



Interim Report  
2012



Tong Ren Tang Technologies Co., Ltd.  
北京同仁堂科技發展股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 1666)



## **HIGHLIGHTS**

- For the six months ended 30 June 2012, the Group's revenue represents an increase of approximately 24.81% as compared with that for the corresponding period in 2011.
- For the six months ended 30 June 2012, profit attributable to equity holders of the Company represents an increase of approximately 24.13% as compared with that for the corresponding period in 2011.
- For the six months ended 30 June 2012, earnings per share for profit attributable to equity holders of the Company amounted to RMB0.36.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.





## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
<b>Profit for the period</b>	<b>235,749</b>	189,542
<b>Other comprehensive expense:</b>		
Foreign currency translation differences	751	(5,051)
<b>Other comprehensive expense for the period, net of tax</b>	<b>751</b>	(5,051)
<b>Total comprehensive income for the period</b>	<b>236,500</b>	184,491
Attributable to:		
Owners of the Company	212,597	168,198
Non-controlling interest	23,903	16,293
<b>Total comprehensive income for the period</b>	<b>236,500</b>	184,491



## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights	11	<b>142,266</b>	143,879
Property, plant and equipment	11	<b>471,092</b>	434,341
Investment in an associate		<b>1,112</b>	1,554
Deferred income tax assets		<b>19,572</b>	18,901
Other long-term assets		<b>1,620</b>	293
		<b>635,662</b>	598,968
<b>Current assets</b>			
Inventories		<b>1,356,374</b>	1,328,034
Trade and bills receivable – net	12	<b>269,037</b>	142,857
Amounts due from related parties		<b>52,084</b>	16,701
Prepayments and other current assets		<b>30,289</b>	50,217
Short-term bank deposits		<b>8,460</b>	9,407
Cash and cash equivalents		<b>801,559</b>	671,695
		<b>2,517,803</b>	2,218,911
<b>Total assets</b>		<b>3,153,465</b>	2,817,879
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	13	<b>588,000</b>	588,000
Reserves			
– Proposed dividends		–	111,720
– Other reserves		<b>1,231,765</b>	1,019,168
		<b>1,819,765</b>	1,718,888
<b>Non-controlling interests</b>		<b>247,285</b>	220,182
<b>Total equity</b>		<b>2,067,050</b>	1,939,070



		<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
	Note		
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
		4,746	5,139
		54,914	52,185
		<b>59,660</b>	<b>57,324</b>
<b>Current liabilities</b>			
	14	486,894	466,483
		4,165	3,574
		133,316	86,194
		29,027	37,092
		38,529	19,804
		209,824	83,338
		125,000	125,000
		<b>1,026,755</b>	<b>821,485</b>
		<b>1,086,415</b>	<b>878,809</b>
<b>Total liabilities</b>			
<b>Total equity and liabilities</b>		<b>3,153,465</b>	2,817,879
<b>Net current assets</b>		<b>1,491,048</b>	1,397,426
<b>Total assets less current liabilities</b>		<b>2,126,710</b>	1,996,394



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
<b>Cash flows from operating activities:</b>		
Cash generated from operations	217,916	313,171
Interest paid	(4,164)	(1,015)
Income tax paid	(27,342)	(22,007)
Net cash generated from operating activities	186,410	290,149
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(63,373)	(33,485)
Proceeds from disposals of property, plant and equipment	68	60
Proceeds from short-term bank deposits	9,407	96,529
Increase in short-term bank deposits	(8,460)	(20,108)
Interest received	3,283	3,367
Net cash generated from/(used in) investing activities	(59,075)	46,363
<b>Cash flows from financing activities:</b>		
Proceeds from short-term borrowings	45,000	45,000
Repayments of short-term borrowings	(45,000)	(15,000)
Share issuance costs of a subsidiary	–	(9,099)
Capital injection from non-controlling interests	3,200	–
Dividends paid	–	(43,843)
Net cash generated from/(used in) financing activities	3,200	(22,942)
Net increase in cash and cash equivalents	130,535	313,570
Cash and cash equivalents at beginning of the period	671,695	441,108
Exchange loss on cash and cash equivalents	(671)	(1,297)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>801,559</b>	<b>753,381</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Unaudited								Non-controlling interests	Total equity	
	Attributable to owners of the Company										
	Share capital	Capital reserve	Statutory reserve fund	Statutory public welfare fund	Foreign currency		Other reserve	Retained earnings	Total		
					Tax reserve	translation difference					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance as of 1 January 2012	588,000	175,144	193,281	45,455	102,043	(23,520)	(4,070)	642,555	1,718,888	220,182	1,939,070
Profit for the period	-	-	-	-	-	-	-	212,078	212,078	23,671	235,749
Foreign currency translation differences	-	-	-	-	-	519	-	-	519	232	751
Dividends paid	-	-	-	-	-	-	-	(111,720)	(111,720)	-	(111,720)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	3,200	3,200
Balance as of 30 June 2012	588,000	175,144	193,281	45,455	102,043	(23,001)	(4,070)	742,913	1,819,765	247,285	2,067,050
Balance as of 1 January 2011	196,000	371,144	170,633	45,455	102,043	(17,009)	(5,935)	700,596	1,562,927	177,500	1,740,427
Profit for the period	-	-	-	-	-	-	-	170,850	170,850	18,692	189,542
Foreign currency translation differences	-	-	-	-	-	(2,652)	-	-	(2,652)	(2,399)	(5,051)
Dividends paid	392,000	(196,000)	-	-	-	-	-	(290,080)	(94,080)	-	(94,080)
Share issuance costs of a subsidiary	-	-	-	-	-	-	(4,831)	-	(4,831)	(4,268)	(9,099)
Balance as of 30 June 2011	588,000	175,144	170,633	45,455	102,043	(19,661)	(10,766)	581,366	1,632,214	189,525	1,821,739





Notes:

## 1. General Information

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 22 March 2000 and upon the placing of its H shares, was listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 October 2000 and transferred from GEM to Main Board since 9 July 2010. Its ultimate holding company is China Beijing Tong Ren Tang Group Co. Ltd. ("Tong Ren Tang Holdings"), a company incorporated in Beijing, the PRC.

The address of its registered office is No. 16 Tongji Beilu, Beijing Economic and Technological Development Zone, Beijing, the PRC. The Company and its subsidiaries and joint ventures are hereafter collectively referred to as the "Group". The Group is principally engaged in the production and distribution of Chinese medicine and primarily operates in the PRC.

This condensed consolidated interim financial information was approved for issue by the Board of the Company on 22 August 2012.

This condensed consolidated interim financial information has not been audited.

## 2. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

## 3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### (a) Standards, amendments and interpretations effective in 2012

- IFRS 1 (Amendment), Severe hyperinflation and removal of fixed dates for first-time adopters
- IFRS 7 (Amendment), Disclosures – Transfers of financial assets
- IAS 12 (Amendment), Deferred tax: Recovery of underlying assets

The adoption of the above standards, amendments and interpretations does not have any significant financial impact to the Group.



(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

- IFRS 7 (Amendment), “Financial instruments: Disclosures – Offsetting financial assets and financial liabilities” (effective for annual periods beginning on or after 1 January 2013)
- IFRS 9, ‘Financial Instruments’ (effective for annual periods beginning on or after 1 January 2015)
- IFRS 10, ‘Consolidated financial statements’ (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11, ‘Joint arrangements’ (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12, ‘Disclosure of interests in other entities’ (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13, ‘Fair value measurements’ (effective for annual periods beginning on or after 1 January 2013)
- IAS 1 (Amendment), ‘Presentation of financial statements’ (effective for annual periods beginning on or after 1 July 2012)
- IAS 19 (Amendment), ‘Employee benefits’ (effective for annual periods beginning on or after 1 January 2013)
- IAS 32 (Amendment), “Financial instruments: Presentation – Offsetting financial assets and financial liabilities” (effective for annual periods beginning on or after 1 January 2014)
- IFRIC – Int 20, “Stripping costs in the production phase of a surface mine” (effective for annual periods beginning on or after 1 January 2013)
- IASB’s fourth 2011 annual improvement project
  - IFRS 1 (Amendment), “First time adoption of IFRS” (effective for annual periods beginning on or after 1 January 2013)
  - IAS 1 (Amendment), “Presentation of financial statements” (effective for annual periods beginning on or after 1 January 2013)
  - IAS 16 (Amendment), “Property, plant and equipment” (effective for annual periods beginning on or after 1 January 2013)
  - IAS 32 (Amendment), “Financial instruments: Presentation” (effective for annual periods beginning on or after 1 January 2013)
  - IAS 34 (Amendment), “Interim financial reporting” (effective for annual periods beginning on or after 1 January 2013)



#### 4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the provision for income taxes.

#### 5. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

There have been no changes in any risk management policies since year end.

#### 6. Revenue

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Sales of products:		
– PRC Mainland	1,236,220	1,015,238
– Outside PRC Mainland	134,630	80,731
	1,370,850	1,095,969
Agency fee income for distribution services		
– Outside PRC Mainland	9,540	10,045
	1,380,390	1,106,014

## 7. Finance (Expenses)/Income – Net

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Interest income on cash at bank and short-term bank deposits	3,283	3,367
Interest expenses on bank borrowings repayable within one year	(4,164)	(1,015)
Exchange losses	(106)	(321)
Finance (expenses)/income – net	(987)	2,031

## 8. Expenses By Nature

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Depreciation of property, plant and equipment	20,263	19,383
Amortisation of prepaid operating lease payments	1,554	791
Amortisation of other long-term assets	10	156
Provision for impairment of inventories	2,519	10,134
Reversal of provision for impairment of receivables	(2,596)	(4,475)
Loss on disposal of property, plant and equipment	112	326

## 9. Income Tax Expense

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise (“HNTE”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2011: 25%). The Company has obtained the HNTE certificate in 2008 and completed the re-applying of HNTE qualification in 2011. Consequently, the applicable income tax rate of the Company used as of 30 June 2012 is 15% (30 June 2011: 15%). Income tax on overseas profits has been calculated on the estimated assessable profit for the reporting period at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

## 10. Earnings Per Share

The calculation of the earnings per share for the six months ended 30 June 2012 was based on the profit attributable to equity shareholders of the Company of approximately RMB212,078,000 (2011: RMB170,850,000) divided by the weighted average number of shares issued during the period of 588,000,000 shares (Six months ended 30 June 2011: 588,000,000 shares).

The Company had no potential dilutive shares for the six months ended 30 June 2012 and 2011.

## 11. Additions to Property, Plant and Equipment and Additions to Leasehold Land and Land Use Rights

For the six months ended 30 June 2012, the additions to leasehold land and land use rights of the Group was approximately RMB0 (2011: RMB24,836,000).

For the six months ended 30 June 2012, the additions to property, plant and equipment of the Group was approximately RMB60,730,000 (2011: RMB36,849,000).



## 12. Trade and Bills Receivable – Net

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Trade and bills receivables	<b>282,041</b>	158,457
Less: provision for impairment of receivables	<b>(13,004)</b>	(15,600)
Trade and bills receivable – net	<b>269,037</b>	142,857

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. Ageing analysis of trade and bills receivables based on invoice date was as follows:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Within 4 months	<b>261,405</b>	114,786
Over 4 months but within 1 year	<b>13,018</b>	36,038
Over 1 year but within 2 years	<b>103</b>	81
Over 2 years but within 3 years	<b>1,180</b>	1,313
Over 3 years	<b>6,335</b>	6,239
	<b>282,041</b>	158,457

## 13. Share Capital

	<b>30 June 2012 (Unaudited)</b>		31 December 2011 (Audited)	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	<b>588,000,000</b>	<b>588,000</b>	588,000,000	588,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	<b>326,040,000</b>	<b>326,040</b>	326,040,000	326,040
– H shares with a par value of RMB1 per share	<b>261,960,000</b>	<b>261,960</b>	261,960,000	261,960
	<b>588,000,000</b>	<b>588,000</b>	588,000,000	588,000

Apart from the minor differences under the different regulatory jurisdictions, the economic and voting rights are the same for both the domestic and H shareholders.



#### 14. Trade Payable

The ageing analysis of trade payable was as follows:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Within 4 months	<b>471,318</b>	425,078
Over 4 months but within 1 year	<b>14,890</b>	40,542
Over 1 year but within 2 years	<b>686</b>	863
	<b>486,894</b>	466,483

#### 15. Segment Information

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from an operational entity perspective. Generally, the Board of Directors considers the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from (i) the manufacture and sale of Chinese medicine of the Company in China, and (ii) the operation of the distribution network of Tong Ren Tang Chinese Medicine and the manufacture of Chinese medicine outside the PRC mainland.

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials and sales of medicinal products, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Board of Directors assesses the performance of the operating segments based on revenue and profit after income tax of each segment.



The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2012 is as follows:

(Unaudited)	Tong Ren Tang			Total RMB'000
	The Company RMB'000	Chinese Medicine RMB'000	All other segments RMB'000	
Segment revenue	1,165,353	161,611	136,757	1,463,721
Inter-segment revenue	(3,059)	(2,793)	(77,479)	(83,331)
Revenue from external customers	1,162,294	158,818	59,278	1,380,390
Profit after income tax	181,548	42,647	11,554	235,749
Interest income	2,498	412	373	3,283
Interest expenses	(4,164)	-	-	(4,164)
Depreciation of property, plant and equipment	(13,547)	(4,240)	(2,476)	(20,263)
Amortisation of prepaid operating lease payments	(1,050)	(423)	(81)	(1,554)
Provision for impairment of inventory	(2,519)	-	-	(2,519)
Reversal of provision for impairment of receivables	2,596	-	-	2,596
Income tax expense	(32,038)	(11,484)	(2,820)	(46,342)

The segment assets and liabilities as at 30 June 2012 are as follows:

(Unaudited)	Tong Ren Tang			Total RMB'000
	The Company RMB'000	Chinese Medicine RMB'000	All other segments RMB'000	
Total assets	2,486,548	470,476	196,441	3,153,465
Additions to non-current assets (other than deferred tax assets)	22,148	38,303	1,616	62,067
Total liabilities	939,800	92,837	53,778	1,086,415



The segment information for the six months ended 30 June 2011 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	935,035	120,964	114,945	1,170,944
Inter-segment revenue	(2,945)	(1,864)	(60,121)	(64,930)
Revenue from external customers	932,090	119,100	54,824	1,106,014
Profit after income tax	145,358	35,555	8,629	189,542
Interest income	2,655	490	222	3,367
Interest expenses	(1,015)	–	–	(1,015)
Depreciation of property, plant and equipment	(13,146)	(4,000)	(2,237)	(19,383)
Amortisation of prepaid operating lease payments	(286)	(434)	(71)	(791)
Provision for impairment of inventory	(9,145)	(989)	–	(10,134)
Reversal of provision for impairment of receivables	4,475	–	–	4,475
Income tax expense	(24,929)	(9,579)	(1,648)	(36,156)

The segment assets and liabilities as at 31 December 2011 are as follows:

(Audited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Total assets	2,249,567	394,269	174,043	2,817,879
Additions to non-current assets (other than deferred tax assets)	109,092	81,366	5,405	195,863
Total liabilities	766,996	63,429	48,384	878,809

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the condensed consolidated income statement.

The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Revenues from external customers are derived from the sales of products and agency fee for distribution services. The breakdown of sales of products by region is provided in Note 6.

The total of the non-current assets other than deferred income tax assets located in PRC Mainland is RMB514,335,000 (31 December 2011: RMB476,235,000), and the total of these non-current assets located in other countries is RMB101,754,000 (31 December 2011: RMB103,832,000).





## 16. Charges On Group Assets

As at 30 June 2012, none of the Group's assets was pledged as security for liabilities (31 December 2011: Nil).

## 17. Commitments

### (a) Capital commitments

As of 30 June 2012, the Group had capital commitments of RMB17,972,000 which were not provided but had been contracted for in the unaudited consolidated financial statements of the Group related to the construction of production facilities (31 December 2011: RMB21,287,000 related to the construction of production facilities).

### (b) Operating lease commitments

The Group leases various warehouse and factory premises under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Not later than one year	<b>41,207</b>	48,489
Later than one year and no later than five years	<b>63,002</b>	64,838
Later than five years	<b>11,978</b>	11,095
	<b>116,187</b>	124,422

## 18. Related Party Transactions

Related parties include the Group and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company as well as their close family members.

The ultimate holding company itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.



A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's revenue from sales of goods are of a retail nature to end users, which include transactions with the employees of state controlled entities while such employees are key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from sales of goods disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

During the Period, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties in the ordinary course of business.

(a) *Transactions with the ultimate holding company*

Transactions with the ultimate holding company during the year are summarised as follows:

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Trademark licence fee (Note (i))	425	425
Rental expense (Note (ii))	1,182	1,182
Storage fee (Note (iii))	1,458	1,458

Notes:

- (i) A licence agreement dated 1 January 2005 was entered into between the Company and the ultimate holding company whereby the Company is allowed to use certain trademarks and trademark logos (collectively, "Trademarks") of the ultimate holding company.

The term of the licence is authorised up to 28 February 2013. Upon the expiration of the licence, if the ultimate holding company successfully renews the right to use the Trademarks and if the Company fully complies with the terms and conditions of the agreement and requests to continue to use the Trademarks, the ultimate holding company shall renew the agreement with the Company. The renewed term of the licence shall not be shorter than 5 years.

For the six months ended 30 June 2012, the annual licence fee is RMB425,000. The parties are entitled to adjust the annual licence fee thereafter. Such annual increase or decrease shall not exceed 10% of that of the previous year.



- (ii) A land use right leasing agreement (the “Old Agreement”) dated 6 October 2000 was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 49,776.35 sq.m. The land is located in Beijing, the PRC, with a lease period of 20 years commencing from 6 October 2000. The annual rental is calculated at a rate of RMB53.95 per sq.m. Any adjustments to the annual rental shall be made at the market rent, provided that such adjustment shall not exceed 10% of that of the previous year. On 1 January 2006, an amendment was made to reduce the total area of the land leased to 43,815.15 sq.m., the remaining clauses on the Old Agreement still remain effective.
- (iii) A contract for storage and custody was renewed on 18 January 2011 between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company, with an effective period from 2011 to 2013. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

(b) *Transactions with the subsidiaries and joint ventures of the ultimate holding company*

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	145,780	145,859
Agency fee income for distribution services (Note (ii))	9,540	10,045
Purchases of Chinese medicine (Note (iii))	22,986	7,045
Purchases of raw materials and semi-finished products (Note (iii))	21,695	7,503

Notes:

- (i) The Company renewed a sales agreement with the ultimate holding company on 18 January 2011. In accordance with this agreement, the Group can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties. The agreement has been approved at the Company's Annual General Meeting and is effective from 2011 to 2013.
- (ii) Tong Ren Tang Chinese Medicine renewed an agency agreement with the Parent Company on 2 March 2010. In accordance with this agreement, Tong Ren Tang Chinese Medicine is appointed as an agent in distributing the Parent Company's products, with an effective period from 2010 to 2012.



(iii) The Company renewed a procurement agreement with the ultimate holding company on 28 February 2011, with an effective period from 2011 to 2013. Pursuant to the agreement, the subsidiaries and joint ventures of the ultimate holding company can supply to the Group the products that are required for the Group's production, sale and distribution. The price procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall be negotiated by the parties on an arm's length basis. The ultimate holding company shall not supply the products to the Group (1) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is not any comparable market price available for the relevant materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall be no less favorable than terms offered by independent third parties to the Group.

(c) *Transactions with other state-owned enterprises*

In the ordinary course of business, the Group sells goods to, and purchase goods from other state-owned enterprises based on terms as set out in the underlying agreements, market prices or actual cost incurred, or as mutually agreed.

Group places deposits in and receives loans mainly from state-owned financial institutions in the ordinary course of business. The deposits and loans are in accordance with the terms as set out in the respective agreements, and the interest rates are set at prevailing market rates.

(d) *Balances with related parties*

Balances with related parties consisted of:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
<b>Amounts due from related parties:</b>		
Subsidiaries and joint ventures of the ultimate holding company	33,743	15,388
Other state-owned enterprises	18,341	1,313
	<b>52,084</b>	16,701
<b>Amounts due to related parties:</b>		
Subsidiaries and joint ventures of the ultimate holding company	25,142	28,767
Other state-owned enterprises	3,885	8,325
	<b>29,027</b>	37,092

The amounts due from/to related parties are unsecured, interest-free and repayable or recoverable within twelve months.



The ageing analysis of amounts due from related parties based on invoice date was as follows:

	<b>30 June 2012 RMB'000 (Unaudited)</b>	31 December 2011 RMB'000 (Audited)
Within 4 months	<b>49,434</b>	12,531
Over 4 months but within 1 year	<b>2,479</b>	3,988
Over 1 year	<b>171</b>	182
	<b>52,084</b>	16,701

The ageing analysis of amounts due to related parties based on invoice date was as follows:

	<b>30 June 2012 RMB'000 (Unaudited)</b>	31 December 2011 RMB'000 (Audited)
Within 4 months	<b>27,503</b>	35,962
Over 4 months but within 1 year	<b>1,503</b>	694
Over 1 year	<b>21</b>	436
	<b>29,027</b>	37,092



## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

For the six months ended 30 June 2012, the Company continued to take the implementation of the Twelfth Five-Year Plan as our guide and the realization of “specialization, scale operation and integration” as our target, made every effort in our operations and developed in a orderly manner, so as to accomplish all the tasks and objectives set for the first half of the year. For the six months ended 30 June 2012, the Group’s sales revenue amounted to RMB1,380,390,000, representing an increase of 24.81% as compared with RMB1,106,014,000 for the corresponding period of last year. Profit attributable to the equity shareholders of the Company amounted to RMB212,078,000, representing an increase of 24.13% as compared with RMB170,850,000 for the corresponding period of last year.

#### Sales

Looking back at the Reporting Period, the Company objectively analyzed the changes in both governmental policies and market conditions, expanded development strategies, and continuously improved its product portfolio and distribution channels, as well as enhanced the regional independence and specialization of the teams, so as to sustain a strong development.

On one hand, the Company focused on realization of serialized marketing and scale development of the products, steadily carried on promotion of the products and developed characteristics of different types of products. Through the comprehensive analysis of respective characteristics, prospects and profitability of all types of products of the purpose of positioning of such products and the implementation of serialized marketing strategy, the Company has achieved a rapid development of a series of products including nutritional supplements, cardiac and cerebral medicines, gastrointestinal medicines as well as gynecological and pediatric medicines, etc., as well as a hierarchical development of product portfolio. On the other hand, in order to further upgrade and optimize our sales network, enhance our market coverage and control of sales channels, the Company continued to push forward the new enclosure movement, penetrate from central cities to second and third tier cities, cooperate with both mainstream and end-user channels, and combine with advantageous resources, so as to build a development model involving multi-level markets.

The Company placed high importance on the order and quality of operations. In order to maintain a healthy and orderly market and improve the quality of operations, the Company strictly implemented its marketing policies and exerted stringent control over the market and the pricing of products.



A steady growth was achieved in the sales revenue of the Company's mainstream products, of which sixteen products achieved total sales of more than RMB10 million and twelve products achieved total sales of between RMB5 million and RMB10 million. Among these mainstream products, Liuwei Dihuang Pills (六味地黃丸) series increased by 5.49% in sales over the corresponding period of last year; Ganmao Qingre Granule (感冒清熱顆粒) series increased by 15.67% in sales over the corresponding period last year; Niu Huang Jiedu Tablets (牛黃解毒片) series increased by 34.85% in sales over the corresponding period of last year. There was a remarkable sales increase in some other product series including Jinkui Shenqi Pills (金匱腎氣丸) series, Xi Huang Pills (西黃丸) series, Niu Huang Jiangya Pills (牛黃降壓丸) series, Qiju Dihuang Pills (杞菊地黃丸) series, etc.

In the first half of 2012, the sales revenue from the export of the Company's products amounted to RMB25,543,800, representing an increase of 25.42% as compared with RMB20,365,400 for the corresponding period of last year.

## Production

Looking back at the Reporting Period, relying on the new branch factory management system, the Company further adjusted production scheduling mode, enhanced production layout and made comprehensive arrangements, so as to perfect the production management system. Also, each branch factory strived to step up its own production efficiency potential productivity by way of making breakthroughs in technical innovation, production process improvements and increase in the level of mechanization.

The Company has proposed the construction of Da Xing Production Base (“**Da Xing Base**”) and Bo Zhou Base for preprocessing and logistics of medicine materials (“**Bo Zhou Base**”) in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing City and Bo Zhou City, Anhui Province, PRC, respectively. (For details, please refer to the announcement of the Company dated 19 March 2012). Currently, Daxing Production Base located in Zhongguancun Technology Park District, Beijing City, has completed the design of the process map and some of the relevant approval procedures in the preliminary stage and is expected to start construction within the year. The construction of Bozhou Base for preprocessing and logistics of medicine materials located in Bozhou City, Anhui Province has already started, the construction and testing of pile foundation has been completed and the preparation for relevant procedures before the construction of factories and warehouses is under process.

Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. (北京同仁堂(唐山)營養保健品有限公司) (“**Tangshan Company**”), which is located in Tangshan City, Hebei Province, planned to expand its production plant and building scale and certain equipment, therefore, Tangshan Company's Partners, being the shareholders of Tangshan Company, had agreed to increase the registered capital of Tangshan Company for the purpose of the construction of the production plant and the purchase of the equipment. (For details, please refer to the announcement of the Company dated 22 September 2011). In the first half of 2012, Tangshan Company launched and completed its capital increase plan. Upon completion of the capital increase, the registered capital of Tangshan Company increased to RMB120,000,000, among which as to 6%, 68%, 20% and 6% is owned to by the Company, Tong Ren Tang Chinese Medicine, Tangshan Jiayi Packaging Industries Co. Ltd. and Bozhou Jingqiao Medicine Co. Ltd., respectively. Currently, Tangshan Company has basically completed the civil engineering and construction of factories pending for the progressive adjustments and testing of the production equipment which is expected to be put into trial production within the year.



Upon completion of construction and putting into operation of the aforesaid projects, the Company will achieve higher productivity, improve supply chains and diversify product portfolios, thus lay a solid foundation for the large-scale production in the future.

## **Management and Research & Development**

Looking back at the Reporting Period, as to the implementation of the branch factory system, each management department of the Company had implemented the interconnection of its respective functions and responsibilities in a progressive and planned manner by focusing on production, quality and finance which improved the production management system thereof. In addition, the Company lifted quality standards of the products, improved the level of after-sale services, and perfected the development of internal control systems through strengthening the functions of supervision and auditing of itself and its subsidiaries.

With regard to research and development, the Company insisted on a market-orientated approach for research and development by leveraging on its strengths in product portfolios to keep enriching the specifications and forms of medicines in order to create and induct new demand for such products.

## **Tong Ren Tang Chinese Medicine**

In the first half of the year, Tong Ren Tang Chinese Medicine followed the principle of “cultivating company’s culture by innovative developments” to focus on reconfiguring the image of Tong Ren Tang overseas and strengthening the regulation of oversea companies. As at the date of 30 June 2012, Tong Ren Tang Chinese Medicine has established twelve joint ventures in eleven countries and regions outside the PRC and the Hong Kong Special Administrative Region (Macau, Malaysia, Canada, Indonesia, Korea, Thailand, Australia, Singapore, Brunei, Cambodia and UAE) to commence its distribution operations in such regions. At the same time, Tong Ren Tang Chinese Medicine and the aforesaid twelve joint ventures have built a total of 31 retail drugstores in the countries and regions outside PRC, of which, 4 drugstores were established in the first half of this year and are operating in good condition. The establishment of the aforesaid oversea joint ventures and the sustainable development of retail drugstores deepened and enhanced the overseas promotional efforts of Tong Ren Tang products, thus effectively boosting the influence of Chinese medicines in the oversea markets. In the first half of 2012, the said twelve joint ventures achieved an aggregate sales revenue of RMB61,777,000, with an increase of 42.08% as compared with RMB43,480,000 for the corresponding period of last year.

In the first half of 2012, the sales revenue of Tong Ren Tang Chinese Medicine amounted to RMB161,611,000, representing an increase of 33.60% as compared with RMB120,964,000 for the corresponding period of last year. Net profit of Tong Ren Tang Chinese Medicine amounted to RMB42,647,000 representing an increase of 19.95% as compared with RMB35,555,000 for the corresponding period of last year.

## **Chinese Medicinal Raw Materials Production Bases**

Currently, the Company’s six subsidiaries in Hebei province, Henan province, Hubei province, Zhejiang province, Anhui province, Jilin province respectively are capable of providing the Company with major traditional Chinese medicinal raw materials such as cornel (山茱萸), Tuckahoe (茯苓) and catnip (荆芥). These production bases provided stable supplies of raw materials and ensured their quality. During the first half of the year, these Company’s production bases for traditional Chinese medicinal raw materials achieved the total sale revenue of RMB57,095,000, representing an increase of 16.98% as compared with RMB48,807,000 for the corresponding period of last year.





## **Beijing Tong Ren Tang Wm Dianorm Biotech Co., Limited (北京同仁堂麥爾海生物技術有限公司) (“Tong Ren Tang WM”)**

In the first half of 2012, Tong Ren Tang WM, specializing in skincare products, has been proactively developing specific products for daily use and for sales in supermarkets and gradually adjusting marketing structure as well as products structure. In addition, it further explored the market by leveraging on the brand effect of Tong Ren Tang. During the Reporting Period, the sales revenue of Tong Ren Tang WM amounted to RMB26,750,000, representing an increase of 23.68% as compared with RMB21,628,000 for the corresponding period of last year.

### **Sales Network in PRC Mainland**

Beijing Tong Ren Tang Nanshuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司), a retail drugstore established by the Company in Beijing, has continuously provided professional pharmaceutical services with ever-improving quality to its consumers since its establishment. During the first half of 2012, it achieved sales revenue of approximately RMB31,049,000, representing a decrease of 9.00% as compared with RMB34,121,000 for the corresponding period of last year.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2012, the Company had 1,836 employees (31 December 2011: 1,827 employees). Remunerations are determined with reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions to the Company. Other benefits include the Company's contributions to the pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, maternity insurance scheme and housing fund. The Company also has established a senior management incentive plan (“**Incentive Plan**”). The Board may, in each year, based on the growth rate of the audited net profit attributable to the owners of the Company as compared with the same for the last year, appropriate certain funds within the scope of the pre-set percentage ratios and distribute them to the senior management. (For details of the Incentive Plan, please refer to the circular of the Company dated 21 April 2011.)

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

The Group has maintained a sound financial position. During the Reporting Period, the Group's primary source of funds was cash generated from operating activities and bank loans.

As at 30 June 2012, the Group had cash and cash equivalents amounted to RMB801,559,000 (31 December 2011: RMB671,695,000) and short term borrowings of RMB125,000,000 (31 December 2011: RMB125,000,000). These borrowings carried a fixed interest rate of 6.56% (31 December 2011: 6.459%) per annum.

As at 30 June 2012, the Group had total assets of RMB3,153,465,000 (31 December 2011: RMB2,817,879,000) which were financed by non-current liabilities of RMB59,660,000 (31 December 2011: RMB57,324,000), current liabilities of RMB1,026,755,000 (31 December 2011: RMB821,485,000), shareholders' equity of RMB1,819,765,000 (31 December 2011: RMB1,718,888,000) and non-controlling interests of RMB247,285,000 (31 December 2011: RMB220,182,000).



## **Gearing and Liquidity Ratio**

As at 30 June 2012, the Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.07 (31 December 2011: 0.07); and the liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.45 (31 December 2011: 2.70), which reflects the abundance of financial resources of the Group.

## **Foreign Exchange Risk**

The Group faces foreign exchange risk as certain cash and cash equivalents are denominated in foreign currencies (primarily in Hong Kong dollar). Fluctuations of the exchange rates of RMB against foreign currencies could affect the results of operations of the Group. However, the impact will not be material to the Group.

## **Material Investment**

For the six months ended 30 June 2012, the Group did not carry on any material investments.

## **Material Acquisitions and Disposals of Assets**

For the six months ended 30 June 2012, the Group did not carry on any material acquisitions or disposals of assets.

## **PROSPECTS**

In the second half of 2012, the prospects of the world economy are still unclear, and it is expected that a lot of industrial policies relating to the pharmaceutical and healthcare industry in China will be continuously released, both of which will bring uncertainty to the development of the pharmaceutical and healthcare industry. However, the continuous increase of governmental support and input to the traditional Chinese medicine nurtures unprecedented opportunities for the development of the enterprises in the industry. In the future, challenges and opportunities will still coexist in the market.

In the second half of this year, the Company will step up its efforts to realize comprehensive development of the Group with a focus on the core business as well as the development of other business by respective subsidiaries, and finally to develop into a new, diversified and competitive group corporation. In addition, the Company will, with a strict and cautious attitude and suffering consciousness, strive to meet the expectations of the shareholders by attending to the voices of the shareholders more often as well as conducting prudent research and evaluations to ensure a sustainable, healthy and stable development of the Group.

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE CODE**

For the six months ended 30 June 2012, the Company had complied with the code provisions contained in the Corporate Governance Code, as well as the Code on Corporate Governance Practices which was in force before 1 April 2012, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). None of the directors of the Company (the "**Directors**") is aware of any information that would reasonably suggest that the Company was not in compliance with the provisions in such codes for any time during the above-mentioned period.



## DIRECTORS' AND SUPERVISORS' DEALINGS IN SECURITIES

The Company has adopted a code of conduct regarding securities transactions by the Directors and the supervisors of the Company (the “**Supervisors**”) on terms no less exacting than the required standard contained in the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standard set out in the Model Code for the six months ended 30 June 2012.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the operating results, financial position, major accounting policies in the unaudited financial statements of the Group for the six months ended 30 June 2012 and discussed relevant internal audit matters.

## CHANGES IN DIRECTORS AND SUPERVISORS

At the 2011 annual general meeting of the Company held on 22 May 2012 (the “**AGM**”), Mr. Mei Qun, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Xie Zhan Zhong were re-elected as the executive Directors of the fifth session of the Board; Miss Tam Wai Chu, Mr. Ting Leung Huel and Mr. Jin Shi Yuan were re-elected as the independent non-executive Directors of the fifth session of the Board; and Mr. Zhang Xi Jie and Mr. Wu Yi Gang were re-elected as the shareholder representative Supervisors of the fifth session of the supervisory committee of the Company, all with a term of office of three years commencing from the conclusion of the AGM to the date of the annual general meeting to be convened in 2015. Ms. Wang Yan Rong was also re-elected as an employee representative Supervisor of the fifth session of the supervisory committee of the Company at the employee representatives' general meeting of the Company, with a term of three years commencing from the conclusion of the AGM to the date of the annual general meeting to be convened in 2015. (For details, please refer to the announcement of the Company dated 22 May 2012.)

Ms. Wang Yan Rong, the employee representative Supervisor of the fifth session of the supervisory committee of the Company, resigned as a Supervisor from 29 June 2012 due to job re-designation. On the same day, Mr. Bai Jian was elected as an employee representative Supervisor of the fifth session of the supervisory committee of the Company at the employee representatives' general meeting of the Company, with a term from 29 June 2012 to the date of the annual general meeting to be convened in 2015. (For details, please refer to the announcement of the Company dated 29 June 2012.)

On 22 August 2012, the Board elected Mr. Xie Zhan Zhong, an executive Director, as the Vice Chairman of the Company, with immediate effect. (For details, please refer to the announcement of the Company dated 22 August 2012.)



## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY

As at 30 June 2012, the interests of the Directors, Supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the requirements in the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

### Long positions in shares

#### *The Company*

<b>Names</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares (Note)</b>	<b>Percentage of domestic shares</b>	<b>Percentage of total registered share capital</b>
Mr. Yin Shun Hai	Personal	Beneficial Owner	1,500,000	0.460%	0.255%
Mr. Mei Qun	Personal	Beneficial Owner	1,500,000	0.460%	0.255%

Note: All represented domestic shares.

#### *Tong Ren Tang Ltd.*

<b>Names</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares (Note)</b>	<b>Percentage of total registered share capital</b>
Mr. Yin Shun Hai	Personal	Beneficial Owner	116,550	0.009%
Mr. Mei Qun	Personal	Beneficial Owner	93,242	0.007%

Note: All represented A shares.

#### *Tong Ren Tang International*

<b>Names</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of total registered share capital</b>
Mr. Yin Shun Hai	Personal	Beneficial Owner	39,000	0.125%
Mr. Mei Qun	Personal	Beneficial Owner	78,000	0.250%



Save as disclosed above, as at 30 June 2012, none of the Directors, Supervisors and the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under the SFO) or, which were required, pursuant to Section 352 of the SFO to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange, pursuant to the requirements in the Model Code as set out in Appendix 10 to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Percentage of	Percentage of H shares	Percentage of
			domestic shares		total registered share capital
Tong Ren Tang Ltd.	Beneficial Owner	300,000,000	92.013%	–	51.020%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	300,000,000	92.013%	–	51.020%
	Beneficial Owner	4,740,000	1.454%	–	0.806%
Yuan Sai Nan (Note 3)	Beneficial Owner	18,360,000(L)	–	7.009%	3.122%
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	15,953,000(L)	–	6.090%	2.713%

Notes:

- (1) (L) – Long position
- (2) Such shares were held through Tong Ren Tang Ltd. As at 30 June 2012, Tong Ren Tang Ltd. was owned as to 55.24% by Tong Ren Tang Holdings. According to Part XV of the SFO, Tong Ren Tang Holdings was deemed to be interested in the 300,000,000 shares held by Tong Ren Tang Ltd..
- (3) As is known to the Directors, on 13 May 2011, this shareholder held 6,120,000 H shares of the Company. Upon completion of the bonus issue of shares of the Company on 20 May 2011 and as of 30 June 2012, he held 18,360,000 H shares of the Company.
- (4) As at 30 June 2012, Commonwealth Bank of Australia indirectly held 15,953,000 H shares of the Company in long position through a series of entities under its control.

Save as disclosed above, as at 30 June 2012, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

## **COMPETING INTERESTS**

### **Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings**

Both of the Company and Tong Ren Tang Ltd. engage in the production of Chinese patent medicines, but the principal products of each of these companies are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional Chinese medicine forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Kunbao Pills (坤寶丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁大活絡丸), Guogong Wine (國公酒) and Angong Niuhuang Pills (安宮牛黃丸). It also has some minor production lines for the production of granules and pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new medicine forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablets (牛黃解毒片), Ganmao Qingre Granule (感冒清熱顆粒), Jinkui Shenqi Pills (金匱腎氣丸) and Shengmai Liquor (生脈飲), etc. Tong Ren Tang Holdings is an investment holding company and is not involved in the production of Chinese patent medicines.

To ensure that the business classification between the Company and Tong Ren Tang Holdings and Tong Ren Tang Ltd. are properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertake, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("October Undertaking"), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names or bear the same names with different forms as those pharmaceutical products produced by the Company, and that may compete directly with those pharmaceutical products of the Company.

The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of Company's turnover and is not one of the major forms of medicine for the development of the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned herein, the Directors confirm that none of the products of the Company is in competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

## **RIGHT OF FIRST REFUSAL**

To procure that the Company focuses on the development of the four major forms of products (namely granules, pills, tablets and soft capsules), Tong Ren Tang Holdings and Tong Ren Tang Ltd. have granted the Company, pursuant to the October Undertaking, a right of first refusal to manufacture and sell any of the new products which is developed by Tong Ren Tang Holdings, Tong Ren Tang Ltd. or any of their respective subsidiaries and which is one of the four main forms of the Company. Upon the exercise of the right of first refusal, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of the Company, the Company will be entitled to manufacture such new product and Tong Ren Tang



Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of the four major forms of products in the future.

To procure that Company conducts an independent review of the research of new products and development, the Company confirms that among the independent non-executive Directors, a reputable person in the traditional Chinese medicinal sector will determine whether to exercise the right of first refusal granted by Tong Ren Tang Holdings or Tong Ren Tang Ltd. In the event that the Company refuses the right of first refusal offered by Tong Ren Tang Ltd. and/or Tong Ren Tang Holdings, the terms of the option to be offered to an independent third party should not be more favourable than those originally offered to the Company, failing which the Company should be given an opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tong Ren Tang Holdings or Tong Ren Tang Ltd. in the Company fall below 30%.

Moreover, Tong Ren Tang Holdings and Tong Ren Tang Ltd. confirm that the Company and its independent non-executive Directors will implement the following:

- (i) the independent non-executive Directors will review, at least on an annual basis, the compliance with the options, pre-emptive rights or first rights of refusals provided by Tong Ren Tang Ltd. and Tong Ren Tang Holdings on their existing or future competing businesses;
- (ii) Tong Ren Tang Ltd. and Tong Ren Tang Holdings have undertaken to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;
- (iii) the Company will disclose decisions on matters reviewed by independent non-executive Directors in relation to the compliance and enforcement of the undertaking (e.g. the exercise of options or first rights of refusals) either through the annual report, or by way of announcements to the public; and
- (iv) an annual declaration by Tong Ren Tang Ltd. and Tong Ren Tang Holdings on compliance with the non-competition undertaking in the annual report of the Company.