



Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技发展股份有限公司

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



INTERIM REPORT
2015

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HIGHLIGHTS

- For the six months ended 30 June 2015, the Group's revenue represents an increase of approximately 20.10% as compared with the corresponding period in 2014.
- For the six months ended 30 June 2015, profit attributable to the owners of the Company represents an increase of approximately 17.89% as compared with the corresponding period in 2014.
- For the six months ended 30 June 2015, earnings per share attributable to the owners of the Company amounted to RMB0.28.
- The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2015.

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 2015 (the “Reporting Period”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	For the six months ended 30 June	
		2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Revenue	6	2,312,935	1,925,848
Cost of sales		(1,159,700)	(991,373)
Gross Profit		1,153,235	934,475
Distribution costs		(451,834)	(357,830)
Administrative expenses		(154,178)	(129,875)
Operating profit		547,223	446,770
Finance income	7	13,626	18,560
Finance costs	7	(3,943)	(4,792)
Finance income-net	7	9,683	13,768
Share of losses of joint ventures		(167)	(399)
Profit before income tax		556,739	460,139
Income tax expense	9	(93,960)	(80,939)
Profit for the period		462,779	379,200
Profit attributable to:			
Owners of the Company		360,808	306,051
Non-controlling interests		101,971	73,149
		462,779	379,200
Earnings per share for profit attributable to owners of the Company during the period			
– Basic (2014: Restated)	10	RMB0.28	RMB0.24
– Diluted (2014: Restated)	10	RMB0.28	RMB0.24
Dividends	11	–	–

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Profit for the period	462,779	379,200
Other comprehensive (expense)/income: <i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences	(6,789)	20,873
Other comprehensive (expense)/income for the period, net of tax	(6,789)	20,873
Total comprehensive income for the period	455,990	400,073
Attributable to:		
Owners of the Company	358,822	307,742
Non-controlling interests	97,168	92,331
Total comprehensive income for the period	455,990	400,073

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	144,934	146,523
Property, plant and equipment	12	907,240	890,411
Goodwill		38,972	–
Investment in joint ventures		21,552	22,396
Investment in associates		3,099	–
Deposits paid for purchase of property, plant and equipment		21,000	21,000
Deferred income tax assets		20,660	17,536
Other long-term assets		14,039	1,951
		1,171,496	1,099,817
Current assets			
Inventories		1,715,108	1,749,835
Trade and bills receivable, net	13	708,977	290,488
Amounts due from related parties	18(d)	118,886	98,856
Prepayments and other current assets		87,841	142,610
Short-term bank deposits		533,668	376,200
Cash and cash equivalents		1,837,256	1,774,389
		5,001,736	4,432,378
Total assets		6,173,232	5,532,195
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	1,280,784	1,280,784
Reserves			
– Proposed dividend		–	179,310
– Other reserves		2,466,068	2,089,494
		3,746,852	3,549,588
Non-controlling interests		998,679	886,566
Total equity		4,745,531	4,436,154

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

	Note	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		3,405	–
Deferred income tax liabilities		4,663	4,264
Deferred income – government grants		78,308	74,053
		86,376	78,317
Current liabilities			
Trade payables	15	427,532	421,924
Salary and welfare payables		18,652	19,845
Advances from customers		91,362	164,235
Amounts due to related parties	18(d)	81,092	84,118
Current income tax liabilities		76,793	26,940
Other payables		483,894	200,662
Borrowings		162,000	100,000
		1,341,325	1,017,724
Total liabilities		1,427,701	1,096,041
Total equity and liabilities		6,173,232	5,532,195
Net current assets		3,660,411	3,414,654
Total assets less current liabilities		4,831,907	4,514,471

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Cash flows from operating activities:		
Cash generated from operations	290,233	209,825
Interest paid	(3,680)	(4,792)
Income tax paid	(46,859)	(42,072)
Net cash generated from operating activities	239,694	162,961
Cash flows from investing activities:		
Purchases of property, plant and equipment	(64,530)	(94,341)
Purchases of land use rights	-	(10,500)
Purchases of other long-term assets	-	(411)
Proceeds from short-term bank deposits	376,200	398,990
Increase in short-term bank deposits	(533,668)	(407,148)
Increase in structured deposits	(15,000)	-
Proceeds from structured deposits	25,000	-
Net cash inflow for acquisition of a subsidiary	2,534	-
Disposal of partial interests in a subsidiary	814	-
Interest received	13,626	12,677
Cash paid for investment	(3,148)	(4,704)
Net cash used in investing activities	(198,172)	(105,437)
Cash flows from financing activities:		
Proceeds from short-term borrowings	115,184	60,000
Repayments of short-term borrowings	(53,184)	(65,000)
Proceeds from long-term borrowings	3,454	-
Repayments of long-term borrowings	-	(39,310)
Capital injection from non-controlling interests	-	8,765
Dividends paid to non-controlling interests	(41,090)	(34,359)
Net cash generated from/(used in) financing activities	24,364	(69,904)
Net increase/(decrease) in cash and cash equivalents	65,886	(12,380)
Cash and cash equivalents at beginning of the period	1,774,389	1,967,919
Exchange (losses)/gains on cash and cash equivalents	(3,019)	16,338
Cash and cash equivalents at end of the period	1,837,256	1,971,877

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 surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation difference	Other reserve	Retained earnings	Total		
Balance as of 1 January 2015	1,280,784	414,100	294,709	45,455	102,043	(31,349)	139,047	1,304,799	3,549,588	886,566	4,436,154
Profit for the period	-	-	-	-	-	-	-	360,808	360,808	101,971	462,779
Foreign currency translation differences											
- Group	-	-	-	-	-	(1,225)	-	-	(1,225)	(4,803)	(6,028)
- Joint Ventures	-	-	-	-	-	(761)	-	-	(761)	-	(761)
Dividends paid to shareholders of the Company relating to 2014	-	-	-	-	-	-	-	(179,310)	(179,310)	-	(179,310)
Dividends paid to non-controlling interests relating to 2014	-	-	-	-	-	-	-	-	-	(41,497)	(41,497)
Acquisition of a subsidiary (Note 19)											
- non-controlling interests arising	-	-	-	-	-	-	-	-	-	73,380	73,380
- dilution gain upon share issuance	-	-	-	-	-	-	17,720	-	17,720	(17,720)	-
Others	-	-	-	-	-	-	32	-	32	782	814
Balance as of 30 June 2015	1,280,784	414,100	294,709	45,455	102,043	(33,335)	156,799	1,486,297	3,746,852	998,679	4,745,531
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											
- Group	-	-	-	-	-	1,243	-	-	1,243	19,182	20,425
- Joint Ventures	-	-	-	-	-	448	-	-	448	-	448
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

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 2015.

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 2015 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 2014, 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 2014, 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) *Adoption of new standards and amendments to standards*

The Group has adopted the following new standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 July 2014:

Annual Improvements Project	Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle
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The adoption of above new standards and amendments to standards does not have any significant financial effect on these condensed consolidated interim financial information.

(b) *Standards and amendments which are not yet effective*

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods, but have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2012-2014 Cycle ⁽¹⁾
Amendments to IAS 1	Disclosure initiative ⁽¹⁾
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁽¹⁾
Amendments to IAS 27	Equity Method in Separate Financial Statements ⁽¹⁾
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁽¹⁾
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception ⁽¹⁾
IFRS 15	Revenue from Contracts with Customers ⁽²⁾
IFRS 9	Financial Instruments ⁽²⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2016

⁽²⁾ Effective for the accounting period beginning on 1 January 2018

The Group will apply the above new/revised standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new/revised standards and amendments to standards and does not expect that the adoption of these new/revised standards and amendments to standards will result in any material impact on the Group's results and financial position.

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 2014.

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 2014.

There have been no changes in any risk management policies since year end of 2014.

6. Revenue

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Sales of products:		
– Mainland China	1,957,086	1,677,067
– Outside Mainland China	326,849	225,386
	2,283,935	1,902,453
Advertising agency services income		
– Mainland China	15,884	12,310
Chinese medical consultation		
– Outside Mainland China	12,839	10,823
Royalty fee income		
– Outside Mainland China	277	262
	2,312,935	1,925,848

7. Finance Income and Costs

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Finance income		
Interest income on cash at bank and short-term bank deposits	13,626	12,677
Exchange gains	–	5,883
	13,626	18,560
Finance costs		
Interest on bank borrowings	(3,680)	(4,792)
Exchange losses	(263)	–
	(3,943)	(4,792)
Finance income - net	9,683	13,768

8. Expense by Nature

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Depreciation of property, plant and equipment	32,864	24,275
Amortization of prepaid operating lease payments	1,589	1,424
Amortization of other long-term assets	402	27
Provision for impairment of inventories	3,695	5,452
Reversal of provision for impairment of receivables	(92)	(231)
Loss on disposal of property, plant and equipment	67	93

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 (“HNTÉ”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTÉ status, the PRC income tax rate is 25%. As of 30 June 2015 and 2014, the Company has obtained the HNTÉ certificate. Consequently, the applicable income tax rate of the Company used as of 30 June 2015 is 15% (Corresponding period in 2014: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (Corresponding period in 2014: 16.5%) on the estimated assessable profit for the six months ended 30 June 2015.

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	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Current income tax expense		
– Mainland China	67,951	59,756
– Hong Kong	26,372	21,448
– Overseas	2,362	1,945
	96,685	83,149
Deferred income tax credit	(2,725)	(2,210)
	93,960	80,939

10. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB360,808,000 by the weighted average number of 1,280,784,000 shares in issue during the period.

In accordance with IAS 33, "Earnings per share", as the number of ordinary shares outstanding increases as a result of the capitalisation in 2014, the calculation of basic earnings per share for the six months ended 30 June 2014 presented has been adjusted retrospectively.

The Company had no dilutive potential shares for the six months ended 30 June 2015 and 2014.

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000 (Restated)
Profit attributable to owners of the Company	360,808	306,051
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	0.28	0.24

11. Dividends

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

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

For the six months ended 30 June 2015, there was no significant addition to leasehold land and land use rights of the Group (Corresponding period in 2014: Nil).

For the six months ended 30 June 2015, the additions to property, plant and equipment of the Group was approximately RMB55,224,000 (Corresponding period in 2014: RMB20,164,000).

13. Trade and Bills Receivables, Net

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Trade and bills receivables	726,675	308,278
Less: provision for impairment of receivables	(17,698)	(17,790)
Trade and bills receivables, net	708,977	290,488

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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 4 months	706,622	281,799
Over 4 months but within 1 year	12,360	20,874
Over 1 year but within 2 years	2,108	274
Over 2 years but within 3 years	274	20
Over 3 years	5,311	5,311
	726,675	308,278

14. Share Capital

	30 June 2015 (Unaudited)		31 December 2014 (Audited)	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Total share capital	1,280,784,000	1,280,784	1,280,784,000	1,280,784
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	652,080,000	652,080	652,080,000	652,080
– H shares with a par value of RMB1 per share	628,704,000	628,704	628,704,000	628,704
	1,280,784,000	1,280,784	1,280,784,000	1,280,784

15. Trade Payable

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

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 4 months	401,527	357,113
Over 4 months but within 1 year	23,878	63,400
Over 1 year but within 2 years	1,598	1,411
Over 2 years but within 3 years	529	–
	427,532	421,924

16. Segment Information

The directors of the Company (the “**Directors**”) are the Group’s chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors for the purposes of allocating resources and assessing performance.

The Directors consider the business from an operational entity perspective. Generally, the Directors consider 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 expansion of distribution network, the provision of Chinese medical consultation and treatments and the manufacturing and sale of Chinese medical products and healthcare products outside Mainland China by Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) (“**Tong Ren Tang Chinese Medicine**”), as well as the wholesale of healthcare products in Mainland China by it.

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

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

16. Segment Information (Cont'd)

The segment information provided to the Directors for the reportable segments for the six months ended 30 June 2015 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	1,794,212	383,102	301,913	2,479,227
Inter-segment revenue	(8,272)	–	(158,020)	(166,292)
Revenue from external customers	1,785,940	383,102	143,893	2,312,935
Profit after income tax	297,369	144,509	20,901	462,779
Interest income	8,640	4,372	614	13,626
Interest expenses	(3,086)	(106)	(488)	(3,680)
Depreciation of property, plant and equipment	(15,562)	(8,230)	(9,072)	(32,864)
Amortization of prepaid operating lease payments	(1,051)	(219)	(319)	(1,589)
Provision for impairment of inventories	(3,695)	–	–	(3,695)
Reversal of provision for impairment of receivables	92	–	–	92
Income tax expense	(51,089)	(32,410)	(10,461)	(93,960)
Segment assets and liabilities				
Total assets	4,039,666	1,478,056	655,510	6,173,232
Additions to non-current assets (other than deferred tax assets)	29,614	55,631	12,193	97,438
Total liabilities	1,108,481	109,502	209,718	1,427,701

16. Segment Information (Cont'd)

The segment information 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 for)/Reversal of 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)

The segment assets and liabilities as at 31 December 2014 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	3,686,893	1,287,912	557,390	5,532,195
Additions to non-current assets (other than deferred tax assets)	199,906	56,669	54,153	310,728
Total liabilities	852,187	71,311	172,543	1,096,041

16. Segment Information (Cont'd)

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

The amounts provided to the 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 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 RMB856,816,000 (31 December 2014: RMB840,851,000), and the total of these non-current assets located in other countries and regions is RMB294,020,000 (31 December 2014: RMB241,430,000).

17. Commitments

(a) Capital commitments

As of 30 June 2015, the Group had capital commitments of RMB121,112,000 which were not provided but had been contracted for in the unaudited consolidated financial statements of the Group (31 December 2014: RMB127,261,000 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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
No later than 1 year	67,411	62,477
Later than 1 year and not later than 5 years	78,658	71,099
Later than 5 years	6,019	10,416
	152,088	143,992

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 is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, so it 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.

18. Related Party Transactions (Cont'd)

(a) Transactions with the ultimate holding company

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

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) 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

Notes:

- (i) A licence agreement was renewed on 28 February 2013 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 licence agreement is effective 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.

18. Related Party Transactions (Cont'd)

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

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Sales of related products (Note (i))	324,725	215,327
Purchases of related products (Note (ii))	62,062	45,628
Sole overseas exclusive distributorship (Note(iii))	19,801	15,726
Research and development expense (Note (iv))	2,792	–
Advertising agency services (Note (v))	15,875	12,310

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 and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense etc.; and (ii) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the profit rate of the products of the Group in the past years of not exceeding 50%, which is in line with the previous gross profit rate of the Group. The agreement has been approved at the Company's extraordinary general meeting of 2013 and is effective from 2014 to 2016. The annual caps of the proposed continuing connected transactions contemplated under the agreement for the year 2015 and 2016 have been approved at the Company's 2014 annual general meeting 2014 dated 9 June 2015 (the "AGM").
- (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.

18. Related Party Transactions (Cont'd)

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

Notes: (Cont'd)

- (iii) Tong Ren Tang Chinese Medicine renewed the 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 28 October 2014, with an effective period from 1 January 2015 to 31 December 2017, which has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 27 November 2014. Pursuant to such agreement, 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 Tong Ren Tang branded products supplied by Parent Company (“**Relevant Products**”) outside the PRC. The price of the Relevant Products supplied by the Parent Company shall not be higher than the wholesale price of the Relevant Products sold to the distributors in the PRC and shall be determined with reference to the available market price.
- (iv) On 19 March 2013, the Company entered into a framework agreement (“**Framework Agreement**”) 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.
- (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 a 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 purchases 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.

18. Related Party Transactions (Cont'd)

(d) *Balances with related parties*

Balances with related parties consisted of:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Amounts due from related parties:		
Subsidiaries and joint ventures of the ultimate holding company	79,350	76,696
Other state-owned enterprises	39,536	22,160
	118,886	98,856
Amounts due to related parties:		
Subsidiaries and joint ventures of the ultimate holding company	60,379	60,597
Other state-owned enterprises	20,713	23,521
	81,092	84,118

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

18. 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 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 4 months	86,164	87,218
Over 4 months but within 1 year	30,510	10,180
Over 1 year	2,212	1,458
	118,886	98,856

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

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Within 4 months	77,508	77,978
Over 4 months but within 1 year	1,829	4,903
Over 1 year	1,755	1,237
	81,092	84,118

19. Business Combination

On 27 February 2015, Tong Ren Tang Chinese Medicine completed the purchase 51% of the issued share capital of Honour Essence Trading Limited (大宏貿易有限公司), a limited company incorporated in Hong Kong which is principally engaged in the distribution of Chinese medicine products in Hong Kong, at the total consideration of HKD71,426,000 (approximately RMB56,619,000) which was settled by the issue of 7,100,000 ordinary shares by Tong Ren Tang Chinese Medicine to an independent third party of the Company. As a result, Honour Essence Trading Limited became a subsidiary of the Company.

19. Business Combination (Cont'd)

The following table summarises the consideration paid for the acquisition, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date:

As at 27 February 2015	RMB'000
Purchase consideration:	
– Equity instruments	56,619
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, Plant and Equipment	304
Customer relationships	10,305
Trade receivables and other current assets	24,503
Cash and cash equivalents	2,534
Inventories	26,840
Trade and other payables	(25,922)
Current income tax liabilities	(2,899)
Deferred income tax liabilities	(1,459)
Total identifiable net assets	34,206
Non-controlling interest	(16,761)
Goodwill	39,174
	56,619

Acquisition-related costs included in administrative expenses in the interim consolidated financial information for the six months ended 30 June 2015 is HKD343,000 (approximately RMB271,000).

Honour Essence Trading Limited contributed revenue of RMB58,874,000 and profit of RMB10,683,000 to the Group for the period from 27 February 2015 to 30 June 2015.

If the acquisition had occurred on 1 January 2015, the consolidated revenue and the profit of the Group for the six months ended 30 June 2015 would be RMB2,328,020,000 and RMB464,810,000 respectively.

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2015 (Corresponding period in 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, as Mainland China's pharmaceutical reforms continued to deepen, the general public's gradually rising awareness of medicine and health issues and their willingness to invest in these areas presented the overall pharmaceutical sector with fresh development opportunities. On the other hand, the pharmaceutical sector's ever-changing competition setting and intensifying competitions posed numerous challenges to pharmaceutical enterprises. During the Reporting Period, we continued our efforts to bolster our core competencies, highlight the strengths of our brand, and help our subsidiaries maintain a sustainable development in their respective professional fields, and put the Group on the path of overall stable growth. For the six months ended 30 June 2015, the Group's sales revenue amounted to RMB2,312,935,000, representing an increase of 20.10% as compared with RMB1,925,848,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB360,808,000, representing an increase of 17.89% as compared with RMB306,051,000 for the corresponding period of last year.

Sales

During the Reporting Period, we continued to accelerate the strategic layout of our products and refined our category management to compile a diversified product mix. On the one hand, the Company continued to enhance the competitiveness of our existing Chinese patent medicine and adopted a strategy comprised of market segmentation, demand orientation and breakthrough in key areas, to bring about synergistic growth of promising categories, and gradually establish an interconnected development structure of regional product portfolio through resources integration and advantage complementation. On the other hand, all subsidiaries continued to strengthen the development of product portfolio to highlight their advantages and, through the constant enrichment in product categories in our glue product series and cosmetics series, diversified the Group's business into different areas including cosmetics, food and healthcare food, etc., and achieved further development. As a result, the scale of product portfolio continued to expand and facilitated the overall revenue growth of the Group.

During the Reporting Period, we kept abreast of market demands to capture the consumption trend, and employed corresponding marketing strategies and measures on a timely basis. On the one hand, we adopted differentiated and refined marketing perspectives according to the specific features of our target markets so as to explore new opportunities and create new growth points, adjusting measures to differing conditions. We also fully capitalised on the fiesta mood during various festivals, vigorously promote the products of the Group and achieved satisfactory sales through promotion models such as complimentary gift with purchase and promotion talks at our sales terminals. On the other hand, given the rapid development of the Internet and mobile platforms, we continued to explore new communication channels with our consumers by leveraging on the popularity and timeliness of e-commerce platforms including Jingdong, Tmall, and Yihaodian, as well as mobile platform, to initiate new marketing plans. Meanwhile, we beefed up our promotion efforts during various festivals to further boost product awareness and attract market attention, thereby increasing the cost-efficiency of our brand communication. As of the date of this report, almost 100 products of the Group are available for online sales, including healthcare food, food and cosmetics products.

During the Reporting Period, the scale of the Group's product portfolio was further enlarged, of which 23 products achieved a total sales revenue of more than RMB10 million and 16 products achieved a total sales revenue in the range of RMB5 million to RMB10 million. Among the major products of the Group, as compared with the corresponding period of last year, except that the sales amount of Ganmao Qingre Granules (感冒清熱顆粒) series decreased, the sales amount of Liuwei Dihuang Pills (六味地黃丸) series increased by 8.96%, the sales amount of Niuhuang Jiedu Tablets (牛黃解毒片) series increased by 11.49%. Other products, the sales amount of which increased by more than 30% over the corresponding period of last year, include Ejiao (阿膠) series, Xihuang Pills (西黃丸) series and Fufang Danshen Tablets (複方丹參片) series, etc.

Production

During the Reporting Period, the branch factories continued to push forward the construction of the branch factory system and further optimised the production layout through scientific management and control to enhance professional operation capacity and constantly boost production efficiency. On the one hand, through the refined division of production plans and accurate production analysis, we assigned production tasks in a scientific and reasonable manner. Meanwhile, based on regular statistics, much importance was attached to the coordination and deployment of resources in the production process to enhance synergy between each link in the production chain so as to improve the efficiency of the whole process and gradually shift to systematic collaboration. On the other hand, we continued adhering to the normalised GMP management system, and strengthened on-site management during the production process. Through upgraded operations standards and quality inspections, etc., the Company improved the standardised management for product quality constantly, and established a comprehensive and effective quality management system.

The registered capital of 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"), located in Tangshan, Hebei Province, is RMB120 million, which is owned as to 74%, 20% and 6% respectively 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). Tangshan Company will center on manufacturing of glue product series. It is envisaged that the output increase of Tangshan Company will further enhance the production capacity of glue product series, and diversify the Group's product mix of glue product series. In the first half of 2015, the sales revenue of Tangshan Company amounted to RMB42,303,000, and the net profit amounted to RMB12,531,000.

Management and Research & Development

During the Reporting Period, we continued to optimise our internal procedures so as to timely and effectively mitigate and avoid such risks in the operation process. As a result, the operation standard and the management system of the Company and all subsidiaries have been gradually improved, and a mature chain-type procedural management mode was formulated. Meantime, we continued to strengthen the cultivation of talents to build a professional team to secure the long-term and healthy development of the Company, thus constantly adding values to the Company.

For research and development, we conducted follow-up scientific research to probe into the potential indications of our existing products, further stressing the products' uniqueness in order to consolidate our competitive advantages in the therapeutic market. Furthermore, integrating the therapeutic experiences of Chinese medicine, we set our direction of development on preventing latent illnesses, supported by in-depth research under the "preventive treatment" perspective. Meanwhile, we expanded the product portfolio in the non-medicinal territory through the development of food and healthcare food so as to continue to establish the Group's foothold in the healthcare industry.

Tong Ren Tang Chinese Medicine

Tong Ren Tang Chinese Medicine, which is a subsidiary of the Company and is located in Hong Kong, was jointly invested and established by the Company and Tong Ren Tang Ltd.. Tong Ren Tang Chinese Medicine completed the share offer and was successfully listed on the GEM of the Stock Exchange on 7 May 2013. As at 30 June 2015, the total issued shares of Tong Ren Tang Chinese Medicine were 837,100,000 shares (for details of the change in the issued shares of Tong Ren Tang Chinese Medicine, please refer to Note 19 to the Condensed Consolidated Financial Statements of this report), which were owned as to 38.05% by the Company, as to 33.62% by Tong Ren Tang Ltd., and the rest by public shareholders. Tong Ren Tang Chinese Medicine is principally engaged in overseas manufacturing, retail and wholesale of Chinese medicine products and healthcare products, as well as construction of distribution network and provision of Chinese medical consultation and treatments.

During the Reporting Period, Tong Ren Tang Chinese Medicine continued its development based in the Hong Kong market and completed the acquisition of Honour Essence Trading Limited, further expanding the distribution network and increasing Tong Ren Tang Chinese Medicine's competitiveness and market share in Hong Kong. Meantime, thorough surveys had been conducted by Tong Ren Tang Chinese Medicine in Western Europe, the United States and other regions, laying the groundwork to provide integrated medical health and wellness service, clinical medical consultation service and product sales in local markets. As at 30 June 2015, Tong Ren Tang Chinese Medicine and its subsidiaries ("Tong Ren Tang Chinese Medicine Group") had established 56 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.

In the first half of 2015, the sales revenue of Tong Ren Tang Chinese Medicine Group amounted to RMB383,102,000, representing an increase of 31.54% as compared with RMB291,253,000 for the corresponding period of last year and a net profit of RMB144,509,000, representing an increase of 25.38% as compared with RMB115,256,000 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 (荆芥), etc. These production bases played a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company's products.

During the Reporting Period, each of our Chinese medicinal raw materials production bases had followed the planting and harvesting approach specific to places of origin and seasons to perform careful selection during the process of plantation and harvesting, with only the best being selected for essence extract. Under strict quality control of the Chinese medicinal materials which highlighted our geographical advantages, we ensure all such materials maintain local appeal and are of high quality. In the first half of 2015, all the Chinese medicinal raw materials production bases of the Company achieved a total sales revenue of RMB62,077,000, representing a decrease of 24.73% as compared with RMB82,477,000 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”)

The registered capital of Tong Ren Tang WM is US\$3 million, which is owned as to 60% and 40% respectively by the Company and WM Dianorm Biotech Co., Limited. Since its establishment, Tong Ren Tang WM has been dedicated to pair Chinese herbal medicine essence with modernised Chinese medicine production technologies and to promote its application in areas such as daily health products and cosmeceuticals. Its range of products includes facial and eye masks, lotion and cream, liposome skincare products, shampoo and conditioner, as well as oral care products. During the Reporting Period, Tong Ren Tang WM, aided by the brand strength of “Tong Ren Tang” and its own diversified product structure, achieved market expansion through portals of retail outlets, supermarkets and drugstores, recording an apparent increase in the number of sales terminals within its sales network since the end of last year. During the Reporting Period, in response to the differentiated market demands, Tong Ren Tang WM rolled out almost 20 new products including toothpaste, suntan lotion and talcum powder, further diversifying its product variety. In the first half of 2015, the sales revenue of Tong Ren Tang WM amounted to RMB64,264,000, representing an increase of 20.08% as compared with RMB53,518,000 for the corresponding period of last year and a net profit of RMB7,923,000, representing an increase of 20.32% as compared with RMB6,585,000 for the corresponding period of last year.

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.”)

The registered capital of Xing An Meng Co., Ltd. is RMB19 million, which is owned as to 51% by the Company and 49% by Beijing Dekang Xinrui Trading Co., Ltd. (北京德康信瑞商貿有限責任公司). During the Reporting Period, Xing An Meng Co., Ltd. constantly drew inspirations from traditional Chinese wisdoms of health and wellness to offer customers a varied selection of health and wellness products in the forms of drinks, foot pads and gel-patches. During the Reporting Period, five types of skin patch products including cooling patches and pain relieving patches for neck and shoulder were rolled out and well received by the market. In the first half of 2015, the sales revenue of Xing An Meng Co., Ltd. amounted to RMB23,661,000, representing an increase of 106.99% as compared with RMB11,431,000 for the corresponding period of last year and a net profit of RMB997,000.

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

Nansanhuan Zhonglu Drugstore is located at Nansanhuan Zhonglu, Fengtai District, Beijing, and is the only retail drugstore invested and established by the Company in Mainland China. During the Reporting Period, our Nansanhuan Zhonglu Drugstore adhered to the principle of “Heal the world” and served all customers with benevolence and morality. In the first half of 2015, Nansanhuan Zhonglu Drugstore achieved a sales revenue of approximately RMB46,915,000, representing an increase of 2.05% as compared with RMB45,973,000 for the corresponding period of last year.

Tong Ren Tang Century Advertising

Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company with registered capital of RMB1 million, is primarily engaged in advertising design, production, agency and publication, etc. During the Reporting Period, Tong Ren Tang Century Advertising adopted a multi-dimensional business strategy focusing on brand communication and cultural promotion, making continuous efforts to enhance customers’ recognition and acceptance of “Tong Ren Tang” brand and products. In the first half of 2015, Tong Ren Tang Century Advertising achieved a sales revenue of approximately RMB22,887,000, representing an increase of 70.65% as compared with RMB13,412,000 for the corresponding period of last year and a net profit of RMB1,040,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2015, the Group had a total of 3,623 employees (31 December 2014: 3,595 employees), of which 2,058 were employees of the Company (31 December 2014: 2,086 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 net profit attributable to owners of the Company as compared with that 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 funds was cash generated from daily operating activities and bank loans.

As at 30 June 2015, the Group's cash and cash equivalents amounted to RMB1,837,256,000 (31 December 2014: RMB1,774,389,000) in total; short-term bank borrowings of the Group amounted to RMB162,000,000 (31 December 2014: RMB100,000,000), of which RMB50,000,000 will be due on 24 June 2016, RMB50,000,000 will be due on 25 September 2015, RMB22,000,000 will be due on 29 January 2016, RMB20,000,000 will be due on 5 January 2016 and RMB20,000,000 will be due on 22 May 2016, carrying an interest rate of 5.003% (2014: 5.456%) per annum; and long-term bank borrowings amounted to RMB3,405,000 (31 December 2014: Nil), carrying an interest rate of 5.03% (2014: Nil) per annum.

As at 30 June 2015, total assets of the Group amounted to RMB6,173,232,000 (31 December 2014: RMB5,532,195,000). The funds comprised non-current liabilities of RMB86,376,000 (31 December 2014: RMB78,317,000), current liabilities of RMB1,341,325,000 (31 December 2014: RMB1,017,724,000), equity attributable to owners of the Company of RMB3,746,852,000 (31 December 2014: RMB3,549,588,000) and non-controlling interests of RMB998,679,000 (31 December 2014: RMB886,566,000).

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 to 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 2015, the Group's funds were mainly used for production and operation activities, construction of engineering 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.

The Group monitors its capital on the basis of the gearing ratio.

Gearing and Liquidity Ratio

As at 30 June 2015, 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 2014: 0.03); and the liquidity ratio of the Group, represented by a ratio of current assets divided by current liabilities, was 3.73 (31 December 2014: 4.36), which reflects the abundance of financial resources of the Group.

Charges over Assets of the Group

At 30 June 2015, the Group's net property value of RMB9,680,000 has been pledged as securities for long-term bank borrowing. Such bank borrowing in Australian dollars bears interest at 1.5% plus the bank bill rate of the day in Australia per annum and is wholly repayable in 2020 (31 December 2014: Nil).

Contingent Liabilities

The Group had no contingent liabilities as at 30 June 2015 (31 December 2014: 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 various currency exposures, primarily with respect to the HKD. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign currencies risk by closely monitoring the movement of the foreign currency rates.

Use of Proceeds

The Company completed the placing of 52,392,000 H shares at the placing price of HK\$23.00 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 2015, the actual use of proceeds from the aforesaid placing of approximately RMB879,250,000 (31 December 2014: RMB879,250,000) was as follows:

1. approximately RMB82,660,000 were used for the acquisition of 68% equity interest in Tangshan Company;
2. RMB15,000,000 were used for liquidity repayment of bank loans;
3. approximately RMB522,300,000 were used for purchase of Chinese medicinal raw materials, auxiliary ingredients and packaging materials;
4. approximately RMB52,560,000 were used for construction projects at Daxing and Bozhou;
5. approximately RMB13,650,000 were used for replacement of production equipment and infrastructure maintenance, etc.;
6. approximately RMB122,350,000 were used for daily operating expenses; and
7. approximately RMB70,730,000 were used for distribution of H share dividends for 2013.

As at 30 June 2015, approximately RMB52,490,000 of the proceeds were not yet used.

Significant Investment Held

During the Reporting Period, the Group did not have any significant investment.

Material Acquisition/Disposal of Subsidiaries and Associates

During the Reporting Period, the Group did not have any material acquisition/disposal of subsidiaries and associated companies.

FUTURE INVESTMENT PLAN

The Company had bought a total of approximately 108,700 square meters of land in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing, for the construction of Da Xing Production Base (“**Da Xing Base**”). The total investment in Da Xing Base was originally expected to be approximately RMB1,088 million, which would be paid by internal funds, bank borrowings or others. As Chinese medicine extraction during the production of Chinese patent medicines has been categorized as industry forbidden to increase by The Prohibition and Restriction Directory of Newly Added Industries in Beijing (2014 Edition) (《北京市新增產業的禁止和限制目錄(2014年版)》) issued in the second half of 2014, the Company will cancel the construction of extracting production workshop and liquid dosage workshop in the original plan of Da Xing Base, and construct a production workshop for honeyed pills instead. Therefore the Company adjusted the estimated total investment to RMB795 million, which will still be paid by internal funds, bank borrowings or others. As at 30 June 2015, RMB199,490,000 has been invested into Da Xing Base. So far, the construction for R&D center and the secondary structure of solid dosage workshop of Da Xing Base has been completed. The construction of the main structure of the honeyed pills workshop has been completed. Upon the completion of the construction, the adjusted Da Xing Base will become an integrated industrial base centered on the production of pills and R&D.

The Company has also bought a total industrial land of approximately 55,000 square meters in Qiaocheng District, Bo Zhou City, An Hui Province for the construction of Bo Zhou Base for Preprocessing and Logistics of Chinese Medicine Materials (“**Bo Zhou Base**”). The total investment in Bo Zhou Base is expected to be approximately RMB185 million, which will be paid by internal funds, bank borrowings or others. As at the end of 30 June 2015, RMB91,630,000 had been invested in Bo Zhou Base. So far, the interior decoration of the warehouse and workshop for Chinese medicine materials has been fundamentally completed. Upon the completion of the construction, Bo Zhou Base will provide the Company with the Chinese medicinal raw materials after pure selection and pharmaceutical processing, which aims at enhancing the production capacity of the Company and improving its supply chain.

PROSPECTS

In the future, we will continue focusing on Chinese patent medicine and exert the synergic effects of products and districts towards profound development in the direction of varied product profiles and characterization of district sales by adopting models of joint promotion and portfolio sales, so as to constantly promote the profitability of the existing products. Meanwhile, the subsidiaries will forge ahead with determination, highlight their specialty features, keep enlarging the product coverage and market as well as nurture new growth points, aiming at formulating a multi-domain and three dimensional industrial structure encompassing Chinese patent medicine, food, healthcare food and cosmetics for the Group and developing the industry of life and healthcare industry, and then will proceed to promoting the overall competitiveness and influence of the Group for assuring the sound and sustainable development of the Group as a whole.

OTHER INFORMATION

Corporate Governance Code

For the six months ended 30 June 2015, 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 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 2015.

Change in Directors and Supervisors

At the date of the AGM, Mr. Mei Qun resigned as the executive Director and the Chairman of the Board, Mr. Wang Quan resigned as the executive Director and the Vice-Chairman of the Board, and Mr. Bai Jian resigned as the employee representative Supervisor, each with effect from the conclusion of the AGM.

At the AGM, Mr. Gao Zhen Kun, Mr. Gu Hai Ou and Mr. Li Bin were appointed as the executive Directors of the Sixth Session of the Board; Mr. Gong Qin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi were re-elected as the executive Directors of the Sixth Session of the Board; Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan were re-elected as the independent non-executive Directors of the Sixth Session of the Board; Ms. Ma Bao Jian and Mr. Wu Yi Gang were re-elected as the shareholder representative Supervisors of the Sixth Session of the supervisory committee of the Company (the “**Supervisory Committee**”), each with a term commencing from the conclusion of the AGM to the date of the general meeting to be held in 2018. Ms. Ding Guo Ping was elected as the employee representative Supervisor of the Sixth Session of the Supervisory Committee at the employee representatives’ general meeting of the Company held on 20 March 2015, with a term commencing from the conclusion of the AGM to the date of the general meeting to be held in 2018.

The Board resolved on 9 June 2015 to elect Mr. Gao Zhen Kun, an executive Director, as the Chairman of the Board and Mr. Gong Qin, an executive Director, as the Vice-Chairman of the Board, and the Supervisory Committee also resolved on the same day to elect Ms. Ma Bao Jian as the Chief Supervisor, each with immediate effect.

For details of the aforesaid changes, please refer to the circular of the Company dated 15 April 2015 and the announcement of the Company dated 9 June 2015.

Change in Director's Information

The following Director's information changed during the Reporting Period:

Mr. Gao Zhen Kun, aged 51, is a senior accountant with a postgraduate qualification. He previously served in Beijing Tong Ren Tang Medicinal Materials as the general manager, in Beijing Tong Ren Tang Drug Store as the manager and the Party Branch secretary, and in Tong Ren Tang Ltd. as the chief accountant, the deputy general manager, the Party Committee secretary and the general manager. Mr. Gao is currently a director, the general manager and the vice secretary of the Party Committee of Tong Ren Tang Holdings, the chairman of Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd. and the director of Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd.. Mr. Gao was appointed a Director at the AGM held in 2015.

Save as the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Emoluments of the Directors and the Supervisors

Mr. Gao Zhen Kun, Mr. Gong Qin, Mr. Gu Hai Ou, Mr. Li Bin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi, each in their capacity as an executive Director, will not receive any director's remuneration from the Company. Ms. Ma Bao Jian and Ms. Ding Guo Ping, each in their capacity as a Supervisor, will not receive any supervisor's remuneration from the Company. Mr. Wang Yu Wei and Ms. Fang Jia Zhi, each as an executive Director, and Ms. Ding Guo Ping as an employee representative Supervisor will receive a remuneration from the Company corresponding to their respective management positions in the Company and its subsidiaries, the amount of which will be determined with reference to the market condition, responsibilities, performance assessment and completion status of the annual economic indicators. Relevant amounts for the year of 2015 will be disclosed in the 2015 annual report of the Company. Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, each as an independent non-executive Director, and Mr. Wu Yi Gang as a Supervisor will receive a director or supervisor remuneration from the Company, at the amount of HKD240,000 (tax inclusive), HKD240,000 (tax inclusive), RMB100,000 (tax inclusive) and RMB100,000 (tax inclusive), respectively since 2015.

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 2015 as well as this interim report, and discussed relevant internal audit matters.

Subsequent Events

As at the date of this report, there is no occurrence of events that had a significant impact on the Group's operation, financial or trading prospects.

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

As at 30 June 2015, 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 1)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Mei Qun (Note 2)	Personal	Beneficial Owner	3,000,000	0.460%	0.234%

Note 1: All represented domestic shares.

Note 2: Mr. Mei Qun resigned from the position of executive Director on 9 June 2015 and no longer holds any other positions with the Company.

Tong Ren Tang Ltd.

Name	Type of interests	Capacity	Number of shares (Note 1)	Percentage of total registered share capital
Mr. Mei Qun (Note 2)	Personal	Beneficial Owner	93,242	0.007%
Mr. Gong Qin	Personal	Beneficial Owner	34,965	0.003%

Note 1: All represented A shares.

Note 2: Mr. Mei Qun resigned from the position of executive Director on 9 June 2015 and no longer holds any other positions with the Company.

Save as disclosed above, as at 30 June 2015, none of the Directors, Supervisors and the chief executive of the Company had any interests or 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 2015, 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	600,000,000	92.013%	–	46.846%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	600,000,000	92.013%	–	46.846%
	Beneficial Owner	9,480,000	1.454%	–	0.740%
		Total: 609,480,000	93.467%	–	47.586%
Yuan Sai Nan (Note 3)	Beneficial Owner	36,720,000(L) (Note 1)	–	5.841%	2.867%
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	50,293,667(L) (Note 1)	–	8.000%	3.927%
Hillhouse Capital Management, Ltd. (Note 5)	Investment manager	47,736,000(L) (Note 1)	–	7.593%	3.727%
Gaoling Fund, L.P. (Note 6)	Investment manager	46,182,000(L) (Note 1)	–	7.346%	3.606%
UBS AG (Note 7)	Beneficial Owner, Person having a security interest in shares, Interest of controlled corporation by the substantial shareholder	33,662,363(L) (Note 1)	–	5.354%	2.628%

SUBSTANTIAL SHAREHOLDERS (Cont'd)

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
	Interest of controlled corporation by the substantial shareholder	500,000(S) (Note1)	–	0.080%	0.039%
		Total: 34,162,363	–	5.434%	2.667%
UBS Group AG (Note 8)	Person having a security interest in shares, Interest of controlled corporation by the substantial shareholder	33,662,363(L) (Note 1)	–	5.354%	2.628%
	Interest of controlled corporation by the substantial shareholder	500,000(S) (Note 1)	–	0.080%	0.039%
		Total: 34,162,363	–	5.434%	2.667%

Notes:

- (1) (L) – Long position (S) – Short position
- (2) Such shares were held through Tong Ren Tang Ltd.. As at 30 June 2015, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. According to Part XV of the SFO, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd..
- (3) As was known to the Directors, on 23 June 2014, this shareholder held 18,360,000 H shares of the Company. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 30 June 2015, this shareholder held 36,720,000 H shares of the Company.
- (4) As at 30 June 2015, Commonwealth Bank of Australia indirectly held 50,293,667 H shares of the Company in long position through a series of corporations under its control.
- (5) As was known to the Directors, on 23 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.. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 30 June 2015, this shareholder was indirectly interested in 46,182,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 1,554,000 H shares of the Company in long position held by YHG Investment, L.P..

- (6) As was known to the Directors, on 23 June 2014, Gaoling Fund, L.P., as investment manager, held 23,091,000 H shares of the Company. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 30 June 2015, this shareholder held 46,182,000 H shares of the Company.
- (7) As was known to the Directors, on 30 June 2015, UBS AG was interested in 139,689 H shares of the Company in long position as beneficial owner, interested in 9,082,000 H shares of the Company in long position as person having a security interest in shares, and indirectly interested in 24,440,674 H shares of the Company in long position and 500,000 H shares of the Company in short position through a series of corporations under its control.
- (8) As was known to the Directors, on 30 June 2015, UBS Group AG was interested 9,082,000 H shares of the Company in long position as person having a security interest in shares, and was indirectly interested in 24,580,363 H shares of the Company in long position and 500,000 H shares of the Company in short position through a series of corporations under its control.

Save as disclosed above, as at 30 June 2015, 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 2015, 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 the Company and Tong Ren Tang Ltd. engage in the production and sale of Chinese patent medicines, but the principal products of each of them are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional dosage 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 (同仁堂大活絡丸), Guogong Wine (國公酒) and Angong Niu Huang Pills (安宮牛黃丸). It also has some minor production lines for the production of granules and honeyed pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niu Huang Jiedu Tablets (牛黃解毒片), Ganmao Qingre Granules (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. is 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 Niu Huang 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 as those pharmaceutical products produced by the Company, which may compete directly with those pharmaceutical products of the Company.

The Directors consider that as Angong Niu Huang 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 by the Company, the Company will continue to manufacture and sell Angong Niu Huang Pills (安宮牛黃丸). Save as mentioned above, 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, honeyed 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 belongs to one of the four main forms of existing products 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. 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 reconsider 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.