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)

INTERIM REPORT 2014

HIGHLIGHTS

- For the six months ended 30 June 2014, the Group's revenue represents an increase of approximately 14.28% as compared with the corresponding period in 2013.

- For the six months ended 30 June 2014, profit attributable to the owners of the Company represents an increase of approximately 15.19% as compared with the corresponding period in 2013.

- For the six months ended 30 June 2014, earnings per share attributable to the owners of the Company amounted to RMB0.48.

- The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2014.

INTERIM RESULTS (UNAUDITED)

The board of directors (the "**Board**") of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") is pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the six months ended 30 June 2014 (the "**Reporting Period**") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 June	
	Note	**2014 (Unaudited) RMB'000**	2013 (Unaudited) RMB'000 (Restated)
Revenue	6	**1,925,848**	1,685,164
Cost of sales	8	**(991,373)**	(845,584)
Gross Profit		**934,475**	839,580
Distribution costs	8	**(357,830)**	(339,428)
Administrative expenses	8	**(129,875)**	(119,291)
Other losses-net		**–**	(11,806)
Operating profit		**446,770**	369,055
Finance income	7	**18,560**	3,368
Finance costs	7	**(4,792)**	(3,881)
Finance income/(costs)-net		**13,768**	(513)
Share of (losses)/profits of joint ventures		**(399)**	1,345
Share of losses of an associate		**–**	(481)
Profit before income tax		**460,139**	369,406
Income tax expense	9	**(80,939)**	(58,623)
Profit for the period		**379,200**	310,783
Profit attributable to:			
Owners of the Company		**306,051**	265,681
Non-controlling interests		**73,149**	45,102
		379,200	310,783
Earnings per share for profit attributable to owners of the Company during the period			
– Basic	10	**RMB0.48**	RMB0.45
– Diluted	10	**RMB0.48**	RMB0.45
Dividends	11	**–**	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Profit for the period	**379,200**	310,783
Other comprehensive income/(expense):		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences	**20,873**	(9,476)
Other comprehensive income/(expense) for the period, net of tax	**20,873**	(9,476)
Total comprehensive income for the period	**400,073**	301,307
Attributable to:		
Owners of the Company	**307,742**	247,455
Non-controlling interests	**92,331**	53,852
Total comprehensive income for the period	**400,073**	301,307

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	**136,024**	137,693
Property, plant and equipment	12	**726,732**	656,030
Investment in joint ventures		**22,790**	13,353
Deposits paid for purchase of property, plant and equipment		**21,000**	12,454
Deferred income tax assets		**15,603**	14,051
Other long-term assets		**2,858**	2,273
		925,007	835,854
Current assets			
Inventories		**1,546,762**	1,511,016
Trade and bills receivable, net	13	**638,280**	244,807
Amounts due from related parties	19(d)	**71,747**	78,253
Prepayments and other current assets		**143,688**	111,353
Short-term bank deposits		**407,148**	398,990
Cash and cash equivalents		**1,971,877**	1,967,919
		4,779,502	4,312,338
Total assets		**5,704,509**	5,148,192
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	**640,392**	640,392
Reserves			
– Proposed dividend		**–**	160,098
– Other reserves		**2,764,529**	2,456,787
		3,404,921	3,257,277
Non-controlling interests		**816,330**	751,340
Total equity		**4,221,251**	4,008,617

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONT'D)

	Note	**30 June 2014 (Unaudited) RMB'000**	31 December 2013 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**–**	39,310
Deferred income tax liabilities		**2,682**	3,340
Deferred income – government grants		**73,923**	75,567
		76,605	118,217
Current liabilities			
Trade payables	15	**450,880**	360,744
Salary and welfare payables		**9,767**	14,796
Advances from customers		**188,446**	179,885
Amounts due to related parties	19(d)	**94,644**	83,192
Current income tax liabilities		**65,926**	24,849
Other payables		**446,990**	202,892
Borrowings		**150,000**	155,000
		1,406,653	1,021,358
Total liabilities		**1,483,258**	1,139,575
Total equity and liabilities		**5,704,509**	5,148,192
Net current assets		**3,372,849**	3,290,980
Total assets less current liabilities		**4,297,856**	4,126,834

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Cash flows from operating activities:		
Cash generated from operations	**209,825**	268,159
Interest paid	**(4,792)**	(3,594)
Income tax paid	**(42,072)**	(26,704)
Net cash generated from operating activities	**162,961**	237,861
Cash flows from investing activities:		
Acquisition of subsidiaries achieved in stage, net of cash acquired	**–**	8,193
Purchases of property, plant and equipment	**(94,341)**	(123,827)
Purchases of land use rights	**(10,500)**	–
Purchases of other long-term assets	**(411)**	–
Proceeds from disposals of property, plant and equipment	**–**	15
Proceeds from short-term bank deposits	**398,990**	5,978
Increase in short-term bank deposits	**(407,148)**	(5,986)
Interest received	**12,677**	3,368
Acquisition of joint venture	**(4,704)**	–
Net cash used in investing activities	**(105,437)**	(112,259)
Cash flows from financing activities:		
Net cash received from issuance of shares by a subsidiary	**–**	521,322
Proceeds from short-term borrowings	**60,000**	45,000
Repayments of short-term borrowings	**(65,000)**	(45,000)
Proceeds from long-term borrowings	**–**	39,830
Repayments of long-term borrowings	**(39,310)**	–
Capital injection from non-controlling interests	**8,765**	28,332
Dividends paid to non-controlling interests	**(34,359)**	(37,256)
Net cash (used in)/generated from financing activities	**(69,904)**	552,228
Net (decrease)/increase in cash and cash equivalents	**(12,380)**	677,830
Cash and cash equivalents at beginning of the period	**1,967,919**	835,182
Exchange gains/(losses) on cash and cash equivalents	**16,338**	(9,009)
Cash and cash equivalents at end of the period	**1,971,877**	1,504,003

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Unaudited										
	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Foreign currency translation difference RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as of 1 January 2014	**640,392**	**1,054,492**	**255,023**	**45,455**	**102,043**	**(29,795)**	**147,271**	**1,042,396**	**3,257,277**	**751,340**	**4,008,617**
Profit for the period	–	–	–	–	–	–	–	306,051	306,051	73,149	379,200
Foreign currency translation differences	–	–	–	–	–	1,691	–	–	1,691	19,182	20,873
Dividends paid to shareholders of the Company relating to 2013	–	–	–	–	–	–	–	(160,098)	(160,098)	–	(160,098)
Dividends paid to non-controlling interests relating to 2013	–	–	–	–	–	–	–	–	–	(36,106)	(36,106)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	8,765	8,765
Balance as of 30 June 2014	**640,392**	**1,054,492**	**255,023**	**45,455**	**102,043**	**(28,104)**	**147,271**	**1,188,349**	**3,404,921**	**816,330**	**4,221,251**
Balance as of 1 January 2013	588,000	175,144	218,810	45,455	102,043	(22,585)	(4,776)	835,516	1,937,607	289,718	2,227,325
Profit for the period	–	–	–	–	–	–	–	265,681	265,681	45,102	310,783
Foreign currency translation differences	–	–	–	–	–	(18,226)	–	–	(18,226)	8,750	(9,476)
Dividends paid to shareholders of the Company relating to 2012	–	–	–	–	–	–	–	(147,000)	(147,000)	–	(147,000)
Dividends paid to non-controlling interests relating to 2012	–	–	–	–	–	–	–	–	–	(37,256)	(37,256)
New shares Issuance of a subsidiary	–	–	–	–	–	–	212,858	–	212,858	341,748	554,606
Cost incurred for listing of a subsidiary	–	–	–	–	–	–	(13,658)	–	(13,658)	(12,068)	(25,726)
Business combination	–	–	–	–	–	–	–	–	–	6,162	6,162
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	28,332	28,332
Decrease interests in a subsidiary	–	–	–	–	–	–	(52,319)	–	(52,319)	52,319	–
Balance as of 30 June 2013 (Restated)	588,000	175,144	218,810	45,455	102,043	(40,811)	142,105	954,197	2,184,943	722,807	2,907,750

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 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 the GEM to the Main Board of the Stock Exchange on 9 July 2010. Its ultimate holding company is China Beijing Tong Ren Tang Group Co. Ltd. (中國北京同仁堂（集團）有限責任公司) ("**Tong Ren Tang Holdings**"), a company incorporated in Beijing, the PRC.

The address of the Company's registered office is No. 16 Tongji Beilu, Beijing Economic and Technological Development Zone, Beijing, the PRC. The Group is principally engaged in the production and distribution of Chinese medicine and primarily operates in the PRC.

The condensed consolidated interim financial information was approved to be issued on 20 August 2014.

The condensed consolidated interim financial information has not been audited.

2. Basis of Preparation

(a) The condensed consolidated interim financial information for the six months ended 30 June 2014 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 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

(b) On 27 June 2013, the Company entered into the equity transfer agreement with Tong Ren Tang Medicinal Materials Co., in respect of the acquisition of 51% equity interest in Tong Ren Tang Xing An Meng Chinese Medicinal Materials Co., Ltd. (北京同仁堂興安盟中藥材有限責任公司) ("**Xing An Meng Co., Ltd.**") at a consideration of RMB1.7911 million. The acquisition of the above-mentioned equity interest had been completed before the end of 2013.

Tong Ren Tang Medicinal Materials Co., is under common control by the ultimate holding company of the Company, thus the acquisition is regarded as business combination under common control. Details of the adjustments for the common control combination on the Group's financial position as at 31 December 2013 and the Group's results for the six months ended 30 June 2013 are set out in Note 17.

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 2013, 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 2014*

- IAS 32 (Amendment) "Financial instruments: Presentation" on asset and liability offsetting
- IFRS 10, 12 (Amendment) and IAS 27 (Amendment) "Consolidation for investment entities"
- IAS 36 (Amendment) "Impairment of assets" on recoverable amount disclosures
- IAS 39 (Amendment) "Financial Instruments: Recognition and Measurement" – Novation of derivatives
- IFRIC 21 "Levies"
- IAS 19 (Amendment) "Employee benefits" regarding defined benefit plans
- Annual improvements 2012
  - IFRS 2 "Share-based payment"
  - IFRS 3 "Business combinations"
  - IFRS 9 "Financial instruments"
  - IAS 37 "Provisions, contingent liabilities and contingent assets"
  - IAS 39 "Financial instruments – Recognition and measurement "
  - IFRS 8 "Operating segments"
  - IAS 16 "Property, plant and equipment"
  - IAS 38 "Intangible assets"
  - IAS 24 "Related Party Disclosures"
- Annual improvements 2013
  - IFRS 3 "Business combinations"
  - IFRS 13 "Fair value measurement"
  - IAS 40 "Investment property"

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

3. Accounting Policies (Cont'd)

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

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016)
- Amendment to IFRS 11 "Joint arrangements" on accounting for acquisitions of interest in joint operation (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on clarification of acceptable methods of depreciation and amortization (effective for annual periods beginning on or after 1 January 2016)
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2017)
- IFRS 9 "Financial Instruments" (Mandatory effective date not yet determined)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. Estimates

The preparation of interim financial statements requires management to make judgements, 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 judgements 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 2013, 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 2013.

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

6. Revenue

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Sales of medicine products:		
– In Mainland China	**1,689,377**	1,448,930
– Outside Mainland China	**225,386**	225,690
	1,914,763	1,674,620
Chinese medical consultation		
– Outside Mainland China	**10,823**	10,058
Royalty fee income		
– Outside Mainland China	**262**	486
	1,925,848	1,685,164

7. Finance Income and Costs

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Finance income		
Interest income on cash at bank and short-term bank deposits	**12,677**	3,368
Exchange gains	**5,883**	–
	18,560	3,368
Finance costs		
Interest expenses on bank borrowings repayable within one year	**(4,792)**	(3,594)
Exchange losses	**–**	(287)
	(4,792)	(3,881)
Finance income/(costs), net	**13,768**	(513)

8. Expense by Nature

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Depreciation of property, plant and equipment	**24,275**	22,187
Amortization of prepaid operating lease payments	**1,424**	1,882
Amortization of other long-term assets	**27**	29
Provision for impairment of inventories	**5,452**	734
Reversal of provision for impairment of receivables	**(231)**	(194)
Loss on disposal of property, plant and equipment	**93**	57

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% (2013: 15%). For the entities without the HNTE status, the PRC income tax rate is 25% (2013: 25%). As of 30 June 2014 and 2013, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company used as of 30 June 2014 is 15% (Corresponding period in 2013: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (Corresponding period in 2013: 16.5%) on the estimated assessable profit for the six months ended 30 June 2014.

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.

Details of income tax during the Reporting Period are as follows:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Current income tax expense		
– PRC	**59,756**	45,813
– Hong Kong	**21,448**	14,172
– Overseas	**1,945**	1,235
	83,149	61,220
Deferred income tax expense	**(2,210)**	(2,597)
	80,939	58,623

10. Earnings per Share

The calculation of the basic earnings per share was based on the profit attributable to owners of the Company for the six months ended 30 June 2014 of approximately RMB306,051,000 (Corresponding period in 2013: RMB265,681,000 (Restated)) divided by the weighted average number of the ordinary shares issued during the period of 640,392,000 shares (Corresponding period in 2013: 588,000,000 shares).

The Company had no potential dilutive shares for the six months ended 30 June 2014 and 2013.

11. Dividends

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil).

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

For the six months ended 30 June 2014, there was no significant addition to leasehold land and land use rights of the Group (Corresponding period in 2013: increased by RMB478,000).

For the six months ended 30 June 2014, the additions to property, plant and equipment of the Group was approximately RMB20,164,000 (Corresponding period in 2013: RMB131,196,000).

13. Trade and Bills Receivables, Net

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trade and bills receivables	**655,296**	262,054
Less: provision for impairment of receivables	**(17,016)**	(17,247)
Trade and bills receivables, net	**638,280**	244,807

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:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 4 months	**635,158**	242,705
Over 4 months but within 1 year	**12,761**	12,116
Over 1 year but within 2 years	**429**	466
Over 2 years but within 3 years	**181**	1,584
Over 3 years	**6,767**	5,183
	655,296	262,054

14. Share Capital

	30 June 2014 (Unaudited) Number of shares	Nominal value RMB'000	31 December 2013 (Audited) Number of shares	Nominal value RMB'000
Registered	**640,392,000**	**640,392**	640,392,000	640,392
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**326,040,000**	**326,040**	326,040,000	326,040
– H shares with a par value of RMB1 per share	**314,352,000**	**314,352**	314,352,000	314,352
	640,392,000	**640,392**	640,392,000	640,392

15. Trade Payable

The ageing analysis of trade payables based on invoice date was as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 4 months	**438,807**	347,834
Over 4 months but within 1 year	**8,724**	12,720
Over 1 year but within 2 years	**3,159**	190
Over 2 years but within 3 years	**190**	–
	450,880	360,744

16. Segment Information

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

The Board considers the business from an operational entity perspective. Generally, the Board 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 Mainland China, and (ii) the operation of the distribution network of Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) ("**Tong Ren Tang Chinese Medicine**") and the manufacture of Chinese medicine outside Mainland China.

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 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 for the reportable segments for the six months ended 30 June 2014 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	1,522,739	291,253	238,036	2,052,028
Inter-segment revenue	(6,625)	–	(119,555)	(126,180)
Revenue from external customers	1,516,114	291,253	118,481	1,925,848
Profit after income tax	257,140	115,256	6,804	379,200
Interest income	7,809	4,418	450	12,677
Interest expenses	(3,124)	–	(1,668)	(4,792)
Depreciation of property, plant and equipment	(14,064)	(6,468)	(3,743)	(24,275)
Amortization of prepaid operating lease payments	(1,050)	(216)	(158)	(1,424)
(Provision)/Reversal of provision for impairment of inventories	(5,605)	153	–	(5,452)
Reversal of provision for impairment of receivables	231	–	–	231
Income tax expense	(52,700)	(23,602)	(4,637)	(80,939)
Segment assets and liabilities				
Total assets	3,936,642	1,219,992	547,875	5,704,509
Additions to non-current assets (other than deferred tax assets)	72,137	18,191	17,307	107,635
Total liabilities	1,154,212	90,231	238,815	1,483,258

16. Segment Information (Cont'd)

The segment information for the six months ended 30 June 2013 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000 (Restated)	All other segments RMB'000 (Restated)	Total RMB'000 (Restated)
Segment revenue	1,374,280	225,392	193,206	1,792,878
Inter-segment revenue	(9,025)	–	(98,689)	(107,714)
Revenue from external customers	1,365,255	225,392	94,517	1,685,164
Profit after income tax	223,020	70,148	17,615	310,783
Interest income	2,676	337	355	3,368
Interest expenses	(3,460)	–	(134)	(3,594)
Depreciation of property, plant and equipment	(13,148)	(6,208)	(2,831)	(22,187)
Amortization of prepaid operating lease payments	(1,049)	(225)	(608)	(1,882)
(Provision)/Reversal of provision for impairment of inventories	(813)	79	–	(734)
Reversal of provision for impairment of receivables	194	–	–	194
Income tax expense	(39,356)	(15,399)	(3,868)	(58,623)

The segment assets and liabilities as at 31 December 2013 are as follows:

(Audited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	3,588,266	1,108,633	451,293	5,148,192
Additions to non-current assets (other than deferred tax assets)	95,055	98,606	14,935	208,596
Total liabilities	853,359	75,683	210,533	1,139,575

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board is measured in a manner consistent with that in the income statement.

The amounts provided to the Board 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 medicine and provision of services. The breakdown of sales of drugs by region is provided in Note 6.

The total of the non-current assets other than deferred income tax assets located in Mainland China is RMB699,950,000 (31 December 2013: RMB633,839,000), and the total of these non-current assets located in other countries and regions is RMB209,454,000 (31 December 2013: RMB187,964,000).

17. Business Combinations under Common Control

Details of the adjustment to the financial position of the Group as at 31 December 2013 regarding the acquisition of Xing An Meng Co., Ltd. as business combination under common control (Note 2(b)) are set out in Note 32 to the Consolidated Financial Statements for the year ended 31 December 2013, and the adjustment to the results of the Group for the six months ended 30 June 2013 is summarized below:

(Unaudited)	As previously stated RMB'000	Acquired subsidiary RMB'000	Adjustments RMB'000	As restated RMB'000
For the six months ended 30 June 2013				
Revenues	1,677,908	7,256	–	1,685,164
Profit before income tax	369,399	7	–	369,406
Profit for the period	310,779	4	–	310,783

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the combination under common control to achieve consistency of accounting policies.

18. Commitments

(a) *Capital commitments*

As of 30 June 2014, the Group had capital commitments of RMB177,305,000 which were not provided but had been contracted for in the unaudited consolidated financial statements of the Group (31 December 2013: RMB38,749,000 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:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
No later than 1 year	**68,381**	45,454
Later than 1 year and not later than 5 years	**73,459**	47,640
Later than 5 years	**7,564**	10,195
	149,404	103,289

19. 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 Reporting 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 Reporting Period are summarised as follows:

	For the six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Trademark license fee (Note (i))	**425**	425
Rental expense (Note (ii))	**1,182**	1,182
Storage fee (Note (iii))	**1,458**	1,458

19. Related Party Transactions (Cont'd)

(a) Transactions with the ultimate holding company (Cont'd)

Notes:

(i) On 28 February 2013 the Company and the ultimate holding company renewed a licence agreement, 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 from 1 March 2013 to 28 February 2018. 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. 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 10 October 2013 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 2014 to 2016. 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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	**215,327**	182,005
Purchases of Chinese medicine related products (Note (ii))	**45,628**	28,577
Sole overseas exclusive distributorship (Note(iii))	**15,726**	11,520
Research and development expense (Note (iv))	**–**	1,600
Agency fee income for advertising (Note (v))	**12,310**	–

19. Related Party Transactions (Cont'd)

(b) Transactions with the subsidiaries and joint ventures of the ultimate holding company (Cont'd)

Notes:

(i) The Company renewed a sales agreement with the ultimate holding company on 10 October 2013. 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 2013 Extraordinary General Meeting and is effective from 2014 to 2016.

(ii) The Company signed a procurement agreement with the ultimate holding company on 10 October 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 not be higher than terms offered by independent third parties to the Group. The agreement has been approved at the Company's 2013 Extraordinary General Meeting and is effective from 2014 to 2016.

(iii) Tong Ren Tang Chinese Medicine entered into an exclusive distributorship frame-work agreement with Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司) ("**Parent Company**" or "**Tong Ren Tang Ltd.**") on 29 October 2012, with a term from 1 November 2012 to 31 December 2014, pursuant to which Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. (北京同仁堂國際藥業有限公司) ("**International Pharm**"), a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, is appointed as the sole overseas distributor of the Parent Company, for the purpose of the distribution of the Relevant Products outside the PRC. The price of the Relevant Products supplied shall not be higher than the wholesale price of the Relevant Products sold to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price.

(iv) On 19 March 2013, the Company entered into a framework agreement on Technology Research and Development Cooperation with Beijing Zhongyan Tong Ren Tang Pharmaceuticals Research and Development Co., Ltd. (北京中研同仁堂醫藥研發有限公司) ("**Zhongyan Company**"), a joint venture of the ultimate holding company, for the purpose of the cooperation between the parties in technology research and development, with a term from 19 March 2013 to 31 December 2015. The research and development expenses will be determined based on the costs and expenditures incurred by Zhongyan Company for completion of the research work under the Framework Agreement, including raw material and test material fees, energy consumption, purchase and maintenance of instruments and equipment, laboratory construction costs, staff salaries and technical consultation and assessment fees, etc.

19. Related Party Transactions (Cont'd)

(b) Transactions with the subsidiaries and joint ventures of the ultimate holding company (Cont'd)

(v) On 20 March 2014, Beijing Tong Ren Tang Century advertising Co., Limited (北京同仁堂世紀廣告有限公司) ("**Tong Ren Tang Century Advertising**"), a wholly-owned subsidiary of the Company, entered into the Advertising Agency Framework Agreement with the ultimate holding company for the purpose of the provision of the Advertising Agency Services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures for a period from 1 April 2014 to 31 December 2016. Accordingly, the ultimate holding company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent, to provide the Advertising Agency Services to the ultimate holding company and its subsidiaries or joint ventures. The fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures under individual implementation agreement shall be negotiated and determined by the parties according to the then prevailing market price, but in any event the price shall not be less than those offered to other independent third parties for similar services.

(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:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Amounts due from related parties:		
Subsidiaries and joint ventures of the ultimate holding company	**57,608**	67,190
Other state-owned enterprises	**14,139**	11,063
	71,747	78,253
Amounts due to related parties:		
Subsidiaries and joint ventures of the ultimate holding company	**67,077**	43,369
Other state-owned enterprises	**27,567**	39,823
	94,644	83,192

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

19. Related Party Transactions (Cont'd)

(d) Balances with related parties (Cont'd)

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 4 months	**59,062**	73,702
Over 4 months but within 1 year	**10,817**	3,501
Over 1 year	**1,868**	1,050
	71,747	78,253

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 4 months	**71,651**	81,855
Over 4 months but within 1 year	**22,291**	1,257
Over 1 year	**702**	80
	94,644	83,192

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2014 (Corresponding period in 2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2014, the pace of shuffling in the pharmaceutical industry further intensified as the state introduced a number of new policies and regulations; meanwhile the market became increasingly competitive as a result of various changes, bringing the overall industry towards a new round of reforms. Faced with a complex market environment during the reporting period, we assessed the situation, gathered strength and led development in a pragmatic manner with a commitment to Tong Ren Tang's traditional pharmaceutical ethics and in line with the principle of "Respectful to traditions without stubbornness, Innovative thinking based on traditions". Moreover, a healthy and stable development of the Group as a whole was achieved as all the subsidiaries specialized in their respective technologies, performed their respective duties and showcased their respective capabilities. For the six months ended 30 June 2014, the Group's sales revenue amounted to RMB1,925,848,000, representing an increase of 14.28% as compared with RMB1,685,164,000 (Restated) for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB306,051,000, representing an increase of 15.19% as compared with RMB265,681,000 (Restated) for the corresponding period of last year.

Sales

Looking back into the Reporting Period, we continued to monitor the development trends of the industry and movements in the consumer market. We focused on the advantages of our own products, relied on the resources of existing sales network and promoted the culture of traditional Chinese medicine and the concepts of health preservation through various means such as product promotion, channel development and cultural promotion, so as to steadily open up the sales market. Meanwhile, we continued to develop our staff to have a better sense of urgency, a heightened awareness of crisis, to be better prepared and to be more adaptive to changes, so that the quality of our operations can be continuously raised.

In the first half of 2014, we continued to maintain close collaboration with large pharmaceutical distribution groups and large chain drugstores with the aid of the existing channel resources, consolidated the existing market and boosted the development of potential markets by means of the 3-in-1 product launch method which featured cultural staging, brand promotion and end-user promotions. Moreover, we continued to explore the development model of an e-commence platform, and promoted our products through the publicity of the culture and theory of health preservation by traditional Chinese medicine with the aid of the advantages of the emerging medias such as network media and light media in respect of extensive dissemination and large audiences, thus having enhanced consumers' awareness and loyalty of the Company's products and brands. On the hand of marketing, we refined our products based on different pharmacological effects and recipients by making full use of the advantages of abundance of product resources, a complete range of categories and a variety of dosage forms, and devised a reasonable market structure after taking into consideration various factors such as geographical features, climate features and consumer needs, and thus achieved a steady growth in the sales revenue.

During the Reporting Period, the scale of the Company's product portfolio was further enlarged, of which twenty-two products achieved a total sales revenue of more than RMB10 million and eighteen products achieved a total sales revenue in the range of RMB5 million to RMB10 million. Among the major products of the Company, as compared with the corresponding period of last year, except that the sales of Liuwei Dihuang Pills (六味地黃丸) series decreased, the sales of Niuhuang Jiedu Tablets (牛黃解毒片) series increased by 18.27% and the sales of Ganmao Qingre Granule (感冒清熱顆粒) series increased by 3.62% as compared with the corresponding period of last year. Other products which achieved notable increase include E Jiao (阿膠) series, Xi Huang Pills (西黃丸) series and Jiawei Xiaoyao Pills (加味逍遙丸) series, etc.

Production

To continue pushing for "specialized" production and management standards in the first half of 2014, all branch factories coordinated the allocation of production resources, with a focus on the training of multi-skilled technicians to further unleash existing production potential. Moreover, all branch factories accelerated the speed of management transition, smoothened and improved their internal systems by clearly defining their own functional positioning and work responsibilities, raised the comprehensive management and control capabilities in each stage, and set up a clearly defined, simplified and efficient production management system for switching from a model featuring a single production base to a model featuring management-based branch factories.

Currently, construction works have already commenced in an orderly manner at the Da Xing Production Base located in Zhongguancun Technology Park District in Beijing, while interior decoration has begun in the main parts of the warehouse for the Bozhou Chinese Medicinal Materials Preprocessing and Logistics Base located in Bozhou, Anhui province.

Management and Research & Development

During the Reporting Period, we continued to engage in different forms of personnel training at various levels and in various fields such as knowledge, skills and professionalism. Focus was also placed on mobilizing initiative and creativity of the employees, with an aim to closely connect the actualization of their self-worth with the Company's development. Moreover, all functional departments and offices further deepened and improved hierarchical management. By means of optimal allocation of staff and resources, the functional positioning of the departments and offices was gradually moving towards the direction of coordinated management and control so as to raise the standards for scientific management. All branch factories and subsidiaries also collaborated with each other, drew on each other's strength and constantly strengthened the capability of self-management and operations, and thus achieved the overall development of the Group in a regulated and orderly manner.

As to research and development, the Company continued to take a market-oriented approach, closely monitor the existing and potential needs of the market and focus on the prospectiveness of research and development. The Company also stepped up secondary scientific research in the increase of packaging specifications and dosage forms, while continuing to raise product quality standards as well as improve and refine the technical parameters to build a sound foundation for meeting market demand and enriching the Company's product portfolio in the next stage, and to provide guarantee for the Company to maintain its core competitiveness.

Tong Ren Tang Chinese Medicine

Tong Ren Tang Chinese Medicine, a subsidiary of the Company, was listed on the GEM of the Stock Exchange on 7 May 2013. Based in Hong Kong, Tong Ren Tang Chinese Medicine and its subsidiaries ("**Tong Ren Tang Chinese Medicine Group**"), according to its unique market positioning, rely on the Hong Kong market while actively develop overseas markets. As at 30 June 2014, Tong Ren Tang Chinese Medicine Group had established 52 retail stores in 15 countries and regions outside Mainland China (Hong Kong, Thailand, Malaysia, Canada, Macao, South Korea, Indonesia, Singapore, Australia, Cambodia, Brunei, Dubai, Poland, the United Kingdom and New Zealand), hence further expanded the overseas sales network of the Group and increased the market share gradually.

During the Reporting Period, Tong Ren Tang Chinese Medicine accelerated the development of overseas sales outlets, meanwhile actively set up healthcare centres, so as to make breakthroughs in overseas service trade and major markets of Europe and the United States. In the future, the Group, by making full use of the quality resources of Tong Ren Tang Chinese Medicine, aims to extend its products and healthcare services to more countries and regions for further promoting the culture of Chinese medicine on a global basis, and for continuing increasing the awareness and impact of the "Tong Ren Tang" brand in overseas markets. In the first half of 2014, the sales revenue of Tong Ren Tang Chinese Medicine Group amounted to RMB291,253,000, representing an increase of 29.22% as compared with RMB225,392,000 for the corresponding period of last year.

Chinese Medicinal Raw Materials Production Bases

Currently, the Company has established six subsidiaries in Hebei province, Henan province, Hubei province, Zhejiang province, Anhui province and Jilin province respectively, which are capable of providing the Group with major Chinese medicinal raw materials, including cornel (山茱萸), Tuckahoe (茯苓) and catnip (荊芥), etc.

In the first half of 2014, all Chinese medicinal raw materials production bases continued to strengthen the management and control of the quality of Chinese medicinal raw materials. Based on the pharmaceutical essences which are "unique prescriptions and superior materials", and starting from the sources, the Company developed and utilized ground-source advantages in planting bases in a reasonable manner, selected seasonal and geographically-suited superior raw materials, and selected authentic medicinal herbs in strict compliance with the national standards and the Company's internal standards to ensure that the quality and quantity of species in the planting bases could cater for supply needs. In the first half of 2014, all Chinese medicinal raw materials production bases focused on the development positioning of "specialization", fully unleashed the ground-source advantages and cultivated authentic Chinese herbs to ensure a steady supply. In the first half of 2014, all the Chinese medicinal raw materials production bases of the Company achieved a total sales revenue of RMB82,477,000, representing an increase of 0.26% as compared with RMB82,264,000 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")

Tong Ren Tang WM was jointly established by the Company and WM Dianorm Biotech Co., Limited with a total investment of US$3 million, of which 60% was contributed by the Company. Since its establishment, Tong Ren Tang WM has been focusing on the combination of liposome technology and modernization of Chinese medicine and its application in the fields of pharmaceuticals, cosmetics and daily chemicals. Its major products include lotion, cream, facial and eye masks and skincare products and daily chemicals using liposome technology. During the Reporting Period, Tong Ren Tang WM marketed a variety of new products such as skin care and shampoo products. Meanwhile, it continued to strengthen the collaborative development in the building of its own product portfolio and the set-up of sales channels, stepped up promotional efforts on products and made a new breakthrough for Tong Ren Tang in the field of natural herbal cosmetics. In the first half of 2014, the sales revenue of Tong Ren Tang WM amounted to RMB53,518,000, representing an increase of 37.01% as compared with RMB39,060,000 for the corresponding period of last year.

Xing An Meng Co., Ltd.

The registered capital of Xing An Meng Co., Ltd. is RMB3 million, of which the Company accounted for 51%. During the Reporting Period, Xing An Meng Co., Ltd. carried out operations in an orderly manner, further smoothened and regulated existing products and kept exploring new areas of market needs based on the positioning of its products, with an aim to contribute to the diversified development of the Group in its sales. During the Reporting Period, the herbal tea products manufactured and sold by Xing An Meng Co., Ltd. including "Tong Ren Tang Tongrenyijian Tea" had good performance in the market. In the first half of 2014, the sales revenue of Xing An Meng Co., Ltd. amounted to RMB11,431,000, representing an increase of 57.52% as compared with RMB7,257,000 for the corresponding period of last year.

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")

Tangshan Company, which is located in Tangshan, Hebei province with a registered capital of RMB120 million, is an indirect subsidiary of the Company. As disclosed in the announcements of the Company dated 11 December 2013 and 16 July 2014, upon completion of the relevant equity transfer transactions, Tangshan Company will be owned as to 74%, 20% and 6% by the Company, Tangshan Jiayi Packaging Industries Co., Ltd. (唐山佳藝包裝工業有限公司) and Bozhou Jingqiao Medicine Co. Ltd. (亳州市京譙醫藥有限責任公司), respectively, and become a direct subsidiary of the Company. During the Reporting Period, Tangshan Company had started trial production in an orderly manner. After the commencement of production of Tangshan Company, it will expand the production capacity of glue product series, and progressively develop a glue product portfolio to further diversify the Group's product lines.

Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司) ("Nansanhuan Zhonglu Drugstore")

Nansanhuan Zhonglu Drugstore is a retail drugstore located at Nansanhuan Zhonglu, Fengtai District, Beijing. Since its establishment, Nansanhuan Zhonglu Drugstore has been adopting a customer-centered approach and gave full play to its featured operations by organically integrating the culture of traditional Chinese medicine with its own business philosophy, thus achieved a powerful increase in its sales revenue. In the first half of 2014, Nansanhuan Zhonglu Drugstore achieved a sales revenue of approximately RMB45,973,000, representing an increase of 16.16% as compared with RMB39,578,000 for the corresponding period of last year.

Tong Ren Tang Century Advertising

Tong Ren Tang Century Advertising was incorporated on 25 September 2013 as a wholly-owned subsidiary of the Company with a registered capital of RMB1 million, and is primarily engaged in advertising design, production, agency and publication. In the first half of 2014, Tong Ren Tang Century Advertising captured industry information in a timely manner and utilized media resources in a rational way primarily for the promotion of the culture of traditional Chinese medicine, with an aim to build the advertising business that carries the unique features of Tong Ren Tang and keeps abreast of the market trend for creating value with substantial results. In the first half of 2014, Tong Ren Tang Century Advertising achieved a sales revenue of approximately RMB13,412,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had a total of 3,318 employees (31 December 2013: 3,155 employees), of which 2,020 were employees of the Company (31 December 2013: 2,025 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance during the year will be paid to the employees as recognition of and a reward for their contributions to the Company. Other benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, industrial accident insurance, maternity insurance and housing fund. The Company also set up a senior management incentive plan (the "**Incentive Plan**"). Based on the growth rate of the audited profit attributable to owners of the Company as compared with the same for last year, the Board may appropriate certain funds within the pre-set percentage range to be distributed to the members of 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 maintains a sound financial position. During the Reporting Period, the Group's primary sources of funding were cash generated from operating activities and bank loans.

As at 30 June 2014, the balance of total cash and cash equivalents of the Group amounted to RMB1,971,877,000 (31 December 2013: RMB1,967,919,000); short-term borrowings of the Group amounted to RMB150,000,000 (31 December 2013: RMB155,000,000), of which RMB50,000,000 will be due on 23 June 2015, RMB50,000,000 will be due on 24 August 2014, and RMB50,000,000 will be due on 16 December 2014, carrying an interest rate of 5.717% (2013: 5.603%) per annum; and there was no long-term borrowings (31 December 2013: RMB39,310,000).

As at 30 June 2014, total assets of the Group amounted to RMB5,704,509,000 (31 December 2013: RMB5,148,192,000), of which non-current liabilities were RMB76,605,000 (31 December 2013: RMB118,217,000), current liabilities were RMB1,406,653,000 (31 December 2013: RMB1,021,358,000), equity attributable to owners of the Company was RMB3,404,921,000 (31 December 2013: RMB3,257,277,000) and non-controlling interests were RMB816,330,000 (31 December 2013: RMB751,340,000).

Capital Structure

The objectives of the Group's capital management policy are to safeguard the Group's ability to continue as a going concern so as to provide returns for the shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In the first half of 2014, the Group's funds were mainly used for production and operation activities, construction projects, purchase of non-current assets, repayment of borrowings and payment of cash dividends, etc.

The Group mainly uses Renminbi and Hong Kong dollars ("**HKD**") to make borrowings and loans and to hold cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to the shareholders, issue new shares or repay borrowings. The Group monitors its capital on the basis of the gearing ratio.

Gearing and Liquidity Ratio

As at 30 June 2014, the Group's gearing ratio, defined as the ratio of total borrowings divided by equity attributable to the owners of the Company, was 0.04 (31 December 2013: 0.06); and the liquidity ratio of the Group, represented by a ratio of current assets divided by current liabilities, was 3.40 (31 December 2013: 4.22), which reflects the abundance of financial resources of the Group.

Charges over Assets of the Group

As at 30 June 2014, none of the Group's assets was pledged as security for any liabilities (31 December 2013: Nil).

Contingent Liabilities

The Group had no contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

Foreign Exchange Risk

Each individual entity of the Group has its own functional currency. Foreign exchange risk to each individual entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from the fluctuation of the exchange rates of various currencies, primarily with respect to the HKD. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange risk by closely monitoring the fluctuation of the foreign exchange rates.

Use of Proceeds

The Company completed the placing of 52,392,000 H shares at the placing price of HKD23.00 per H share on 6 September 2013. The net proceeds (net of all related costs and expenses (including commissions, legal fees and levies)) amounted to approximately RMB931.74 million. As disclosed in the Company's placing announcement dated 30 August 2013, the proceeds from the placing were expected to be used to replenish the Company's general working capital.

As at 30 June 2014, the actual use of proceeds from the aforesaid placing was as follows:

1. RMB71.72 million were used for the acquisition of 59% equity interest in Tangshan Company;
2. RMB15 million were used for the repayment of bank loans;
3. approximately RMB366.56 million were used for purchase of Chinese medicinal raw materials, auxiliary materials and packaging materials;
4. approximately RMB52.56 million were used for construction projects at Da Xing and Bozhou;
5. approximately RMB13.65 million were used for replacement and maintenance of production equipment; and
6. approximately RMB122.35 million were used for daily operating expenses.

As at 30 June 2014, approximately RMB290 million of the proceeds were not yet used.

Significant Acquisition and Disposal of Subsidiaries

During the Reporting Period, the Company had no significant acquisitions and disposals of subsidiaries.

Capitalization Issue

The Company has obtained shareholders' approval on the capitalization issue at the 2013 annual general meeting, the H share class meeting and the domestic share class meeting held on 12 June 2014, respectively (For details of the capitalization issue, please refer to the circular of the Company dated 25 April 2014). As approved by the listing committee of the Stock Exchange, 314,352,000 capitalization H shares of the Company was listed and commenced dealing on the Stock Exchange on 3 July 2014. Upon completion of the aforesaid capitalization issue, the total issued shares of the Company have increased to 1,280,784,000, of which 652,080,000 are domestic shares and 628,704,000 are H shares. According to the basis of the capitalization issue, it has no dilution effect on the shareholding of the shareholders.

PROSPECTS

In the second half of 2014, following the strengthening of supervision of the pharmaceutical industry by the State and the accelerating of the process of domestic pharmaceutical and healthcare reform, the entire pharmaceutical industry has gradually entered a new period of adjustment, compounded with a changing competitive landscape. These have forced us to assess carefully our own advantages and disadvantages, and to continue enhancing our core competitiveness so that we can continue to maintain sound and healthy development.

In the second half of the year, we will continue to stand firm on the sustainable development strategy and focus on the common coordinated development of resources, systems and environment at all levels, as backed by the impact of the "Tong Ren Tang" brand, diversified product resources and a multi-level marketing network, so as to create sustained competitive advantages. Moreover, all subsidiaries will work together with different focuses to constantly inject new vigour and vitality into the Group for assuring the health and sustainable development of the Group as a whole.

OTHER INFORMATION

Corporate Governance Code

For the six months ended 30 June 2014, the Company had complied with the code provisions contained in the Corporate Governance Code 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 code 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 enquiries of all the Directors and Supervisors, all of them confirmed that they had strictly complied with the required standard set out in the Model Code and the code of conduct of the Company for the six months ended 30 June 2014.

Change in Directors and Supervisors

On 20 March 2014, due to job re-designation, Mr. Xie Zhan Zhong resigned as the executive Director and the Vice-chairman, Mr. Yin Shun Hai resigned as the executive Director, and Mr. Zhang Xi Jie resigned as the shareholder representative Supervisor and the Chairman of the Supervisory Committee, each with effect from the conclusion of the 2013 annual general meeting held on 12 June 2014 (the "**AGM**"). At the AGM, Mr. Wang Quan and Mr. Gong Qin were elected as the executive Directors of the Fifth Session of the Board; and Ms. Ma Bao Jian was elected as the shareholder representative Supervisor of the Fifth Session of the Supervisory Committee, each with a term 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 12 June 2014.)

On 12 June 2014, Mr. Wang Quan was elected as the Vice Chairman of the Company by the Board and Ms. Ma Bao Jian was elected as the Chairman of the Supervisory Committee by the Supervisory Committee of the Company, both with immediate effect. (For details, please refer to the announcement of the Company dated 12 June 2014.)

Audit Committee

The audit committee of the Company has reviewed the operating results, financial position and major accounting policies in the unaudited financial statements of the Group for the six months ended 30 June 2014 as well as this interim report, and discussed relevant internal audit matters.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the Directors, Supervisors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and 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**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise 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

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Mei Qun	Personal	Beneficial Owner	1,500,000	0.460%	0.234%

Note: All represented domestic shares.

Tong Ren Tang Ltd.

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of total registered share capital	Number of convertible bonds
Mr. Mei Qun	Personal	Beneficial Owner	93,242	0.007%	–
	Personal	Beneficial Owner	–	–	86,000
Mr. Wang Quan	Personal	Beneficial Owner	38,000	0.003%	–
Mr. Gong Qin	Personal	Beneficial Owner	34,965	0.003%	–

Note: All represented A shares.

Save as disclosed above, as at 30 June 2014, 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise 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 2014, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and 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 domestic shares	Percentage of H shares	Percentage of total registered share capital
Tong Ren Tang Ltd.	Beneficial Owner	300,000,000	92.013%	–	46.846%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	300,000,000	92.013%	–	46.846%
	Beneficial Owner	4,740,000	1.454%	–	0.740%
Yuan Sai Nan (Note 3)	Beneficial Owner	18,360,000(L)	–	5.841%	2.867%
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	19,780,000(L)	–	6.292%	3.089%
Hillhouse Capital Management, Ltd. (Note 5)	Investment manager	23,868,000(L)	–	7.593%	3.727%
Gaoling Fund, L.P.	Investment manager	23,091,000(L)	–	7.346%	3.606%

Notes:

(1) (L) – Long position

(2) Such shares were held through Tong Ren Tang Ltd. As at 30 June 2014, Tong Ren Tang Ltd. was owned as to 54.86% 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 was 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 at 30 June 2014, he held 18,360,000 H shares of the Company.

(4) As at 30 June 2014, Commonwealth Bank of Australia indirectly held 19,780,000 H shares of the Company in long position through a series of corporations under its control.

(5) As at 30 June 2014, Hillhouse Capital Management, Ltd., as investment manager, was indirectly interested in 23,091,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 777,000 H shares of the Company in long position held by YHG Investment, L.P..

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had interests and 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

For the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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 and sale 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 Company 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, 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 direct 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 that 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 the 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 favorable 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 and 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 undertakings:

(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.