国药集团
SINOPHARM

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

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

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 (the "Reporting Period"):

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue			
– Concentrated TCM granules	**7,150,562**	5,499,679	30.0%
– Finished drugs	**2,771,021**	2,381,202	16.4%
– TCM decoction pieces	**1,274,829**	398,742	219.7%
– TCM healthcare complex	**62,529**	58,172	7.5%
Total	**11,258,941**	8,337,795	35.0%
Gross profit	**6,193,573**	4,651,582	33.1%
Adjusted EBITDA	**2,649,359**	2,196,963	20.6%
Profit from operations	**2,156,025**	1,786,453	20.7%
Profit for the year	**1,567,028**	1,311,433	19.5%
Profit for the year attributable to owners of the Company	**1,439,018**	1,170,434	22.9%
Basic earnings per share (RMB cents)	**29.84**	26.41	13.0%
Proposed dividend per share at the end of the year (HK cents)	**5.51**	4.96	11.1%

CHAIRMAN'S STATEMENT

Dear shareholders,

The year 2018 was an extraordinary one. With strong support from our shareholders, the Group implemented a five-year strategic plan of "building a comprehensive, sustainable and cooperative traditional Chinese medicine ("TCM") industrial chain, and becoming a leading TCM healthcare complex group in the industry". A good start was achieved, adding value to the value chain and laying a solid foundation for the Group's steady development. On behalf of the Board, I would like to express my sincere gratitude to all for your sincere dedication and encouragement.

In 2018, the global environment changed in ways that were impossible to predict. A US-China trade war and various regional geopolitical risks created uncertainty in the world economy and led to significant fluctuation across the major stock markets. At the same time, it was a challenging year for the pharmaceutical industry. Despite the growing demand for healthcare in the PRC, cost control became more stringent on medical insurance reimbursements. These changes of national policies had led to dramatically shift on the industry development strategy and the competitive landscape. As benefited from favorable national policies to TCM industry and the trend of TCM modernization, the Group continued to follow its current development strategies while making adjustments to its operational strategies, boosting its production and operational efficiency, and promoting high-quality economic development. All of these measures helped the Company's results to maintain a continuous rapid growth. During the Reporting Period, the Group's revenue was RMB11,258,941,000, representing a 35.0% increase from the previous year's RMB8,337,795,000. The Board recognizes the shareholders' full support by recommending the distribution of a final dividend of HK5.51 cents per share (approximately RMB4.71 cents) for the year ended 31 December 2018, with a payout ratio of 35.0% for the year.

Throughout the development history of the Group, it is a process of win-win combination of advantages and mergers and acquisitions. In a number of major mergers, the Board has demonstrated an excellent ability to rapidly understand and respond to the market and execute plans efficiently, which has facilitated the development of the Group's TCM healthcare complex segment in a rapid manner. Since 2018, the Group has gradually shifted its principal direction from external mergers and acquisitions to strengthening its organic development. In response to internal and external environmental changes, and in order to exploit the resource advantages of the China National Pharmaceutical Group Corporation ("CNPGC") and strengthen the Group's four major segments (concentrated TCM granules, TCM decoction pieces, finished drugs and healthcare complex), the Company entered into cooperation with Boston Consulting Group ("BCG") in October 2018. The measure was taken with the aim of comprehensively rationalizing the Group's businesses and advantages, identifying the Group's management conditions and organization structure, devising new management model and a new decision-making mechanism, and implementing strategies for future development. The Company believes that with the help of a leading international consulting company, a strategic analysis and rationalization model, and a strategic goal decomposition calculation method for its strategic management work, its decision-making body will be able to deliver more clear and accurate quantitative results for strategic management. In this way, its business and organization structure will be solidly founded and its direction of development clearly defined, leading to a comprehensively enhanced core competitiveness of the Company in the modern TCM industry.

Strengthening Upstream and Downstream Extensions of the Industrial Chain, Supporting the Principle "Consolidated Horizontal and Vertical Development"

In 2018, based on the Board's development strategy and plans for the Group's four major business segments, the Group made great efforts to strengthen upstream and downstream extensions of the entire TCM industrial chain under the principle "consolidated horizontal and vertical development".

For upstream business, the Group integrated local Chinese medicinal herbs resources and constructed a standardized TCM industrial chain that extends from seed breeding, plantation and initial processing to logistics and warehousing. This was achieved through developing Chinese medicinal herbs plantation bases, creating a source tracking system for the quality of local Chinese medicinal herbs, and a Chinese medicinal herb dictionary. By taking these actions, the Group established a foundation for implementing quality and cost control on bulk Chinese medicinal herbs.

For midstream business, the Company fully seized the window period before the implementation of the market open-up policy, and accelerated the production plan of TCM decoction pieces and concentrated TCM granules across the country. Through internal and external development and resource integration, the Company rapidly expanded its presence in the target regions, increased economies of scale and formed effective region-oriented strategy which is also in line with the overall goals; for finished drugs, the Company conducted more clinical research emphasizing efficacy and differentiation, and expanded the market influence via brand promotions.

For downstream business, the Group developed the internet-plus-healthcare operation model and expanded cooperation with hospitals across the country, including increasing the market share of the sharing of TCM intelligent distribution centers and intelligent pharmacies for concentrated TCM granules. At the same time, the Group accelerated the development, reproduction and promotion of TCM healthcare service industry, represented by the TCM clinics business.

In 2018, through upstream and downstream extensions of the Group's businesses, the consolidation of the whole TCM industrial chain was substantially complete.

Embracing our Strategic Partners and Expanding our Business

In 2018, the Group partnered with Ping An Life Insurance Company of China, Ltd. ("Ping An Life Insurance"), a subsidiary of Ping An Insurance (Group) Company of China, Ltd. ("China Ping An"), to jointly explore the potential of the TCM healthcare complex business.

In 2018, the Company introduced Ping An Life Insurance and raised HK$2.677 billion via private placement. Ping An Life Insurance holds 12% of the Company's share capital, making it the second largest shareholder and providing a strong backup for the Group's expansion in the PRC. The funds from the placement of new shares have endowed the Group with sufficient working capital for its development, and by leveraging China Ping An's resources in the fields of finance and health in conjunction with its advanced technologies in TCM production and research and its experience in managing Chinese medicinal herb source tracking, the Group will benefit from synergies and enhance its competitiveness.

Participating in Establishing National Standards, Consolidating the Leading Position in the Industry

The quality of Chinese medicinal herbs is crucial to the development of TCM enterprises. Standardization is still the fundamental of the development throughout the TCM supply chain. In 2018, government-sponsored R&D projects led by or involving the Group, as well as the self-sponsored R&D projects both made good progress. An R&D project for classical TCM formula has officially been launched, with agreements signed by authorities such as the National Ministry of Science and Technology, the National Ministry of Agriculture and the National Commission of Economy and Information Technology; the funding of which has been successively received by the Group.

The research on the quality standard of concentrated TCM granules achieved remarkable results. Research projects under progress at 7 R&D centers and subsidiaries also advanced smoothly. In terms of evidence-based clinical research and blockbuster cultivation programs, a number of finished drug projects entered the final stage. Clinical safety analyses and proactive safety monitoring for the core products were carried out with the aim of further studying the product characteristics for the benefit of patients. The national TCM standardization project was also in progress, establishing standards in relation to seed breeding, quality of Chinese medicinal herbs, product registration specification, TCM finished drugs, and others. As a leading company in the TCM industry, the Group will gradually became the founder of quality standard of all TCM product category.

In future, factors such as ageing population and higher morbidity of chronic diseases continuously increase the market demand on healthcare industry. At the same time, with the climbing-up medical investment, and further in-depth healthcare reform, the pharmaceutical industry is expected to grow steadily. As the largest TCM platform of CNPGC, the Group will seize opportunities to eliminate outdated systems and low-quality drugs, and to standardize applicable practice under the principle "becoming a leading TCM healthcare complex group in the industry". Let us look forward to setting a new record of performance as we create greater value for our shareholders.

Chairman
Wu Xian

Hong Kong, 15 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group has implemented a strategy of whole coverage of the TCM industry chain and has achieved satisfactory business development results. During the Reporting Period, the Group's revenue was approximately RMB11,258,941,000, representing an increase of 35.0% over the approximately RMB8,337,795,000 for the same period of last year. This was mainly attributable to the continuous rapid growth of the concentrated TCM granules business and fast expansion of the TCM decoction pieces business. The concentrated TCM granules business contributed approximately RMB7,150,562,000, or 63.5% of total revenue. Revenue from the finished drugs business was approximately RMB2,771,021,000, representing 24.6% of total revenue. Revenue from the TCM decoction pieces business was approximately RMB1,274,829,000, or 11.3% of total revenue. Revenue from the TCM healthcare complex business was approximately RMB62,529,000, representing 0.6% of total revenue.

Gross profit was RMB6,193,573,000, representing an increase of 33.1% over the approximately RMB4,651,582,000 for the same period of last year. Gross profit margin was 55.0%, representing a decrease of 0.8 percentage points as compared with 55.8% for the same period of last year. This was mainly due to the increase in the proportion of the TCM decoction pieces business, which the gross profit margin was lower than other businesses.

Business Review

The Chinese government has been strategically supporting TCM development. Since the implementation of the "Law of the People's Republic of China on Traditional Chinese Medicine" on 1 July 2017, various provinces, cities and authorities have released regional strategic plans on TCM development, and TCM development has entered into a phase of substantial progress. Guided by the catalogue of classical formula, the proposed amendment to the "Regulation on the Quality of TCM Raw Materials" and a series of supporting measures, the restrictions on TCM doctors' practice became fewer; the number of TCM clinics has increased significantly; and public recognition of TCM has continually improved. The Group will continue to benefit from state policies encouraging the development of TCM and Chinese medicine practitioner, as well as TCM modernization and quality improvement trends in the foreseeable future.

In the year 2018, under the Company's core strategy "creating synergy between the TCM decoction pieces business and the concentrated TCM granules business", the Group linked up the upstream, midstream and downstream businesses and accelerated the development of the whole industrial chain, which comprehensively enhanced its core competitiveness in the TCM industry. The coordinated development between the two sectors will drive the Group to grow into a leading enterprise in the TCM industry.

I. Planning for core mid-to-upstream industrial chains

The Group made further investment into the construction of three major industrial chain projects in the mid-to-upstream, comprising plantations and warehouses, logistics and trading platforms, and GMP bases for TCM decoction pieces and concentrated TCM granules, which almost complete the strategic planning for the authentic medicinal herbs. After the accomplishment of the strategic planning, the Group is able to complete the plantation, local initial processing, production of TCM decoction pieces, production of concentrated TCM granules and other production processes at the place of origin, exploiting the scale effect of production of TCM decoction pieces and concentrated TCM granules. This will reduce production and logistics costs, expand market coverage and consolidate the Group's leading position in the TCM decoction pieces and concentrated TCM granules industry. In 2018, The Group promoted a closed-loop management model for TCM industrial chains in all jointly-constructed plantation bases across the country. It conducted training and follow-up work on management and tracking systems for the plantation and production processes of Chinese medicinal herbs, and extended the industrial chain to the upper stream to achieve a resource-sharing effect.

1. Upstream Chinese medicinal herb plantation base construction

To ensure that the Group's medicinal herbs are procured from their places of origin, and to optimize control over source traceability and stability of quality, during the Reporting Period, the Group cooperated in the construction of 65 Chinese medicinal herb plantation bases, encompassing a total of 46 Chinese medicinal herb varieties and covering approximately 35,000 acres in Shandong, Zhejiang, Yunnan, Anhui, Sichuan, Hebei, Gansu, Ningxia, Henan, Guangdong, Liaoning, Hunan, Guangxi and Shanxi provinces. At the same time, the Group also carried out resource protection and natural cultivation research for wild herb varieties, and maintained a system of strategic inventory and procurement.

2. Investment in and construction of TCM procurement, trading, warehousing and logistics centers

The Group plans the establishment of TCM procurement, trading, warehousing and logistics centers in places of TCM origin and distribution. By creating physical platforms and networks for warehousing and logistics, the Group standardized TCM storage processes and achieved a synergy of upstream and downstream TCM.

On 21 January 2019, the Group entered into a TCM Raw Materials Storage and Logistics Center Cooperation Strategic Framework Agreement with Shenzhen Pingan Real Estate Industrial Logistics Company Limited ("Pingan Industrial Logistics"), a subsidiary of Ping An Life Insurance, in Shanghai. Both parties will use of their resource advantages and advance the construction of TCM procurement, trading, warehousing and logistics centers. They will jointly seek land and industrial parks with mature operations appropriate for conducting cooperation across the country, build a storage and trading platform for TCM raw materials with intelligent storage and delivery centers close to consumers, promote the logistical concentration of upstream and downstream enterprises and the improvement of logistics standards, and explore financial cooperation in TCM supply chains to enhance economic benefits and strengthen the business's competitiveness.

After sufficient preliminary research, inspection and consideration, the Company will cooperate with Pingan Industrial Logistics in the TCM raw material storage and logistics center businesses at major production areas such as Bozhou, Anhui and Longxi, Gansu. In 2019, the Company will begin exploration at Bozhou, Anhui, and then to exploit other storage and logistics centers.

TCM procurement, trading, warehousing and logistics centers will expand the business's development and improve economic benefits to the Group. This is mainly derived from improved Group control of procurement costs, alleviating the effects of TCM raw material price fluctuations resulting from short-term climate factors and an inflow of hot money, and increased revenue from TCM trading, warehousing and logistics.

3. *Upgrade of bases for decoction pieces and concentrated TCM granules businesses*

In 2018, the Group made the TCM decoction pieces and concentrated TCM granules sectors together as the core businesses for coordinated development. With Jiangyin Tianjiang Pharmaceutical Co., Ltd ("Jiangyin Tianjiang") and Guangdong Yifang Pharmaceutical Co., Ltd ("Guangdong Yifang") as centers and based on its development plans for different provinces, The Group set up bases for TCM decoction pieces and concentrated TCM granules in 15 provinces and cities through merger and acquisition as well as self-constructed and capital injection into existing companies in areas adjacent to places of TCM origin to strive for rapid strategic positioning.

Established GMP bases	**Provinces**
14 decoction piece production bases	Guangdong, Anhui, Jiangsu, Fujian, Shandong, Shanghai, Zhejiang, Beijing, Gansu, Guizhou, Sichuan (2), Jilin, Hubei
9 Chinese medicinal herb extraction bases	Guangdong, Anhui, Sichuan (2), Shandong, Gansu, Hubei, Guizhou, Qinghai
5 concentrated TCM granule preparation bases	Guangdong, Jiangsu, Heilongjiang, Sichuan, Gansu

According to the Company development plan, the Group plans to further establish 6 GMP bases for TCM decoction pieces in Hubei, Hunan, Yunnan, Chongqing, Jiangxi and Shaanxi, which will generate an additional production capacity of 11,500 tonnes; 6 GMP Chinese medicinal herb extraction bases in Jiangxi, Shaanxi, Yunnan, Jilin, Hubei, Guizhou, which will generate an additional production capacity of 7,900 tonnes; and 8 GMP concentrated TCM granule preparation bases in Yunnan, Fujian, Guizhou, Shaanxi, Hunan, Hubei, Chongqing, Jiangxi, which will generate an additional production capacity of 4,000 tonnes, to achieve coverage of most core provinces and cities across the country.

To achieve flourish development of the TCM decoction pieces business, and create synergy between the concentrated TCM granules business, the Group, on the one hand, efficiently expanded into the end market with the use of the existing sales team and channels in the concentrated TCM granules sector. On the other hand, the Group developed the TCM decoction pieces sector comprehensively and promoted premium authentic TCM decoction pieces with differentiated marketing strategies that appealed to various markets.

In addition, the Group is working to obtain more provincial-level licenses for pilot production of concentrated TCM granules. Beyond its 2 existing national-level licenses, namely Jiangyin Tianjiang and Guangdong Yifang, the Group has obtained pilot production licenses in 5 provinces of Sichuan, Heilongjiang, Yunnan, Hubei and Guizhou. Besides, the Group received various support from the local governments in Shaanxi, Fujian and Chongqing. This is of great significance to the Group's strategic goals of breaking local protection barriers and expanding market coverage.

II. Expanding market influence with deep development of downstream channels

The Group fully leverages the efficiency and convenience of an internet-based trading platform to create innovative sales models, build the Group's brand and support business development. As one example, during the Reporting Period, Guangdong Yifang opened an Alibaba Factory Store, Alibaba Official Store, Yifang Cloud Mall, Yifang Seasons Enterprise Store and Yifang Seasons Jingdong Store while carrying out strategic cooperation with online hospitals such as "Micro Doctor" and "Ping An Good Doctor". Physicians provide consultation and issue prescriptions online, while regional distribution centers decoct and distribute TCM for delivery to patients. The vision of patients benefiting from high-quality TCM services without leaving home has been fully realized.

1. More introductions of smart dispensing machines

The Group anticipates that a policy for the full opening of the concentrated TCM granule market will soon be issued. Industry thresholds will be lifted and companies with product reserves and up-and downstream operations are expected to enjoy first-mover advantages. We believe that value-added services such as smart dispensing machines and resources input will provide the effective means to strengthen the Group's industry leadership. By virtue of policy dividends, the Group has steadily expanded its coverage of Class II and higher tier TCM hospitals with a focus on enhancing coverage of general hospitals. It also rapidly seized the newly-opened grass-roots markets following the change in government policy, which realized the rapid coverage of different market tiers.

In the past three years, the Group has been committed to advancing the level of intelligent prescription of concentrated TCM granules in hospitals, improving patients' medication experience and accelerating the deployment of smart dispensing machine systems in medical institutions at all levels. During the Reporting Period, the Company installed more than 5,000 dispensing machines in approximately 3,500 hospitals.

2. *Continued promotion of a national "TCM intelligent distribution center" network*

In 2018, the Group continued to promote the construction of intelligent TCM distribution center (the "Intelligent Distribution Center") projects while vigorously expanding the scale of its business. On the basis of "Big Data + Internet", the Group adopted authentic medicinal herbs, implemented traditional processing technologies, utilized intelligent management systems, and provided patients and hospitals with one-stop decoction and distribution services featuring instant processing from prescription receipt-to-decoction.

Under its innovative new model of intelligent distribution centers covering major hospitals in core cities and connecting to surrounding hospital alliances, the Group cooperated with major medical institutions to operate the decoction business and provide patients with TCM prescription dispensing, decoction and distribution, and other services. The Group's distribution centers serve more than 340 hospital customers in the following cities:

7 distribution centers in operation	Beijing, Shijiazhuang, Jiangyin, Shanghai, Guiyang, Foshan, Zhongshan
2 distribution centers under construction	Dongguan, Xiamen
5 distribution centers under preparation	Fuzhou, Shenzhen, Meizhou, Pingyi, Heze

3. *Strengthening the academic promotion of blockbuster finished drugs*

In 2018, the Company further expanded its cooperation with key national hospitals and pharmacies in the area of modern TCM finished drugs. Based on the specific conditions of hospitals at different levels, the Company established a top-down targeted brand promotion strategy covering provincial, prefecture-and county-level hospitals and pharmacies. It organized doctors at all levels for re-education on the standardized treatment of related cases to achieve further brand promotion.

The Group utilized the policy advantages pertaining to the top 10 exclusive drugs in National Essential Drug List ("EDL") and established a countrywide sales network. The Group's core competitiveness was enhanced with research results on key and strategic products, and it promoted the construction and improvement of various healthcare complexes and new business models. In 2018, the Company made great efforts to promote OTC products in response to the policy above and market demand. On the one hand, the Company promoted its brand via drug retail industry meetings. On the other hand, it further expanded its sales channels with advertisements of core products with top 100 chain pharmacies and county area chain pharmacies. In this regard, OTC products, Yao Shen Herbal Paste (腰腎膏), Chongcao Qingfei Capsules (蟲草清肺膠囊) and so on, gained strong brand images and achieved rapid growth in sales.

4. *Accelerated implementation of the TCM Healthcare Complex project and continued innovation for operational models*

In 2018, the Group followed the national policy on encouraging the private sector to engage in the TCM clinic business and promoting the registration of TCM practitioners educated via apprenticeship. It explored laws and standards pertaining to the location, construction, cultivation and operational management of the TCM Healthcare Complex project, accelerated the development and construction of new projects, improved its business model, diversified the product structure, focused on the population in sub-health conditions and provided solutions with TCM features.

The Company continues to explore TCM healthcare complex business. During the Reporting Period, the Group was operating 4 TCM Healthcare clinics, while 3 more were under preparation.

III. New achievements in research

As directed by various state policies regarding TCM industry, the TCM industry shall establish a standardized TCM service support system in future. The Group has accordingly taken several measures in preparation to meeting this goal: broadly, it has looked to improve technical specifications for all TCM product processes in view of establishing standards and source tracking systems for TCM products. From a "quality and origins" basis, it has furthermore targeted issues concerning technical regulations and standards for TCM plantation, TCM decoction piece processing, concentrated TCM granule production and TCM finished drugs production; improving and modifying various production regulations and standards, and strengthening the monitoring, identification and authentication of TCM products to promote "planting, producing and making good drugs" in the TCM industry.

Focusing on the core concepts of "TCM standardization" and "quality first", the Group continued to develop TCM resources with high quality and intensify its efforts in resource control. It formulated standards on the grades of medicinal material and the quality of decoction pieces and concentrated TCM granules, and also conducts research on blockbuster finished drugs to promote the improvement of general TCM industry quality standards.

1. *Leading the formulation of standards for concentrated TCM granules*

In 2018, the CFDA and Pharmacopoeia Committee advanced the formulation of national standards on concentrated TCM granules. The Group anticipates the first batch of standards for concentrated TCM granules to be issued in 2019. Unified national quality standards will enhance market acceptance of concentrated TCM granules and will benefit the long-term development of the concentrated TCM granules industry.

The Group's participation in formulating national standards will help it maintain industry leadership amid intensifying market competition. In 2018, the Group established two provincial professional technology platforms accordingly – "the Guangdong Concentrated TCM Granules Project Laboratory" and "the Guangdong Concentrated TCM Granules Enterprises' Key Laboratory". During the Reporting Period, based on the requirements of the Technical Requirements for Quality Control and Standards for Concentrated TCM Granules (Draft for Comment) (中藥配方顆粒質量控制與標準制定技術要求(徵求意見稿)) issued by the Pharmacopoeia Committee, the Group completed research on standard decoctions for 243 TCM varieties and submitted national quality standards for 155 varieties to the Pharmacopoeia Committee.

2. *Initiating full research on TCM classical formula and compound preparation*

On 1 June 2018, the Regulation on Simplifying the Registration and Approval of Ancient and Classical formula and TCM Compound Preparations was issued. It specifies that the requirement to submit pharmacodynamics study and clinical trials data may be waived and the registration and approval of granules with decoctions in classical formula shall be simplified as required in the case of applications for the introduction of classical formula and preparations. According to regulation, 73 decoctions from the first batch of 100 formulas can be made into concentrated TCM granules. The Group subsequently initiated full research into TCM compound preparations from ancient and classical prescriptions, with 8 subsidiaries planning to complete research on the substance standards of 35 classical formulas. The Group also cooperated with the Institute of the History of Medical Literature under the China Academy of Chinese Medical Sciences, the Beijing University of Chinese Medicine, the Anhui University of Chinese Medicine and other institutions on research and verification of 14 classical formulas.

3. *Clinical research on blockbuster finished drugs*

Since 2014, the Group has been implementing blockbuster cultivation programs and conducting clinical and pharmacoeconomics research on major TCM finished drugs as an element of its academic promotion market strategy.

These efforts have led the Group to establish an evidence system based on clinical research. As of report date, dominant indication of 6 core products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Jingshu Granules (頸舒顆粒), Zaoren Anshen Capsules (棗仁安神膠囊) and Fengshi Gutong Capsules (風濕骨痛膠囊) have been agreed by expert consensus and included in clinical guidance, based on the market development strategy.

Products	Large scale and multi-centered clinical research projects	Progress
Xianling Gubao Capsules (仙靈骨葆膠囊)	*Post-market safety evaluation on Xianling Gubao Capsules (10,000 participants)*	*Initiated in 2017 and expected to be completed in 2022*
	Research on Xianling Gubao Capsules for preventing bone mass loss caused by aromatase inhibitor for treating post-menopause breast cancer	*Initiated in September 2018 and expected to be completed in 2020*
Yu Ping Feng Granules (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 treating stable phase COPD*	*Completed and related article was published in the International COPD Journal in October 2018*
	Randomized, double-blinded, 3-arm and multi-centered clinical research on the effectiveness and safety of Yu Ping Feng Granules for treating repeated respiratory tract infection in children (小兒反復呼吸道感染)	*Initiated in 2014 and completed in January 2018*
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 treating chronic eczema*	*Completed*
	Post-market safety clinical registration research of Moisturizing and Anti-Itching Capsules (3,000 participants)	*Initiated in March 2017 and expected to be completed by the end of 2020*
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 treating nerve root type cervical spondylosis (神經根型頸椎病)*	*Completed, fundamental research published*
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 treating insomnia combined with Zolpidem Tartrate*	*Initiated in 2015 and recruitment completed; expected to be completed in June 2019*
Fengshi Gutong Capsules (風濕骨痛膠囊)	*Randomized, double-blinded, double-stimulation and multi-centered clinical research on Fengshi Gutong Capsules treating ankylosing spondylitis*	*Initiated in March 2015 and expected to be completed in December 2019*

In 2018, the Group additionally re-determined 4 varieties required for bioequivalence evaluation, including Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I)), Paracetamol Tablets (對乙酰氨基酚片), Norfloxacin Capsules (諾氟沙星膠囊) and Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III)). All work has progressed smoothly and as scheduled.

Varieties	**Progress**
Nifedipine Sustained-release Tablets (I) (硝苯地平緩釋片(I))	Pre-experiment completed and BE experiment in progress
Paracetamol Tablets (對乙酰氨基酚片)	Submission of materials on drug registration completion and acceptance number obtained
Norfloxacin Capsules (諾氟沙星膠囊)	Preliminary process exploration work in progress
Nifedipine Sustained-release Tablets (III) (硝苯地平緩釋片(III))	Preliminary process exploration work in progress

Sinopharm Zhonglian Pharmaceutical Group Co., Ltd. ("Zhonglian Pharmaceutical"), a newly acquired TCM finished drugs enterprise, has also launched secondary development research on Trionycis Bolus (鱉甲煎丸), including research on treatment of liver fibrosis, cirrhosis, mammary gland hyperplasia, processing methods, the vinegar processed turtle shell (醋鱉甲) and turtle shell glue (鱉甲膠) production process, pelleting and other processes. It carried out research on the Chinese herbal medicine Jinye Baidu Granules (金葉敗毒顆粒) and prescription process, and research on quality standard improvements for Guiqi Oral Liquid (歸芪口服液). It is noteworthy that the exclusive products Trionycis Bolus (鱉甲煎丸) and Jinye Baidu Granules (金葉敗毒顆粒) have been added to the EDL and are among the Company's 10 exclusive EDL drugs.

4. *Establishing a TCM and TCM decoction piece source tracking system*

TCM sources is the foundation of the TCM industry and its quality determines the quality of TCM decoction pieces. TCM decoction pieces are raw materials composed of concentrated TCM granules and TCM finished drugs, as well as products at the sales terminal. As a result, the quality of TCM decoction pieces is vitally important to the TCM industry. On 31 August 2018, the China Food and Drug Administration ("CFDA") issued the Plan on Focusing Improvement of the Quality of TCM Decoction Pieces, which proposes severe punishments for illegal and illicit activities concerning TCM decoction pieces. It will be implemented from September 2018 to September 2019, upon which TCM decoction pieces will have officially entered a new era of strict regulation of quality.

In 2018, the Group worked to improve the function of its TCM decoction piece sales system with the establishment of a TCM decoction piece variety dictionary and the provision of a reliable systematic database for TCM plantation and research. During the Reporting Period, the Group had completed the basic information dictionary on the decoction pieces of 5 subsidiaries, including Beijing Huamiao Pharmaceutical Co., Limited ("Beijing Huamiao"), Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. ("Guizhou Tongjitang"), Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. ("Foshan Feng Liao Xing"), Shanghai Tongjitang Pharmaceutical Co., Ltd. ("Shanghai Tongjitang") and Sichuan Jiangyou Zhongba Fuzi Technology Development Co., Limited ("Sichuan Jiangyou").

The Group further extended quality control for TCM decoction pieces to their sources. In cooperation with rural cooperatives at traditional places of origin or large enterprises with GAP certification, it established standardized plantation bases and conducted standard TCM plantation and production using traditional plantation and processing technologies in places of origin. During the Reporting Period, the Group finished establishing a source tracking system for TCM blockbusters in places of origin as well as the inspection of major plantation areas.

INVESTMENT PROJECTS

The Group fully seized the window period before the implementation of the market open-up policy, and focused on accelerating the production of TCM decoction pieces and concentrated TCM granules, which fostered the development of upstream and downstream businesses across the country as well. In 2018, the Group has conducted the strategic planning for concentrated TCM granules and TCM decoction pieces sectors in Beijing, Sichuan, Heilongjiang, Jiangsu, Fujian, Jilin and Anhui to further seize strategic resources of the industrial chain.

On the one hand, through mergers and acquisitions and win-win combination of advantages from regional enterprises, the Group broke local protection restrictions. During the Reporting Period, the Group acquired enterprises with (or that will obtain) provincial-level pilot license for concentrated TCM granule production. These include: a 51% equity interest in Fujian Chengtian Jinling Pharmaceutical Co. Ltd.; a 51% equity interest in Sichuan Sinopharm Pharmaceutical Co., Ltd.; a 51% equity interest in Heilongjiang Shuanglanxing Pharmaceutical Co., Ltd.; a 51% equity interest in Zhonglian Pharmaceutical. The Group acquired TCM decoction pieces enterprises, including a 100% equity interest in Sichuan Jiangyou, a 100% equity interest in Beijing Huamiao, a 51% equity interest in Jiangsu Jiangkang Pharmaceutical Co., Ltd. and a 51% equity interest in Bozhou Hongda TCM Decoction Pieces Technology Co., Ltd.. The Group acquired a 100% equity interest in Heilongjiang Sinopharm Medicinal Materials Co., Limited, an enterprise that distributes medicinal herbs. The Group acquired a 100% equity interest in property possessed companies, Beijing Huatai Chinese Medicine New Technology Development Limited Liability Company and Foshan Jinlv Shoes Co., Ltd. Total investment in merger and acquisition projects was approximately RMB1,094,740,000.

On the other hand, through new construction and technological improvement and expansion, the Group accelerated the development of industrial park projects with the aim of achieving synergy and economies of scale. The newly-established Shandong industrial park (including Shandong Feng Liao Xing Material & Slice Co., Ltd. and Shandong Yifang Pharmaceutical Company Limited) and Zhejiang industrial park (namely Zhejiang Yifang Pharmaceutical Company Limited) have obtained production permits and GMP certification and have entered into the manufacture phase. Other industrial park projects in Yunnan, Chongqing, Guangxi, Jiangxi, Hunan, Shaanxi, Jilin and Shandong (Phase II) have commenced construction. The investment in new construction or technological improvement and expansion projects was approximately RMB473,377,000.

In the meantime, to dedicate itself to the integration of TCM industrial chains and to strengthen the leading position of the core business in the industry, the Group disposed of the remaining 20% equity interest in Sinopharm Guizhou Blood Products Co., Ltd. at the consideration of RMB90,600,000 in October 2018.

Except as disclosed above, the Group had no major acquisitions and disposals for the year ended 31 December 2018.

ANALYSIS OF BUSINESS SEGMENTS

During the Reporting Period, the Group's revenue was approximately RMB11,258,941,000, representing an increase of 35.0% from approximately RMB8,337,795,000 in the last year. The increase was mainly attributable to the rapid growth of the concentrated TCM granules business and fast expansion of the decoction pieces business. An analysis of the four business segments is as follows:

1. Concentrated TCM granules

Key financial indicators for concentrated TCM granules business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**7,150,562**	5,499,679	30.0%
Cost of sales	**2,889,017**	2,310,722	25.0%
Gross profit	**4,261,545**	3,188,957	33.6%
Gross profit margin	**59.6%**	58.0%	1.6ppt
Operating profit	**1,630,597**	1,334,901	22.2%
Profit for the year	**1,242,130**	1,034,732	20.0%
Net profit margin	**17.4%**	18.8%	-1.4ppt

During the Reporting Period, Jiangyin Tianjiang and its subsidiaries ("Tianjiang Pharmaceutical") recorded rapid sales growth and achieved a revenue of RMB7,150,562,000, representing a 30.0% increase over the same period last year (which accounted for 63.5% of total revenue).

The rapid growth in revenue was mainly due to: (1) the obvious advantages in quality controllability and convenience of concentrated TCM granules, as well as effective academic promotion, gradual improvement in market recognition, thus about 16% of the sales growth was attributed to customers already covered; (2) the Company's continuous expansion into new hospitals through deployment of the dispensing machine system to penetrate new markets, and the new customers contributed approximately 14% increase in sales.

The gross profit margin increased by 1.6 percentage points to 59.6% as compared to 58.0% in the last year, mainly due to price adjustment and the steady overall procurement prices of Chinese medicinal herbs. During the Reporting Period, operating profit and profit for the period from the concentrated TCM granule business were approximately RMB1,630,597,000 and RMB1,242,130,000 respectively, representing increases of 22.2% and 20.0% compared with the same period last year.

The net profit margin decreased by 1.4 percentage points to 17.4% as compared to 18.8% in the last year, mainly because: (1) the Company increased its marketing input to seize on fast-emerging market opportunities and to expand into new market, making the sales expenses increase by 43.5%; the growing number of primary health care institutions in the past two years, which only purchased a small amount of products while with high frequency, increased the logistic cost; the increase in deployment of dispensing machines (increase of approximately 1,300 dispensing machines in 2018), depreciation charges and maintenance costs led to an increase in sales expenses as a percentage of turnover by 3.0 percentage points to 32.2%; (2) the newly-established industrial park was still at the preparation stage, the establishment expenses of which are approximately RMB56,000,000; (3) the Group continued to increase input in the research and development of national quality standards for concentrated TCM granules, making the research and development expenses as a percentage of turnover increase by 0.9 percentage point; and (4) undertake some new annual interest responsibility from the corporate bonds issued in June 2017 with nominal values of RMB2.0 billion led to an increase in finance costs as a percentage of turnover by 0.3 percentage points.

Revenue analysis by region

(RMB million)

Region	**2018**	**Proportion**	2017	Proportion	Growth amount	Growth rate
East China	**2,287.11**	**32.0%**	1,884.39	34.3%	402.72	21.4%
South China	**1,518.79**	**21.2%**	1,077.58	19.6%	441.21	40.9%
North China	**927.30**	**13.0%**	649.96	11.8%	277.34	42.7%
Central China	**847.27**	**11.8%**	718.29	13.1%	128.98	18.0%
Northwest China	**539.27**	**7.5%**	386.34	7.0%	152.93	39.6%
Northeast China	**398.07**	**5.6%**	367.53	6.7%	30.54	8.3%
Southwest China	**551.48**	**7.7%**	342.27	6.2%	209.21	61.1%
Overseas and others	**81.27**	**1.2%**	73.32	1.3%	7.95	10.8%
Total	**7,150.56**	**100.0%**	5,499.68	100.0%	1,650.88	30.0%

During the Reporting Period, sales in East China, South China, North China and Central China accounted for 78.0% of total sales as compared with 78.8% for the same period last year. South China, North China, Northwest China and Southwest China achieved a year-on-year increase of over 35.0%, while Southwest China was the most prominent area of sales growth with a year-on-year increase of 61.1%.

Notes:

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

South China (including Guangdong, Guangxi and Hainan);

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

Central China (including Henan, Hubei and Hunan);

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

Northeast China (including Heilongjiang, Jilin and Liaoning); and

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

2. *Finished drugs*

Key financial indicators for the finished drugs business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**2,771,021**	2,381,202	16.4%
Cost of sales	**1,068,144**	1,018,717	4.9%
Gross profit	**1,702,877**	1,362,485	25.0%
Gross profit margin	**61.5%**	57.2%	4.3ppt
Operating profit	**454,128**	419,318	8.3%
Profit for the year	**257,214**	243,339	5.7%
Net profit margin	**9.3%**	10.2%	-0.9ppt

Revenue analysis by product type

(RMB million)

Type of product	**2018**	**Proportion**	2017	Proportion	Change
	Twelve months ended 31 December				
Core hospital channel products	**1,391.42**	**50.2%**	1,272.04	53.4%	9.4%
Core OTC channel products	**714.06**	**25.8%**	555.52	23.3%	28.5%
Other products	**665.54**	**24.0%**	553.64	23.3%	20.2%
Total	**2,771.02**	**100.0%**	2,381.20	100.0%	16.4%

Notes:

Core hospital channel products: 8 products including Xianling Gubao Capsules (仙靈骨葆膠囊), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturizing and Anti-Itching Capsules (潤燥止癢膠囊), Fengshi Gutong Capsules (風濕骨痛膠囊), Zaoren Anshen Capsules (棗仁安神膠囊), Qili Capsules (七厘膠囊), and Waimaining Capsules (威麥寧膠囊).

Core OTC channel products: 11 products including Bi Yan Kang Tablets (鼻炎康片), Feng Liao Xing Dieda Medicinal Wine (馮了性風濕跌打藥酒), Chongcao Qingfei Capsules (蟲草清肺膠囊), Yao Shen Herbal Paste (腰腎膏), Sheng Tong Ping (聖通平), Vitamin C Yinqiao Tablets (維C銀翹片), Shedan Chuanbei Powder (蛇膽川貝散), Shedan Chenpi Powder (蛇膽陳皮散), Tongluo Guzhining Paste (通絡骨質寧膏), Angong Niuhuang Bolus (安宮牛黃丸) and Heiguteng Zhuifeng Huoluo Capsules (黑骨藤追風活絡膠囊).

During the Reporting Period, the hospital channel products and OTC channel products of the TCM finished drugs segment continued to grow steadily. This is mainly attributed to: (1) core products in the hospital channels benefited from previous evidence-based clinical research, activation of the academic promotion effect, and Xianling Gubao Capsules (仙靈骨葆膠囊) and Yupingfeng Granules (玉屏風顆粒) as top selling products, maintaining their leading market position; (2) no significant changes to the tendering and procurement environment; (3) the core products in the OTC channels continued to gear up, and advantages of the retail channels being gradually shown.

Gross profit margin increased by 4.3 percentage points, mainly due to the stable price of hospital channel products, the increase in prices of some hospital channel products under the influence of “two invoice system” and the increase in prices of some OTC products.

The net profit margin decreased by 0.9 percentage points, mainly due to the adjustment of the original sales model of the TCM finished drugs business, which increased the sales expenses. In October 2018, the Zhonglian Pharmaceutical financial statements were consolidated, and the selling expenses margins of Zhonglian Pharmaceutical were higher than that of the original finished drugs business, leading to an increase in overall selling expenses margins by 4.2 percentage points. The increase in R&D expenses, managements and depreciation, and the operation of new production plants made the administrative expenses and research and development fees as a percentage of turnover increase by 1.3 percentage points.

3. TCM decoction pieces

The Group has stepped up the decoction pieces business's strategic position as the concentrated TCM granules business's in order to further improve its development plan for whole industry chain coverage and strengthen its control of upstream TCM raw materials. Through the business model that covers the major hospitals in key cities with the Intelligent Distribution Center so as to expand its influence and connect to the surrounding alliance of healthcare institutions, the decoction pieces business grew rapidly during the Reporting Period. At the same time, the acquisition of four companies, including Beijing Huamiao, which was completed in 2018, had smoothly consolidated within a year, and their operating efficiency has improved.

Key financial indicators for the TCM decoction pieces business

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**1,274,829**	398,742	219.7%
Cost of sales	**1,066,843**	320,758	232.6%
Gross profit	**207,986**	77,984	166.7%
Gross profit margin	**16.3%**	19.6%	-3.3ppt
Operating profit	**73,591**	31,368	134.6%
Profit for the year	**71,026**	33,081	114.7%
Net profit margin	**5.6%**	8.3%	-2.7ppt

During the Reporting Period, revenue from the TCM decoction pieces business amounted to approximately RMB1,274,829,000, representing an approximately 219.7% increase over RMB398,742,000 for the same period last year, and accounting for 11.3% of total revenue. The rapid sales revenue growth of the decoction pieces business was mainly due to: (1) the consolidation of financial statements of four companies including Beijing Huamiao, etc.; (2) a favourable national policy environment to promote the development of TCM; and (3) rapid development of the intelligent distribution center business.

The decrease in gross profit margin and net profit margin was mainly because the newly-acquired decoction pieces enterprises had lower gross profit margins than the existing business and the increase in the operating costs of the newly-formed TCM decoction pieces enterprises, respectively.

4. *TCM healthcare complex*

Key financial indicators for the TCM healthcare complex

	Twelve months ended 31 December		
	2018	2017	Change
	RMB'000	*RMB'000*	
Revenue	**62,529**	58,172	7.5%
Cost of sales	**41,364**	36,016	14.8%
Gross profit	**21,165**	22,156	-4.5%
Gross profit margin	**33.8%**	38.1%	-4.3ppt
Operating profit	**-2,291**	865	-364.9%
Profit for the year	**-3,342**	279	-1,297.8%
Net profit margin	**-5.3%**	0.5%	-5.8ppt

During the Reporting Period, the TCM healthcare complex sector had 7 TCM clinics. The revenue amounted to approximately RMB62,529,000, representing an increase of 7.5% as compared to RMB58,172,000 for the same period last year, and accounting for 0.6% of total revenue. Of the 7 TCM clinics, 4 has begun operation, and the other 3 were at the preparation stage and were expected to open in 2019. The slight increase in revenue was mainly due to (1) the notable increase in the revenue of Foshan Fengxiaoxing TCM clinic by 66.1%; (2) the renovation cost for the branch of Guizhou Tongjitang TCM clinic and the large amount of start-up expenses for the development of a business with relatively high gross profit, which led to a decrease in revenue by 16.8%. The drop in net profit margin was attributable to the new project carried out by Guizhou Tongjitang TCM clinic, which was still in development stage; the Chongqing TCM clinic and Nanhai TCM clinic, which are in the opening stage; and the establishment expenses from the three TCM clinics under preparation. Three stable operating clinics had a 12% net profit margin.

PROSPECTS

In 2019, the Group will continue to implement its strategic plan of "building a leading comprehensive TCM healthcare industrial group" by developing more breadth and depth consolidating the TCM industry chain.

In keeping with strategic plans and targets for 2019, we will continue to pay close attention to changes of national policy concerning the industry, and will implement cost control and transformation upgrades appropriate to national requirements. The Group will achieve intensive and standardized development, and will strive to build on its advantages in technology and channel. Through these efforts, the Group will maintain its leadership amid new pharmaceutical industry conditions.

The Group's core work in 2019 includes: accelerating the expansion into currently uncovered provinces; accelerating the acquisition of enterprises with GSP licenses by various industrial parks and decoction pieces enterprises which preparing for the national rollout of "TCM intelligent distribution centers". It will continue to carry out research on quality standards for concentrated TCM granules. After the public release of standards reviewed by the state, the Group will complete the unification, verification and review, process adjustment and other work corresponding with the new standards while continuing research on quality standards for the remaining varieties. Meanwhile, the Company will continue its wide-ranging cooperation with Ping An Life Insurance. Complementing each other's advantages, we will conduct cooperative work on internet-based healthcare services using the network platform resources of Ping An Good Doctor, and explore new room for expansion in the highly competitive decoction pieces market. Additionally, the Group will complete construction of its warehousing and logistics platform in cooperation with Pingan Industrial Logistics.

In 2019, the Group will continue to build and consolidate its leading advantages in the pharmaceutical resources industry, the TCM process and TCM terminal services, and continue its self-improvement and enhancement efforts. It will further enhance its market control and operational efficiency and increase its capacity for market dominance to achieve the strategic targets in the five-year plan.

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, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2018 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 HKICPA 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 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	3	**11,258,941**	8,337,795
Cost of sales		**(5,065,368)**	(3,686,213)
Gross profit		**6,193,573**	4,651,582
Other income	5	**144,392**	119,544
Other gains and losses	6(a)	**43,440**	(8,608)
Impairment losses, net of reversal	6(b)	**90,648**	12,711
Selling and distribution expenses		**(3,417,195)**	(2,437,167)
Administrative expenses		**(552,294)**	(349,449)
Research and development expenses		**(346,539)**	(202,160)
Profit from operations		**2,156,025**	1,786,453
Finance costs		**(292,300)**	(221,068)
Share of results of associates		**(7,028)**	1,852
Profit before tax	8	**1,856,697**	1,567,237
Income tax expense	7	**(289,669)**	(255,804)
Profit for the year		**1,567,028**	1,311,433
Other comprehensive income (expense) for the year			
Item that may be reclassified subsequently to profit or loss:			
– Debt instruments measured at fair value through other comprehensive income		**1,429**	–
– Income tax relating to items that may be reclassified to profit or loss		**(176)**	–
Other comprehensive income for the year, net of income tax		**1,253**	–
Total comprehensive income for the year		**1,568,281**	1,311,433
Profit for the year attributable to:			
Owners of the Company		**1,439,018**	1,170,434
Non-controlling interests		**128,010**	140,999
		1,567,028	1,311,433
Total comprehensive income for the year attributable to:			
Owners of the Company		**1,440,296**	1,170,434
Non-controlling interests		**127,985**	140,999
		1,568,281	1,311,433
EARNINGS PER SHARE			
Basic (RMB cents)	10	**29.84**	26.41

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,298,440**	2,386,927
Prepaid lease payments		**814,718**	346,457
Investment properties		**42,016**	6,840
Goodwill	11	**3,568,984**	3,486,372
Other intangible assets		**6,612,833**	6,703,786
Interests in associates		**11,788**	92,576
Deposits and prepayments		**326,105**	338,894
Deferred tax assets		**126,812**	139,405
		15,801,696	13,501,257
CURRENT ASSETS			
Inventories	13	**4,482,732**	3,551,829
Trade and other receivables	12	**3,467,084**	3,024,076
Prepaid lease payments		**29,461**	19,673
Financial assets at fair value through profit or loss ("FVTPL")		**1,076**	–
Debt instruments at fair value through other comprehensive income ("FVTOCI")		**66,819**	–
Held for trading investments		**–**	691
Pledged bank deposits		**88,808**	–
Bank balances and cash		**6,349,714**	4,787,781
		14,485,694	11,384,050
CURRENT LIABILITIES			
Trade and other payables	14	**4,147,800**	3,856,512
Contract liabilities		**356,956**	–
Bank and other loans		**1,411,569**	638,697
Unsecured notes – due within one year		**2,497,330**	–
Tax liabilities		**219,099**	199,678
		8,632,754	4,694,887
NET CURRENT ASSETS		**5,852,940**	6,689,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,654,636**	20,190,420

	NOTE	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants		**182,558**	145,507
Deferred tax liabilities		**1,736,898**	1,714,698
Unsecured notes – due after one year		**1,992,735**	4,481,958
Bank and other borrowings		**231,874**	33,000
		4,144,065	6,375,163
NET ASSETS		**17,510,571**	13,815,257
CAPITAL AND RESERVES			
Share capital	*15*	**11,982,474**	9,809,935
Reserves		**3,568,959**	2,626,843
Equity attributable to owners of the Company		**15,551,433**	12,436,778
Non-controlling interests		**1,959,138**	1,378,479
TOTAL EQUITY		**17,510,571**	13,815,257

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000*
Operating activities		
Profit before tax	**1,856,697**	1,567,237
Adjustments for:		
Depreciation and amortisation	**529,172**	423,389
Amortisation of deferred government grants	**(28,509)**	(33,017)
Impairment losses (reversed) recognised in respect of		
– trade receivables	**(92,449)**	(18,462)
– other receivables	**2,911**	5,751
– other items subject to ECL (as defined in note 2)	**(1,110)**	–
Write down (reversal) of inventories	**14,605**	(8,088)
Finance costs	**292,300**	221,068
Interest income	**(43,246)**	(32,561)
Loss on disposal of property, plant and equipment	**3,353**	892
Gain on disposal of other intangible assets	**–**	(278)
Fair value changes of financial assets at FVTPL	**(385)**	–
Fair value changes on held for trading investments	**–**	(100)
Fair value changes on foreign currency forward contracts	**–**	16,751
Net foreign exchange gain	**(9,720)**	(15,546)
Compensation from ex-shareholder of Jiangyin Tianjiang Group	**–**	(22,970)
Gain on disposal of an associate	**(6,090)**	–
Share of results of associates	**7,028**	(1,852)
Operating cash flows before movements in working capital	**2,524,557**	2,102,214
Increase in inventories	**(640,213)**	(1,622,566)
Increase in trade and other receivables	**(62,284)**	(316,891)
Decrease in pledged bank deposit	**–**	2,226
(Decrease) increase in trade and other payables	**(549,975)**	1,363,476
Increase in contract liabilities	**146,369**	–
Decrease in debt instrument at FVTOCI	**68,170**	–
Cash generated from operations	**1,486,624**	1,528,459
PRC Enterprise Income Tax paid	**(296,133)**	(292,865)
Net cash from operating activities	**1,190,491**	1,235,594

	2018	2017
	RMB'000	*RMB'000*
Investing activities		
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	**(386,488)**	(108,457)
Cash consideration paid for the prior year acquisition of subsidiaries	**(11,242)**	–
Withdrawal of fixed deposits	**–**	1,050,000
Purchase of financial assets at FVTPL	**(2,711,100)**	–
Proceeds from disposal of financial assets at FVTPL	**2,718,100**	–
Purchase of property, plant and equipment and payment for construction in progress	**(961,186)**	(595,069)
Proceeds from disposal of property, plant and equipment	**7,573**	1,069
Proceeds on disposal of an interest in an associate	**90,600**	–
Purchase of prepaid lease payments	**(296,545)**	(24,599)
Purchase of other intangible assets	**(5,006)**	(7,875)
Assets-related government grants received	**65,560**	44,972
Proceeds from disposal of other intangible assets	**–**	357
Capital contribution to an associate	**(10,750)**	–
Increase in pledged deposits with banks	**(88,808)**	–
Interest received	**43,246**	32,561
Net cash (used in) from investing activities	**(1,546,046)**	392,959
Financing activities		
Proceeds for issue of shares	**2,175,026**	–
Expenses on issue of shares	**(2,487)**	–
New bank borrowings raised	**1,869,754**	1,406,322
Repayment of bank borrowings	**(1,470,849)**	(2,169,913)
Dividend paid	**(479,669)**	(316,083)
Interest paid	**(283,165)**	(156,682)
Dividends paid to non-controlling interests of a subsidiary	**(26,504)**	(21,757)
Acquisition of non-controlling interest without a change in control	**(15,933)**	–
Proceeds from issue of unsecured notes	**–**	2,000,000
Expenses on issue of unsecured notes	**–**	(12,170)
Capital injection from non-controlling equity holders	**122,654**	80,218
Increase in restricted bank deposits	**(373,889)**	(257,304)
Decrease in restricted bank deposits	**257,304**	226,018
Other financial cashflows	**–**	6,943
Net cash from financing activities	**1,772,242**	785,592
Net increase in cash and cash equivalents	**1,416,687**	2,414,145
Cash and cash equivalents at beginning of the year	**4,530,477**	2,147,338
Effect of foreign exchange rate changes	**28,661**	(31,006)
Cash and cash equivalents at end of the year, represented by bank balances and cash	**5,975,825**	4,530,477

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. 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.

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.

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")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

Except as described below, 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.

2.1 HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

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

The following table summaries the impact of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line item affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *RMB'000*	Reclassification *RMB'000*	Amounts without application of HKFRS15 *RMB'000*
Current Liabilities			
Trade and other payables	4,147,800	356,956	4,504,756
Contract liabilities	356,956	(356,956)	–

Impact on the consolidated statement of cash flows

	As reported *RMB'000*	Adjustments *RMB'000*	Amounts without application of HKFRS15 *RMB'000*
Operating Activities			
Operating cash flows before movements in working capital	2,524,557	–	2,524,557
Increase in inventories	(640,213)	–	(640,213)
Increase in trade and other receivables	(62,284)	–	(62,284)
(Decrease) increase in trade and other payables	(549,975)	146,369	(403,606)
Increase in contract liabilities	146,369	(146,369)	–
Decrease in debt instrument at FVTOCI	68,170	–	68,170
Cash generated from operations	1,486,624	–	1,486,624
PRC Enterprise Income Tax paid	(296,133)	–	(296,133)
Net cash from operating activities	1,190,491	–	1,190,491

2.2 HKFRS 9 Financial Instruments

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

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

(a) Loans and receivables

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

(b) Impairment under ECL model

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

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

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

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

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

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

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

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

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

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

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 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Venture[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combination and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for HKFRS 16 mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB59,523,000. An assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB3,530,000 and refundable rental deposits received of nil as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group has elected the modified retrospective approach for the application of HKFRS 16 as lessee and recognised the cumulative effect of initial application to opening accumulated profits without restating comparative information.

3. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018				
Segments	**Finished drugs**	**Concentrated TCM granules**	**TCM decoction pieces**	**TCM healthcare complex**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Types of Goods or service					
Goods					
Sales of finished drugs	2,771,021	–	–	–	2,771,021
Sales of concentrated TCM granules					
Concentrated TCM granules	–	7,150,562	–	–	7,150,562
Sales of TCM decoction pieces					
Decoction pieces	–	–	1,274,829	–	1,274,829
Service					
TCM healthcare complex					
Healthcare complex	–	–	–	62,529	62,529
Total	2,771,021	7,150,562	1,274,829	62,529	11,258,941

Segments	Finished drugs	Concentrated TCM granules	TCM decoction pieces	TCM healthcare complex	Total
	For the year ended 31 December 2018				
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Geographical markets					
Mainland China	2,770,764	7,057,300	1,274,829	62,529	11,165,422
HongKong	257	32,022	–	–	32,279
Overseas and others	–	61,240	–	–	61,240
Total	2,771,021	7,150,562	1,274,829	62,529	11,258,941
Timing of revenue recognition					
A point in time	2,771,021	7,150,562	1,274,829	62,529	11,258,941
Sales channel/type of customer					
Distributors	2,766,040	984,738	597,254	–	4,348,032
Hospitals and primary health care institutions	4,981	6,165,824	677,575	–	6,848,380
Others	–	–	–	62,529	62,529
Total	2,771,021	7,150,562	1,274,829	62,529	11,258,941

(ii) Performance obligations for contracts with customers

Sales of pharmaceutical products (revenue recognised at a point in time)

The Group sells pharmaceutical products (finished drugs, Concentrated TCM granules, TCM decoction pieces and TCM healthcare complex) to the customers including distributors, hospitals and primary health care institutions.

For sales of pharmaceutical products to customers, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' designated location (delivery). Following delivery, the customer has the ability to direct the use of the pharmaceutical products and obtain substantial all of the remaining benefits of the products. The normal credit term granted to distributors is within 180 days upon delivery and for hospitals and primary health care institutions, the credit term is within 365 days upon delivery. Payment of the transaction price is due immediately at the point the end customer purchases the pharmaceutical products.

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

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

The Group regularly reviews the estimates and accordingly adjusts provisions.

Provision of TCM healthcare services (revenue recognised at a point in time)

The Group provides medical diagnosis and health examination services.

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

B. For the year ended 31 December 2017

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 *RMB'000*
Sale of pharmaceutical products	
– Finished drugs	2,381,202
– Concentrated TCM granules	5,499,679
– TCM decoction pieces	398,742
– TCM healthcare complex	58,172
	8,337,795

4. OPERATING SEGMENTS

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 makers ("CODM") of the Group, in order to allocate resources to segments and to assess their performances focuses on types of goods or services delivered or provided.

The Group presented the following 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.

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 4(ii).

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

In addition to collecting segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, interest income from cash and bank balances and finance costs on borrowings, depreciation and amortisation, which is 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 2018					
Reportable segment revenue	**2,822,008**	**7,192,342**	**1,450,339**	**62,529**	**11,527,218**
Eliminated of inter-segment revenue	**(50,987)**	**(41,780)**	**(175,510)**	**–**	**(268,277)**
Revenue from external customers	**2,771,021**	**7,150,562**	**1,274,829**	**62,529**	**11,258,941**
Reportable segment profit (adjusted EBITDA)	**610,035**	**1,905,655**	**128,138**	**5,531**	**2,649,359**
Interest income	**21,270**	**20,185**	**1,753**	**38**	**43,246**
Finance costs	**103,323**	**183,282**	**5,514**	**181**	**292,300**
Depreciation and amortisation	**154,717**	**307,189**	**59,407**	**7,859**	**529,172**
As at 31 December 2018					
Reportable segment assets	**11,169,348**	**22,311,701**	**2,782,764**	**208,193**	**36,472,006**
Reportable segment liabilities	**4,663,013**	**10,067,849**	**1,888,996**	**17,126**	**16,636,984**

	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

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

	2018	2017
	RMB'000	*RMB'000*
Reportable segment profit (adjusted EBITDA)	**2,649,359**	2,196,963
Depreciation and amortisation	**(529,172)**	(423,389)
Interest income	**43,246**	32,561
Finance costs	**(292,300)**	(221,068)
Rental income	**5,593**	1,162
Fair value changes on foreign currency forward contracts	**–**	(16,751)
Fair value changes on held for trading investments	**–**	100
Fair value changes on financial assets at FVTPL	**385**	–
Net exchange gain	**9,720**	15,546
Gain on disposal of an associate	**6,090**	–
Share of results of associates	**(7,028)**	1,852
Head office and corporate expenses	**(29,196)**	(19,739)
Consolidated profit before taxation	**1,856,697**	1,567,237

	2018	2017
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**36,472,006**	28,392,016
Elimination of inter-segment receivables	**(6,396,134)**	(3,669,786)
	30,075,872	24,722,230
Held for trading investments	**–**	691
Financial assets at FVTPL	**1,076**	–
Deferred tax assets	**126,812**	139,405
Unallocated head office and corporate assets	**83,630**	22,981
Consolidated total assets	**30,287,390**	24,885,307
Liabilities		
Reportable segment liabilities	**16,636,984**	12,302,751
Elimination of inter-segment payables	**(6,396,134)**	(3,669,786)
	10,240,850	8,632,965
Tax liabilities	**219,099**	199,678
Deferred tax liabilities	**1,736,898**	1,714,698
Unallocated head office and corporate liabilities	**579,972**	522,709
Consolidated total liabilities	**12,776,819**	11,070,050

(iii) Geographical information and information about major customers

Analysis of the Group's revenue and results as well as non-current assets by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

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 2018 and 2017.

5. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Government grants		
– Unconditional subsidies *(note)*	**67,044**	29,834
– Conditional subsidies	**28,509**	33,017
Interest income on bank deposits	**43,246**	32,561
Compensation from ex-shareholder of Jiangyin Tianjiang Group	**–**	22,970
Rental income from investment properties	**5,593**	1,162
	144,392	119,544

Note:

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.

6(a). OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(3,353)**	(892)
Gain on disposal of other intangible assets	**–**	278
Gain on disposal of an associate	**6,090**	–
Fair value changes on foreign currency forward contracts	**–**	(16,751)
Fair value changes on held for trading investments	**–**	100
Fair value changes on financial assets at FVTPL	**385**	–
Net foreign exchange gain	**9,720**	15,546
Others	**30,598**	(6,889)
	43,440	(8,608)

6(b). IMPAIRMENT LOSSES, NET OF REVERSAL

	2018	2017
	RMB'000	*RMB'000*
Impairment losses reversed (recognised) in respect of		
– trade receivables	**92,449**	18,462
– other receivables	**(2,911)**	(5,751)
– bill receivables	**1,251**	–
– debt instruments at FVTOCI	**(141)**	–
	90,648	12,711

7. INCOME TAX EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**317,263**	279,443
(Over) under provision in prior years	**(3,539)**	9,893
	313,724	289,336
Deferred tax credit	**(24,055)**	(33,532)
	289,669	255,804

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

8. PROFIT FOR THE YEAR

	2018 *RMB'000*	2017 *RMB'000*
Profit before tax has been arrived at after charging (crediting):		
Directors' remuneration	**7,074**	4,249
Other staff costs		
Salaries, wages and other benefits	**1,204,983**	825,298
Contributions to defined contribution retirement plans	**84,972**	65,233
	1,289,955	890,531
Auditors' remuneration	**5,640**	4,320
Depreciation		
– investment properties	**1,068**	159
– property, plant and equipment	**329,032**	234,827
Amortisation of prepaid lease payments	**19,510**	19,673
Amortisation of other intangible assets	**179,562**	168,730
Total depreciation and amortisation	**529,172**	423,389
Write-down (reversals) of inventories	**14,605**	(8,088)
Minimum lease payments under operating leases in respect of land and buildings	**24,605**	18,394
Gross rental income from investment properties	**(5,593)**	(1,162)
Less: direct operating expenses incurred for investment properties	**398**	326
	(5,195)	(836)

9. DIVIDENDS

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

	2018	2017
	RMB'000	*RMB'000*
2018 Interim – HK6.04 cents (2017: 2017 interim dividend HK4.75 cents) per share	**268,545**	184,966
2017 final of HK4.96 cents (2017: 2016 final dividend HK3.59 cents) per share	**206,590**	137,017
	475,135	321,983

Subsequent to the end of the Reporting Period, final dividend in respect of the year ended 31 December 2018 of HK5.51 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$277,473,000, calculated based on the Company's number of shares issued at the date of issuance of these consolidated financial statements, is not recognised as a liability in the consolidated statement of financial position.

10. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
Profit attributable to the owners of the Company	**1,439,018**	1,170,434
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**4,822,229**	4,431,505

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

11. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2017	3,456,353
Acquired through business combinations	30,019
At 31 December 2017	3,486,372
Acquired through business combinations	82,612
At 31 December 2018	3,568,984

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**2,532,688**	1,871,350
Less: allowance for credit losses	**(49,221)**	(113,092)
	2,483,467	1,758,258
Bills receivables	**606,972**	984,550
Less: allowance for credit losses	**(1,172)**	–
	605,800	984,550
Deposits and prepayments	**111,293**	144,326
Consideration receivable from disposal of Guizhou Zhongtai	**–**	3,332
Value added tax recoverable	**140,884**	54,983
Other receivables	**156,167**	104,276
Less: allowance for credit losses	**(30,527)**	(25,649)
	125,640	78,627
	3,467,084	3,024,076

The Group allows a credit period within 365 days to certain trade customers. The bills receivables have maturity period ranging from 90 to 365 days as at 31 December 2018 and 2017.

The aged analysis of the Group's trade receivables based on invoice date at the end of each Reporting Period are as follows:

	2018	2017
	RMB'000	*RMB'000*
0-90 days	**1,790,175**	858,472
91-180 days	**371,157**	532,221
181-365 days	**332,017**	328,320
Over 365 days	**39,339**	152,337
	2,532,688	1,871,350

The aged analysis of the Group's bills receivables based on issue date at the end of each Reporting Period is as follows:

	2018	2017
	RMB'000	*RMB'000*
0-90 days	**425,377**	647,085
91-180 days	**170,604**	226,250
181-365 days	**10,991**	111,215
	606,972	984,550

13. INVENTORIES

	2018 *RMB'000*	2017 *RMB'000*
Inventories comprise:		
Raw materials	**1,439,768**	1,189,805
Work in progress	**1,329,852**	978,679
Finished goods	**1,713,112**	1,383,345
	4,482,732	3,551,829

14. TRADE AND OTHER PAYABLES

	2018 *RMB'000*	2017 *RMB'000*
Trade payables	**1,804,551**	1,782,943
Deposits received	**561,995**	531,442
Advances received from customers	**–**	194,429
Advances of government grants *(note a)*	**23,068**	20,962
Salary and welfare payables	**226,416**	134,345
Other tax payables	**132,210**	126,137
Accruals of operating expenses	**546,526**	526,084
Bills payable	**84,640**	–
Interest payable	**67,528**	66,500
Dividend payable	**78,682**	36,050
Consideration payable for acquisition of subsidiaries	**36,760**	30,614
Other payables *(note b)*	**585,424**	407,006
	4,147,800	3,856,512

Notes:

(a) As at 31 December 2018 and 2017 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 criterion are met in accordance to the Group's accounting policy.

(b) Included in other payables is approximately RMB373,889,000 (31 December 2017: RMB257,304,000) 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.

The aged analysis of the Group's trade and bills payables based on invoice date at the end of each Reporting Period are as follows:

	2018	2017
	RMB'000	*RMB'000*
0-90 days	**1,243,657**	1,248,177
91-180 days	**271,002**	256,254
181-365 days	**216,598**	170,254
Over 365 days	**157,934**	108,258
	1,889,191	1,782,943

15. SHARE CAPITAL OF THE COMPANY

	Number of shares		**Share capital**	
	2018	2017	**2018**	2017
	'000	*'000*	***RMB'000***	*RMB'000*
Issued and fully paid				
At beginning of the year	**4,431,505**	4,431,505	**9,809,935**	9,809,935
New shares issued *(note)*	**604,296**	–	**2,172,539**	–
At end of the year	**5,035,801**	4,431,505	**11,982,474**	9,809,935

Note:

The Company allotted and issued 604,296,222 ordinary shares at HKD4.43 (approximately RMB3.60) per share on 10 May 2018 to Ping An Life Insurance Company of China, Ltd. The total net proceeds from the share issues amounted to HKD2,674,223,000 (approximately RMB2,172,539,000). The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares rank pari passu with other shares in issue in all respects.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

FINANCIAL REVIEW

Other income

During the Reporting Period, the Group's other income was approximately RMB144,392,000, representing an increase of 20.8% as compared to the approximately RMB119,544,000 in the last year. The increase can be largely assigned to the Group's short-term fixed deposit on stock fund, which led to an increase in interest income of approximately RMB10,685,000 as compared to last year, and an increase in government grants of approximately RMB32,702,000 obtained by the Group as compared to last year. Approximately RMB22,970,000, which accounted for last year's other income, was the compensation from ex-shareholder of Tianjiang Pharmaceutical.

	2018	2017	Change
	RMB'000	*RMB'000*	
Interest income	**43,246**	32,561	32.8%
Government grants	**95,553**	62,851	52.0%
Rental income	**5,593**	1,162	381.3%
Others	–	22,970	-100.0%
Total	**144,392**	119,544	20.8%

Other gains and losses and impairment losses, net of reversal

During the Reporting Period, the Group's other gains were approximately RMB43,440,000 (2017: Other losses of approximately RMB8,608,000). The reasons for changes in other gains and other losses during the Reporting Period were as follows: changes in exchange rate, such that the actual gain recognized from the amount settled in respect of the forward foreign exchange contract during the last year was approximately RMB16,751,000 less than gain from changes in the fair value recognized in the past years (2018: nil); due to the collection of the trade receivables, the reversals of trade receivables of the Reporting Period amounted to RMB92,449,000.

Selling and distribution costs

During the Reporting Period, the Group's selling and distribution costs amounted to approximately RMB3,417,195,000, representing an increase of 40.2% as compared to approximately RMB2,437,167,000 in the last year. Selling and distribution costs as a percentage of revenue were 30.4%, representing an increase of 1.2 percentage points as compared to 29.2% in the last year. This was mainly due to: (1) the increase in marketing input of the concentrated TCM granules business for developing new markets, which increased the number of medicine dispensing machines, the depreciation and maintenance fee, the proportion of direct sales and logistic cost; (2) marketing staff and marketing expenses increased after implementation of the "two-invoice system" for the finished drug business and consequently adjusted the Company's sales model; (3) the combining of sales expenses for the newly acquired TCM decoction piece enterprises.

	2018	2017	Change
	RMB'000	*RMB'000*	
Advertising, promotion and travel expenses	**1,830,850**	1,281,717	42.8%
Salary expenses of sales and marketing staff	**511,289**	380,461	34.4%
Distribution costs	**169,191**	116,498	45.2%
Other selling and distribution costs	**905,865**	658,491	37.6%
Total	**3,417,195**	2,437,167	40.2%

Administrative expenses

During the Reporting Period, the Group's administrative expenses amounted to approximately RMB552,294,000, representing an increase of 58.0% as compared to approximately RMB349,449,000 in the last year. The increase in administrative expenses was mainly due to: (1) the Group adding approximately 29 subsidiaries as compared to the same period last year. Most of these subsidiaries were preparing production bases for concentrated TCM granules and TCM decoration pieces; (2) combining the enterprise costs of newly acquired TCM decoration pieces; (3) the increase in the salary expenses, asset depreciation and amortization of existing business following the growth in business volume, the use of new factories and increased staff.

	2018	2017	Change
	RMB'000	*RMB'000*	
Salary	**258,435**	189,518	36.4%
Depreciation and amortisation	**65,377**	37,854	72.7%
Office rental and other expenses	**228,482**	122,077	87.2%
Total	**552,294**	349,449	58.0%

Research and development expenses

During the Reporting Period, the Group's research and development expenses amounted to approximately RMB346,539,000, representing an increase of 71.4% as compared to approximately RMB202,160,000 in the last year. The increase in research and development expenses was mainly due to the concentrated TCM granules business's expanded research and development expenses for the formulation of a concentrated TCM granules industry standard.

Profit from operations

During the Reporting Period, profit from operations was approximately RMB2,156,025,000, representing an increase of 20.7% as compared to approximately RMB1,786,453,000 in the last year. The operating profit margin (defined as profit from operations divided by revenue) was 19.1%, representing a decrease of 2.3 percentage points from 21.4% in the last year. The decrease in operating profit margin was due to the gross profit margin of the newly-consolidated company this year being lower than the Group's original business. Further, the profitability of production bases for concentrated TCM granules and TCM decoration pieces has not yet been realized. Finally, the Group increased its input in sales and distribution costs to expand the market share.

Finance costs

During the Reporting Period, the Group's finance costs were approximately RMB292,300,000, representing an increase of 32.2% as compared to approximately RMB221,068,000 in the last year. The increase in finance costs as compared to last year was mainly due to the corporate bonds issued in June 2017 with nominal values of approximately RMB2.0 billion. Bank and other loans held by the Group as at 31 December 2018 amounted to approximately RMB1,643,443,000, and corporate bonds of approximately RMB4,490,065,000 were also held. As compared to 31 December 2017, bank and other loans held by the Group amounted to approximately RMB671,697,000, and corporate bonds of approximately RMB4,481,958,000 were held. During the Reporting Period, the Group's effective interest rate was 4.35% (2017: 4.06%). The Group will continue to monitor changes in market interest rates and adjust its borrowing and fundraising mechanism as is appropriate. The Group will refinance its existing loans or secure new bank loans when opportunities for price negotiation arise.

Income from investment in associate

During the Reporting Period, the Group shared losses from associate of approximately RMB7,028,000, while there was shared gains of approximately RMB1,852,000 in the last year.

Earnings per share

During the Reporting Period, basic earnings per share were RMB29.84 cents, representing an increase by 13.0% as compared to RMB26.41 cents in the last year. During the Reporting Period, the Group issued 604,296,222 new shares to Ping An Life Insurance. The number of shares increased from 4,431,505,630 shares in the last year to 5,035,801,852 shares, and the weighted average number of shares increased to 4,822,229,000. The increase in basic earnings per share was attributable to growth in profit attributable to equity holders of the Company during the Reporting Period, the increase was 22.9%, or approximately RMB1,439,018,000 (2017: RMB1,170,434,000).

Liquidity and financial resources

As at 31 December 2018, the Group's current assets amounted to approximately RMB14,485,694,000 (31 December 2017: RMB11,384,050,000), which included cash, cash equivalents and deposits with banks of approximately RMB6,438,522,000 (31 December 2017: RMB4,787,781,000), from which the pledged bank deposits amounted to approximately RMB88,808,000 for bills payable security (31 December 2017: nil). Trade and other receivables amounted to approximately RMB3,467,084,000 (31 December 2017: RMB3,024,076,000). Current liabilities amounted to approximately RMB8,632,754,000 (31 December 2017: RMB4,694,887,000). Net current assets aggregated to approximately RMB5,852,940,000 (31 December 2017: RMB6,689,163,000). The Group's current ratio was 1.7 (31 December 2017: 2.4). The gearing ratio (defined as bank and other loans and bonds payable divided by equity attributable to equity shareholders of the Company) decreased to 39.4% from 41.4% as at 31 December 2017. The gearing ratio decrease was mainly due to the issuance of new shares to Ping An Life Insurance during the year, and a share capital increase of approximately RMB2,172,539,000.

Bank and other loans and pledge of assets

As at 31 December 2018, the Group's balance of bank and other loans was approximately RMB1,643,443,000 (31 December 2017: RMB671,697,000), of which approximately RMB408,074,000 (31 December 2017: RMB243,824,000) was secured by Group assets with a book value of approximately RMB135,789,000 (31 December 2017: RMB141,409,000). The balance of the Group's bank and other loans includes approximately RMB1,411,569,000 and RMB231,874,000, which are required to be paid within one year and over one year, respectively (31 December 2017: approximately RMB638,697,000 and RMB33,000,000 respectively).

Capital source

The Group meets its working capital needs mainly through its operating activities and external financing activities. During the Reporting Period, the Group's net cash inflow generated from operating activities was approximately RMB1,190,491,000, representing a decrease of 3.7% as compared to approximately RMB1,235,594,000 in the last year. Net cash outflow from investing activities was approximately RMB1,546,046,000, while the net cash inflow was approximately RMB392,959,000 in 2017. The change from net cash inflow to net cash outflow was mainly due to the increase in capital expenditure by 101.2% to approximately RMB1,262,737,000 during the year and the investment inflow from the maturity of fixed deposits of RMB1,050,000,000 in the last year (2018: nil). Net cash inflow from financing activities was approximately RMB1,772,242,000, representing an increase of 125.6% as compared to approximately RMB785,592,000 in 2017, which was mainly due to the issuance of new shares to Ping An Life Insurance during the year, with the proceeds of approximately RMB2,172,539,000 and new bank loan of approximately RMB398,905,000, while the cash inflow from the issue of corporate bonds was approximately RMB2,000,000,000 last year. The Group had sufficient working capital and stable financial position as it has an unutilized bank loan facility of approximately RMB2,238,209,000.

Capital expenditure

For the Reporting Period, the cash paid by the Group for the purchase of equipment, construction of plants, purchase of land use rights and intangible assets amounted to approximately RMB1,262,737,000, representing an expenditure increase of 101.2% as compared to approximately RMB627,543,000 in the last year. The increase in capital expenditure was due to the promotion of development plans for TCM decoction pieces and concentrated TCM granules industries and the establishment of TCM decoction pieces and concentrated TCM granules production bases in various provinces and cities during the Reporting Period.

Financing capacity

As at 31 December 2018, capital commitments which the Group has entered but which are outstanding and not provided for in the financial statements were approximately RMB1,324,662,000 (31 December 2017: approximately RMB1,426,326,000). Such capital commitments were mainly used in the construction of plants, acquisition of facilities, and investment payment. The Group believes that, with the available cash balances, stable cash inflow from operating activities, undrawn bank facilities already granted by the bank, and the fact that it has been recognized and supported by major financial institutions, the Group will be capable of fully satisfying liquidity needs and the abovementioned funding needs.

Contingent liabilities

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

Financial risk

The Group mainly operates in mainland China, with most of its transactions originally denominated and settled in Renminbi, of which foreign exchange risk is considered insignificant. As at 31 December 2018, the Group's Hong Kong Dollar bank borrowings of HK$470 million. As at 31 December 2018, the Group had also not entered into any foreign exchange contracts. In future, the Group will continue to regularly review its net foreign exchange exposure and take appropriate and timely measures to mitigate the impact of exchange rate fluctuations.

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 14,169 employees, including directors of the Company (31 December 2017: 10,706), of which 5,097 were sales staff, 6,054 were manufacturing staff, and 3,018 were engaged in R&D, administration and senior management. Remuneration packages mainly comprised of salary and a discretionary bonus based on individual performance. The Group's total remuneration during the Reporting Period amounted to approximately RMB1,297,029,000 (2017: RMB894,780,000). During the Reporting Period, the total remuneration amount increased, mainly due to: (1) in 2018, the Company newly acquired several subsidiaries, and the number of employees increased significantly;(2) the average remuneration has not been adjusted significantly; (3) the social security payment baseline gradually increased cause a higher cost of recruitment.

FINAL DIVIDEND

The Board recommended a final dividend of HK5.51 cents (approximately RMB4.71 cents) per share for the year ended 31 December 2018 (2017: HK4.96 cents (approximately RMB3.97 cents) per share). The final dividend for the year 2018 is subject to the approval by the shareholders at the forthcoming annual general meeting and is expected to be payable on 28 June 2019 to the shareholders on the register of members of the Company on 13 June 2019.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held at Conference Room, 2nd Floor, No. 1, Keyuan Heng 4 Road, Gaoli Hi-Tech Park, Ronggui, Shunde District, Foshan City, Guangdong Province, China, on Friday, 31 May 2019 at 2:30 p.m..

CLOSURE OF REGISTER OF MEMBERS

To ascertain the shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 27 May 2019.

To ascertain the shareholders' entitlement to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 11 June 2019 to Thursday, 13 June 2019, both days inclusive during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrars of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 10 June 2019.

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 CORPORATE GOVERNANCE CODE

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2018.

Code Provision A.1.5 of the Corporate Governance Code stipulates that, among other things, the draft and final versions of minutes of board meetings should be sent to all directors for their comments and record respectively. For the board meetings held during the year ended 31 December 2018, the Company had recorded the whole process of each meeting in digital format, arranged for the Directors to sign summary of board resolutions, and prepared board minutes which were signed off by the chairperson of the meeting (the "Practice"). Given that a complete record of the board meetings in digital format would be maintained under the Practice, the Company did not consider there was a need to send the draft and final versions of the minutes to the directors for comments and record. While the Practice, in a technical and strict manner, had constituted a deviation from the language of Code Provision A.1.5, the Board believes that the purpose of the code provision is to ensure that the board minutes of a listed issuer shall at all times reflect accurately in all material aspects the discussions and views made by its directors at board meetings and that each director's views and concerns could be correctly recorded in the listed issuer's records (the "Purpose"), and that the Practice could serve the Purpose better and are in compliance with the spirit of Code Provision A.1.5 and in no circumstances had the interests of the Directors and the shareholders of the Company been impaired nor compromised.

In order to ensure strict adherence to the language of Code Provision A.1.5, the Board has, since its meeting on 18 February 2019 and going forward, adopted and will adopt an additional step in its standard procedures for board meetings in that draft and final versions of the board minutes would be provided to the Directors for their comments and record.

During the period from 25 January 2019 to 17 February 2019, the cessation of office of Mr. LO Wing Yat and Mr. ZHOU Bajun as disclosed in an announcement of the Company dated 25 January 2019 and 28 January 2018 respectively, the Company was not in compliance with (i) Rule 3.10 of the Listing Rules, which stipulates that the board of directors of the issuer must include at least three independent non-executive directors and at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; (ii) Rules 3.10A of the Listing Rules, which stipulates that the number of independent non-executive directors shall represent at least one-third of the Board; (iii) Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee members shall comprise a majority of independent non-executive directors; and (iv) Code Provision A.5.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, which stipulates that the nomination committee members shall comprise a majority of independent non-executive directors.

In compliance with the requirements of the Listing Rules, the Board appointed Mr. QIN Ling as an independent non-executive director, chairman of the Remuneration Committee, a member of the Audit Committee, a member of the Nomination Committee and a member of the Strategic Committee of the Company, all with effect from 18 February 2019. The Board also appointed Mr. LI Weidong as an independent non-executive director, a member of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company, all with effect from 18 February 2019.

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. As at the date of this announcement, the Audit Committee comprises five members who are four independent non-executive directors and one member who are non-executive directors, namely Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong and Mr. YANG Shanhua, 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 2018.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk). The Company's 2018 Annual Report containing all information required under the Listing Rules will be dispatched to the shareholders of the Company and will be published on the Company's website (www.china-tcm.com.cn) and the HKExnews website of the Stock Exchange (www.hkexnews.hk).

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

Hong Kong, 15 March 2019

As at the date of this announcement, the Board comprises twelve directors, of which Mr. WU Xian, Mr. WANG Xiaochun and Mr. YANG Wenming are executive directors; Mr. YANG Shanhua, Ms. LI Ru, Mr. YANG Binghua, Mr. WANG Kan and Mr. KUI Kaipin are non-executive directors; and Mr. XIE Rong, Mr. YU Tze Shan Hailson, Mr. QIN Ling and Mr. LI Weidong are independent non-executive directors.