year, which was mainly due to increasing raw material costs.

During the year under review, the cost of sales for the finished drug business was approximately RMB1,018,717,000, representing an increase of 14.3% as compared with approximately RMB891,456,000 for last year. Gross profit amounted to approximately RMB1,362,485,000, representing an increase of 16.5% from approximately RMB1,169,885,000 for last year. The gross profit margin for the year was 57.2%, representing an increase of 0.4 percentage point as compared to 56.8% for last year.

During the year under review, the cost of sales for the TCM decoction pieces business and TCM healthcare complex business were approximately RMB320,758,000 and RMB36,016,000, respectively. Gross profits amounted to approximately RMB77,984,000 and RMB22,156,000, respectively, and gross profit margins were 19.6% and 38.1%, respectively.

Other income

During the year under review, the Group's other income was approximately RMB119,544,000, representing an increase of 45.1% as compared to approximately RMB82,363,000 for last year. The increase in other income was mainly due to an increase in interest income on bank deposits and the compensation from ex-shareholder of Tianjiang Pharmaceutical.

	2017	2016	Change
	RMB'000	*RMB'000*	
Interest income	**32,561**	14,590	123.2%
Government grants	**62,851**	66,893	-6.0%
Rental income	**1,162**	880	32.0%
Others	**22,970**	–	N/A
Total	**119,544**	82,363	45.1%

Selling and distribution costs

During the year under review, the Group's selling and distribution costs amounted to approximately RMB2,437,167,000 (2016: RMB1,968,432,000).

	2017	2016	Change
	RMB'000	*RMB'000*	
Advertising, promotion and traveling expenses	**1,281,717**	921,472	39.1%
Salary expenses of sales and marketing staff	**380,461**	367,133	3.6%
Distribution costs	**116,498**	70,188	66.0%
Other selling and distribution costs	**658,491**	609,639	8.0%
Total	**2,437,167**	1,968,432	23.8%

During the year under review, the selling and distribution costs of the Group increased by 23.8% as compared to that of last year, the selling and distribution costs as a percentage of the revenue was 29.2%, representing a fall of 0.9 percentage point as compared to 30.1% for last year, which was mainly due to the decrease in selling expenses margin as a result of the enhancement of operation efficiency of the sales team through the introduction of the responsibility system to the finished drug business last year, while the selling expenses margins of the newly consolidated companies were lower than that of the Group's original business. The growth of the advertising, promotion and traveling expenses for the year is mainly due to the concentrated TCM granules business increased marketing input for developing new markets and new customers. The selling and distribution costs of the concentrated TCM granules business for the year were approximately RMB1,603,209,000, representing an increase of 29.7% as compared to approximately RMB1,236,083,000 for last year.

Research and development costs and administrative expenses

During the year under review, the Group's research and development costs and administrative expenses amounted to approximately RMB551,609,000 (2016: RMB516,818,000).

	2017	2016	Change
	RMB'000	*RMB'000*	
Salary	**189,518**	152,010	24.7%
Depreciation and amortisation	**37,854**	32,750	15.6%
Office rental cost and other expenses	**122,077**	145,226	-15.9%
Subtotal	**349,449**	329,986	5.9%
Research and development costs	**202,160**	186,832	8.2%
Total	**551,609**	516,818	6.7%

Research and development costs and administrative expenses increased by 6.7% as compared to last year, the research and development costs and administrative expenses as a percentage to revenue was 6.6%, representing a fall of 1.3 percentage points as compared to 7.9% of last year. The decrease in the administrative expenses as a percentage to revenue was due to the effective control of the rising administrative expenses while revenue increased.

Profit from operations

During the year under review, the Group's profit from operations was approximately RMB1,786,453,000, representing an increase of 29.8% as compared to RMB1,376,783,000 for last year, while operating profit margin (defined as profit from operations divided by revenue) was 21.4%, representing an increase of 0.3 percentage point from 21.1% for last year. The increase in operating profit margin was due to the effective control of selling and distribution costs and administrative expenses while revenue increased, so that the growth rate of costs for the period was kept lower than the growth rate of revenue.

Regarding the concentrated TCM granules business, profit from operations was approximately RMB1,334,901,000 (after deducting depreciation and amortisation of approximately RMB110,592,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated financial statements), representing an increase of 28.1% as compared to RMB1,042,022,000 for last year. The operating profit margin increased by 0.4 percentage point from 23.9% of last year to 24.3% for the year. Regarding the finished drug business, the profit from operations was approximately RMB419,318,000, representing an increase of 24.7% as compared to approximately RMB336,222,000 for last year. The operating profit margin increased from 16.3% of last year to 17.6% for the year. During the year, the operating profit margins of TCM decoction pieces business and TCM healthcare complex business were 7.9% and 1.5%, respectively.

Finance costs

During the year under review, the Group's finance costs amounted to approximately RMB221,068,000 (2016: RMB73,423,000). The increase in financial costs as compared to last year was mainly due to the corporate bonds issued in November 2016 and June 2017, respectively, with nominal values of RMB2.5 billion and RMB2.0 billion respectively. Bank and other loans held by the Group as at 31 December 2017 amounted to approximately RMB671,697,000 and corporate bonds of approximately RMB4,481,958,000 were held. Bank and other loans held by the Group as at 31 December 2016 amounted to approximately RMB1,424,339,000 and corporate bonds amounted to approximately RMB2,485,604,000. During the year under review, the effective interest rate of the Group was 4.06% (2016: 2.34%). The Group will continue to pay attention to the changes in market interest rates and adjust the borrowings and fund raising mechanism on a timely basis. When there is opportunity to negotiate better terms, the Group will refinance the existing loans or secure new bank loans.

Income from investment in associates

During the year under review, the Group shared gains from associates of approximately RMB1,852,000, compared with shared income of approximately RMB444,000 last year.

Earnings per share

During the year under review, basic earnings per share were RMB26.41 cents, representing an increase of 21.5% as compared to RMB21.73 cents of last year. Basic earnings per share increased as profit attributable to owners of the Company for the year increased by 21.0% to approximately RMB1,170,434,000 (2016: RMB966,927,000).

Liquidity and financial resources

As at 31 December 2017, the Group's current assets amounted to approximately RMB11,384,050,000 (31 December 2016: RMB8,070,408,000), which included cash, cash equivalents and deposits with banks of approximately RMB4,787,781,000 (31 December 2016: RMB3,425,582,000), among which the carrying amount of pledged bank deposits was nil (31 December 2016: RMB2,226,000). Trade and other receivables amounted to approximately RMB3,024,076,000 (31 December 2016: RMB2,716,250,000). Current liabilities amounted to approximately RMB4,694,887,000 (31 December 2016: RMB3,506,824,000). Total net current assets were approximately RMB6,689,163,000 (31 December 2016: RMB4,563,584,000). The Group's current ratio was 2.4 (31 December 2016: 2.3). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to owners of the Company) increased to 41.4% from 34.0% as at 31 December 2016. The higher gearing ratio was mainly due to the issuance of corporate bonds with nominal value of RMB2.0 billion during the year, which led to an increase in bank and other loans and bonds payable from approximately RMB3,909,943,000 as at 31 December 2016 to approximately RMB5,153,655,000.

Bank and other loans and pledge of assets

As at 31 December 2017, the balance of the Group's bank and other loans was approximately RMB671,697,000 (31 December 2016: RMB1,424,339,000), of which approximately RMB243,824,000 (31 December 2016: RMB144,479,000) was secured by the Group's assets with book value of approximately RMB141,409,000 (31 December 2016: RMB39,028,000) in total. The decrease in bank loans was mainly due to the repayment of Hong Kong dollar loan of HK$730 million during the year. The balance of the Group's bank and other loans included approximately RMB638,697,000 and RMB33,000,000, which are required to be paid within one year and more than one year, respectively (31 December 2016: approximately RMB1,001,392,000 and RMB422,947,000 respectively).

Capital expenditure

During the year under review, 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 RMB627,543,000, representing an increase in expenditure of 161.1% as compared with approximately RMB255,842,000 of last year. The significant increase in the capital expenditure was mainly due to the promotion of development plan of TCM decoction pieces and concentrated TCM granules industries and the establishment of production bases of TCM decoction pieces and concentrated TCM granules in various provinces and cities by the Group.

Contingent liabilities

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

Financial risk

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

Employees and remuneration policies

As at 31 December 2017, the Group had a total of 10,706 employees (including directors of the Company) (31 December 2016: 9,539), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 4,213, 4,201 and 2,292 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year was approximately RMB890,531,000 (2016: RMB734,939,000).

SUBSEQUENT EVENTS

Subscription of new shares by Ping An Life Insurance Company of China, Ltd. under specific mandate

On 19 March 2018, the Company and Ping An Life Insurance entered into the Subscription Agreement. Ping An Life Insurance will subscribe for 604,296,222 new shares of the Company at the price of HK$4.43 per share. Upon the completion of the subscription, Ping An Life Insurance will hold approximately 12.0% of the total number of issued shares as enlarged of the Company. The Company is expected to raise total net proceeds of approximately HK$2,674 million through the share issue.

For details, please refer to the announcement dated 19 March 2018 of the Company.

FINAL DIVIDEND

The Board recommended a final dividend of HK4.96 cents (approximately RMB3.97 cents) per share for the year ended 31 December 2017 (2016: HK3.59 cents (approximately RMB3.19 cents) per share). The final dividend for the year 2017 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 28 June 2018 to the shareholders on the register of members of the Company on 19 June 2018.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

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 2017.

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 four members who are independent non-executive directors and one member who is a non-executive director, namely Mr. XIE Rong, Mr. ZHOU Bajun, Mr. LO Wing Yat, Mr. YU Tze Shan Hailson and Ms. TANG Hua, 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 2017.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT

This results announcement will be 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 2017 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
ZHAO Dongji
Joint Company Secretary

Hong Kong, 28 March 2018

As at the date of this announcement, the Board comprises eleven Directors, of which Mr. WU Xian, Mr. WANG Xiaochun, Mr. ZHAO Dongji and Ms. HUANG He are executive Directors; Mr. LIU Cunzhou, Mr. YANG Shanhua, 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.