



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)

同修仁德
濟世養生



HIGHLIGHTS

- For the six months ended 30 June 2016, the Group's revenue represents an increase of approximately 15.30% as compared with the corresponding period in 2015.
- For the six months ended 30 June 2016, profit attributable to the owners of the Company represents an increase of approximately 18.98% as compared with the corresponding period in 2015.
- For the six months ended 30 June 2016, earnings per share attributable to the owners of the Company amounted to RMB0.34.
- The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2016.

**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 2016 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	For the six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Revenue	6	2,707,676	2,348,367
Cost of sales		(1,313,088)	(1,184,629)
Gross Profit		1,394,588	1,163,738
Distribution costs		(551,122)	(461,702)
Administrative expenses		(169,509)	(154,212)
Operating profit		673,957	547,824
Finance income	7	17,414	13,658
Finance costs	7	(3,781)	(3,943)
Finance income, net	7	13,633	9,715
Share of losses of investments accounted for using the equity method		(1,388)	(167)
Profit before income tax		686,202	557,372
Income tax expense	9	(114,905)	(94,125)
Profit for the period		571,297	463,247
Profit attributable to:			
Owners of the Company		429,850	361,276
Non-controlling interests		141,447	101,971
		571,297	463,247
Earnings per share for profit attributable to owners of the Company during the period			
– Basic and diluted	10	RMB0.34	RMB0.28

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Profit for the period	571,297	463,247
Other comprehensive income/(loss): <i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
– Group	38,026	(6,028)
– Joint ventures and associates	900	(761)
Other comprehensive income/(loss) for the period, net of tax	38,926	(6,789)
Total comprehensive income for the period	610,223	456,458
Attributable to:		
– Owners of the Company	443,806	359,290
– Non-controlling interests	166,417	97,168
Total comprehensive income for the period	610,223	456,458



CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	151,554	152,258
Property, plant and equipment	12	1,149,704	1,055,978
Intangible assets		60,934	61,268
Investments accounted for using the equity method		29,551	21,339
Prepayments for purchase of property, plant and equipment		25,990	25,188
Deferred income tax assets		32,001	29,165
		1,449,734	1,345,196
Current assets			
Inventories		1,905,561	1,961,149
Trade and bills receivables	13	900,268	378,293
Amounts due from related parties	18(d)	171,664	111,033
Prepayments and other current assets		138,471	135,219
Short-term bank deposits		560,854	724,261
Cash and cash equivalents		1,927,796	1,548,130
		5,604,614	4,858,085
Total assets		7,054,348	6,203,281
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	1,280,784	1,280,784
Reserves		2,926,759	2,688,518
		4,207,543	3,969,302
Non-controlling interests		1,310,330	1,193,734
Total equity		5,517,873	5,163,036

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

	Note	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings		492	470
Deferred income tax liabilities		6,741	7,267
Deferred income – government grants		87,620	86,254
		94,853	93,991
Current liabilities			
Trade and bills payables	15	506,907	376,176
Salary and welfare payables		20,926	22,693
Advances from customers		75,307	70,859
Amounts due to related parties	18(d)	58,173	48,864
Current income tax liabilities		102,506	49,746
Other payables		473,803	196,416
Borrowings		204,000	181,500
		1,441,622	946,254
Total liabilities		1,536,475	1,040,245
Total equity and liabilities		7,054,348	6,203,281



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)**

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Cash flows from operating activities:		
Cash generated from operations	388,295	290,824
Interest paid	(3,781)	(3,680)
Income tax paid	(65,507)	(47,129)
Net cash generated from operating activities	319,007	240,015
Cash flows from investing activities:		
Purchases of property, plant and equipment	(116,022)	(65,120)
Purchases of land use rights	(914)	–
Purchases of other long-term assets	(252)	–
Proceeds from government grants relating to property, plant and equipment	3,860	–
Proceeds from disposal of property, plant and equipment	688	–
Proceeds from short-term bank deposits	724,261	376,200
Increase in short-term bank deposits	(560,854)	(533,668)
Increase in structured deposits	(5,000)	(15,000)
Proceeds from structured deposits	15,000	25,000
Net cash inflow for acquisition of a subsidiary	–	2,534
Disposal of partial interests in a subsidiary	–	814
Interest received	16,146	13,658
Payment for business combination under common control	(13,500)	–
Cash paid for investment	(8,700)	(3,148)
Net cash generated from/(used in) investing activities	54,713	(198,730)
Cash flows from financing activities:		
Proceeds from short-term borrowings	115,000	115,184
Repayments of short-term borrowings	(92,500)	(53,184)
Proceeds from long-term borrowings	–	3,454
Capital injection from non-controlling interests	23,000	–
Dividends paid to non-controlling interests	(72,821)	(41,090)
Net cash (used in)/generated from financing activities	(27,321)	24,364
Net increase in cash and cash equivalents	346,399	65,649
Cash and cash equivalents at beginning of the period	1,548,130	1,785,571
Exchange gains/(losses) on cash and cash equivalents	33,267	(3,019)
Cash and cash equivalents at end of the period	1,927,796	1,848,201

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 ¹		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 31 December 2015, as previously stated	1,280,784	414,100	339,613	45,455	102,043	(1,558)	156,798	1,621,066	3,958,301	1,193,734	5,152,035
Adoption of merger accounting (Note 19)	-	630	-	-	-	-	-	10,371	11,001	-	11,001
Balance as of 1 January 2016, as restated	1,280,784	414,730	339,613	45,455	102,043	(1,558)	156,798	1,631,437	3,969,302	1,193,734	5,163,036
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	429,850	429,850	141,447	571,297
Foreign currency translation differences											
- Group	-	-	-	-	-	13,056	-	-	13,056	24,970	38,026
- Joint ventures and associates	-	-	-	-	-	900	-	-	900	-	900
Transactions with owners in their capacity as owners											
Dividends paid to shareholders of the Company relating to 2015	-	-	-	-	-	-	-	(192,118)	(192,118)	-	(192,118)
Dividends paid to non-controlling interests relating to 2015	-	-	-	-	-	-	-	-	-	(72,821)	(72,821)
Capitalisation of earnings upon reform of Tong Ren Tang Second ² Traditional Chinese Medicine Hospital	-	10,371	-	-	-	-	-	(10,371)	-	-	-
Payment for business combination under common control (Note 19)	-	(13,500)	-	-	-	-	-	-	(13,500)	-	(13,500)
Capital contribution to the newly formed subsidiaries	-	-	-	-	-	-	-	-	-	23,000	23,000
Others	-	-	-	-	-	-	53	-	53	-	53
Balance as of 30 June 2016	1,280,784	411,601	339,613	45,455	102,043	12,398	156,851	1,858,798	4,207,543	1,310,330	5,517,873



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONT'D)

	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		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance as of 31 December 2014, as previously stated	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
Adoption of merger accounting (Note 19)	-	630	-	-	-	-	-	9,820	10,450	-	10,450
Balance as of 1 January 2015, as restated	1,280,784	414,730	294,709	45,455	102,043	(31,349)	139,047	1,314,619	3,560,038	886,566	4,446,604
Comprehensive income											
Profit for the period	-	-	-	-	-	-	-	361,276	361,276	101,971	463,247
Foreign currency translation differences											
- Group	-	-	-	-	-	(1,225)	-	-	(1,225)	(4,803)	(6,028)
- Joint ventures	-	-	-	-	-	(761)	-	-	(761)	-	(761)
Transactions with owners in their capacity as owners											
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											
- 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	414,730	294,709	45,455	102,043	(33,335)	156,799	1,496,585	3,757,770	998,679	4,756,449

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 26 August 2016.

The condensed consolidated interim financial information has not been audited.

2. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2016 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 2015, 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 2015, 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 mandatory for the financial year beginning on or after 1 January 2016:

Annual Improvements Project Amendments to IAS 16 and IAS 38	Annual Improvements 2012 – 2014 Cycle Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
IFRS 14	Regulatory Deferral Accounts
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
Amendments to IAS 1	Disclosure initiative

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 2017 or later periods, but have not been early adopted by the Group.

IAS 12	Income taxes ⁽¹⁾
IAS 7	Statement of cash flows ⁽¹⁾
IFRS 15	Revenue from Contracts with Customers ⁽²⁾
IFRS 9	Financial Instruments ⁽²⁾
IFRS 16	Leases ⁽³⁾
IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁽⁴⁾

- ⁽¹⁾ Effective for the accounting period beginning on 1 January 2017
- ⁽²⁾ Effective for the accounting period beginning on 1 January 2018
- ⁽³⁾ Effective for the accounting period beginning on 1 January 2019
- ⁽⁴⁾ No mandatory effective date yet determined

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.

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 2015.

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 2015.

There have been no changes in any risk management policies since year end of 2015.

6. Revenue

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Sales of Chinese medicine products		
– Mainland China	2,320,681	1,992,518
– Outside Mainland China	347,700	326,849
	2,668,381	2,319,367
Advertising services		
– Mainland China	23,653	15,884
Chinese medical consultation services		
– Outside Mainland China	15,286	12,839
Royalty fee		
– Outside Mainland China	356	277
	2,707,676	2,348,367



7. Finance Income and Costs

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Finance income		
Interest income	16,146	13,658
Exchange gains	1,268	–
	17,414	13,658
Finance costs		
Interest on bank borrowings	(3,781)	(3,680)
Exchange losses	–	(263)
	(3,781)	(3,943)
Finance income, net	13,633	9,715

8. Expense by Nature

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Depreciation of property, plant and equipment	36,438	33,267
Amortisation of prepaid operating lease payments	1,625	1,589
Amortisation of other long-term assets	1,368	402
Provision for impairment of inventories	4,811	3,695
Provision for/(reversal of provision for) impairment of receivables	115	(92)
Loss on disposal of property, plant and equipment	90	67

9. Income Tax Expense

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25%. As of 30 June 2016 and 2015, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company used as of 30 June 2016 is 15% (corresponding period in 2015: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (corresponding period in 2015: 16.5%) on the estimated assessable profit for the six months ended 30 June 2016.

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	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Current income tax expense		
– Mainland China	78,272	68,116
– Hong Kong	37,735	26,372
– Overseas	2,281	2,362
	118,288	96,850
Deferred income tax credit	(3,383)	(2,725)
	114,905	94,125



10. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB429,850,000 by the weighted average number of 1,280,784,000 shares in issue during the period.

The Company had no dilutive potential shares for the six months ended 30 June 2016 and 2015.

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000 (Restated)
Profit attributable to owners of the Company	429,850	361,276
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	0.34	0.28

11. Dividends

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

On 18 March 2016, the Board proposed a cash dividend in respect of the year ended 31 December 2015 of RMB0.15 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB192,117,600, which has been approved by the shareholders at the 2015 annual general meeting of the Company held on 16 June 2016. These dividends have been paid on 15 August 2016.

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

For the six months ended 30 June 2016, the additions to leasehold land and land use rights of the Group was approximately RMB625,000 (corresponding period in 2015: Nil).

For the six months ended 30 June 2016, the additions to property, plant and equipment of the Group was approximately RMB125,911,000 (corresponding period in 2015: RMB56,510,000 (Restated)).

13. Trade and Bills Receivables

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Trade receivables	395,336	283,296
Bills receivables	526,374	116,329
	921,710	399,625
Less: provision for impairment of receivables	(21,442)	(21,332)
Trade and bills receivables, net	900,268	378,293

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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Within 4 months	888,237	356,298
Over 4 months but within 1 year	22,809	32,063
Over 1 year but within 2 years	2,202	5,742
Over 2 years but within 3 years	3,014	211
Over 3 years	5,448	5,311
	921,710	399,625

14. Share Capital

	30 June 2016 (Unaudited)		31 December 2015 (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 and Bills Payables

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Within 4 months	482,207	352,129
Over 4 months but within 1 year	17,571	21,512
Over 1 year but within 2 years	6,429	2,532
Over 2 years but within 3 years	697	–
Over 3 years	3	3
	506,907	376,176

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 (“**The Company**” Segment), and (ii) Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) (“**Tong Ren Tang Chinese Medicine**”) engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside Mainland China and wholesale of healthcare products in Mainland China (“**Tong Ren Tang Chinese Medicine**” Segment).

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 2016 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	2,037,010	456,160	550,589	3,043,759
Inter-segment revenue	(12,579)	-	(323,504)	(336,083)
Revenue from external customers	2,024,431	456,160	227,085	2,707,676
Profit after income tax	326,969	201,209	43,119	571,297
Interest income	12,418	3,126	602	16,146
Interest expenses	(2,636)	(15)	(1,130)	(3,781)
Depreciation of property, plant and equipment	(16,921)	(9,492)	(10,025)	(36,438)
Amortisation of prepaid operating lease payments	(1,050)	(228)	(347)	(1,625)
Provision for impairment of inventories	(4,811)	-	-	(4,811)
Provision for impairment of receivables	(115)	-	-	(115)
Income tax expense	(56,488)	(41,786)	(16,631)	(114,905)
Segment assets and liabilities				
Total assets	4,176,477	1,853,174	1,024,697	7,054,348
Investments accounted for using the equity method	10,569	18,982	-	29,551
Additions to non-current assets (other than deferred tax assets)	58,532	7,488	60,409	126,429
Total liabilities	987,791	111,702	436,982	1,536,475



16. Segment Information (Cont'd)

The segment information for the six months ended 30 June 2015 is as follows:

(Unaudited)(Restated)	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	367,905	2,545,219
Inter-segment revenue	(8,272)	-	(188,580)	(196,852)
Revenue from external customers	1,785,940	383,102	179,325	2,348,367
Profit after income tax	297,369	144,509	21,369	463,247
Interest income	8,640	4,372	646	13,658
Interest expenses	(3,086)	(106)	(488)	(3,680)
Depreciation of property, plant and equipment	(15,562)	(8,230)	(9,475)	(33,267)
Amortisation 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)	(10,626)	(94,125)

The segment assets and liabilities as at 31 December 2015 are as follows:

(Audited)(Restated)	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	3,730,543	1,698,168	774,570	6,203,281
Investments accounted for using the equity method	2,000	19,339	-	21,339
Additions to non-current assets (other than deferred tax assets)	113,309	74,008	82,494	269,811
Total liabilities	691,174	98,842	250,229	1,040,245

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 medicine 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 RMB1,108,802,000 (31 December 2015: RMB1,010,849,000 (Restated)), and the total of these non-current assets located in other countries and regions is RMB308,931,000 (31 December 2015: RMB305,182,000).

During the six months ended 30 June 2016, revenue from two customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to The Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	For the six months ended 30 June 2016 RMB'000
Entities under control of ultimate holding company	392,094
Customer A	551,849
	943,943

17. Commitments

(a) Capital commitments

As of 30 June 2016, the Group had capital commitments of RMB242,096,000 which were not provided but had been contracted for in the unaudited consolidated financial statements of the Group (31 December 2015: RMB156,650,000 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
No later than 1 year	62,701	52,494
Later than 1 year and not later than 5 years	71,197	66,511
Later than 5 years	6,722	2,743
	140,620	121,748



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	
	2016 (Unaudited) RMB'000	2015 (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 license 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 license agreement is effective from 1 March 2013 to 28 February 2018. Upon the expiration of the license, 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 license shall not be shorter than 5 years. The parties are entitled to adjust the annual license 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	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	412,615	324,725
Purchases of Chinese medicine related products (Note (ii))	57,459	62,062
Sole overseas exclusive distributorship (Note(iii))	17,151	19,801
Research and development expense (Note (iv))	-	2,792
Advertising services income (Note (v))	23,640	15,875
Rental expense	758	-

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.
- (ii) The Company renewed 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 no 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. No such expenses were incurred for the six months ended 30 June 2016.
- (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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Amounts due from related parties:		
Subsidiaries and joint ventures of the ultimate holding company	116,289	76,111
Other state-owned enterprises	55,375	34,922
	171,664	111,033
Amounts due to related parties:		
Subsidiaries and joint ventures of the ultimate holding company	36,127	31,044
Other state-owned enterprises	22,046	17,820
	58,173	48,864
Borrowings from a related party:		
Ultimate holding company	32,000	32,000

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

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Within 4 months	120,871	87,190
Over 4 months but within 1 year	48,337	20,811
Over 1 year	2,456	3,032
	171,664	111,033

18. Related Party Transactions (Cont'd)

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

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000 (Restated)
Within 4 months	46,817	37,722
Over 4 months but within 1 year	10,391	9,394
Over 1 year	965	1,748
	58,173	48,864

19. Business Combination under Common Control

On 30 March 2016, the Company entered into the equity trading agreement with Tong Ren Tang Holdings in respect of the acquisition of 100% equity interest in Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. ("Tong Ren Tang Second Traditional Chinese Medicine Hospital") at a cash consideration of RMB13,500,000.

As the Company and Tong Ren Tang Second Traditional Chinese Medicine Hospital are under common control of Tong Ren Tang Holdings before and after the business combination, the Company applies the principles of merging accounting in preparing the condensed consolidated financial information.

Effects for common control combination of the acquired subsidiary on the consolidated balance sheets as at 30 June 2016 and 31 December 2015 and the Group's results for the six months ended 30 June 2016 and 30 June 2015 are as follows:

	The Group before acquired business RMB'000	Acquired subsidiary RMB'000	Adjustments ⁽⁶⁾ RMB'000	The Group after acquired business RMB'000
Period ended 30 June 2016				
Revenue	2,663,870	78,947	(35,141)	2,707,676
Profit before income tax	685,493	709	-	686,202
Profit for the period	570,643	654	-	571,297
As at 30 June 2016				
ASSETS				
Non-current assets	1,446,685	3,049	-	1,449,734
Current assets	5,585,019	19,595	-	5,604,614
Total assets	7,031,704	22,644	-	7,054,348



19. Business Combination under Common Control (Cont'd)

	The Group before acquired business RMB'000	Acquired subsidiary RMB'000	Adjustments ⁽ⁱ⁾ RMB'000	The Group after acquired business RMB'000
EQUITY				
Equity attributable to owners of the Company				
Share capital	1,280,784	10,493	(10,493)	1,280,784
Reserves	2,915,051	1,215	10,493	2,926,759
	4,195,835	11,708	-	4,207,543
Non-controlling interests	1,310,330	-	-	1,310,330
Total equity	5,506,165	11,708	-	5,517,873
LIABILITIES				
Non-current liabilities	94,853	-	-	94,853
Current liabilities	1,430,686	10,936	-	1,441,622
Total liabilities	1,525,539	10,936	-	1,536,475
Total equity and liabilities	7,031,704	22,644	-	7,054,348
	As previously stated RMB'000	Acquired subsidiary RMB'000	Adjustments ⁽ⁱ⁾ RMB'000	As restated RMB'000
Period ended 30 June 2015				
Revenue	2,312,935	65,992	(30,560)	2,348,367
Profit before income tax	556,739	633	-	557,372
Profit for the period	462,779	468	-	463,247

19. Business Combination under Common Control (Cont'd)

	As previously stated RMB'000	Acquired subsidiary RMB'000	Adjustments ⁽ⁱ⁾ RMB'000	As restated RMB'000
As at 31 December 2015				
ASSETS				
Non-current assets	1,341,816	3,380	–	1,345,196
Current assets	4,840,437	17,648	–	4,858,085
Total assets	6,182,253	21,028	–	6,203,281
EQUITY				
Equity attributable to owners of the Company				
Share capital	1,280,784	630	(630)	1,280,784
Reserves	2,677,517	10,371	630	2,688,518
	3,958,301	11,001	–	3,969,302
Non-controlling interests	1,193,734	–	–	1,193,734
Total equity	5,152,035	11,001	–	5,163,036
LIABILITIES				
Non-current liabilities	93,991	–	–	93,991
Current liabilities	936,227	10,027	–	946,254
Total liabilities	1,030,218	10,027	–	1,040,245
Total equity and liabilities	6,182,253	21,028	–	6,203,281

Note:

- (i) Adjustments to eliminate the investment costs and share capitals of the acquired business against reserves.

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

20. Event after the Balance Sheet Date

On 1 August 2016, the Company completed the issuance of bonds on Shanghai Stock Exchange with aggregate principal amount of RMB800 million which are unsecured, bear interests at 2.95% per annum and with a maturity of five years.

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2016 (corresponding period in 2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, consumers' robust demand for high quality healthcare products grew amid increasing popularity of natural and healthy lifestyle in the public and rising number of sub-health group. In the first half of 2016, Chinese patent medicine continued to be our principal business. We focused on continuous and stable growth of Chinese patent medicine while stepping up development of our food, cosmetics and other healthcare products business. For the six months ended 30 June 2016, the Group's sales revenue amounted to RMB2,707,676,000, representing an increase of 15.30% as compared with RMB2,348,367,000 (Restated) for the corresponding period of 2015; net profit attributable to the owners of the Company amounted to RMB429,850,000, representing an increase of 18.98% as compared with RMB361,276,000 (Restated) for the corresponding period of 2015.

For the six months ended 30 June 2016, results of major subsidiaries of the Group are as follows:

The sales revenue and net profit of Tong Ren Tang Chinese Medicine¹ and its subsidiaries were RMB456,160,000 and RMB201,209,000, respectively, representing an increase of 19.07% and 39.24% as compared with the corresponding period of 2015, respectively;

The sales revenue and net profit of Beijing Tong Ren Tang WM Dianorm Biotech Co., ("Tong Ren Tang WM")² were RMB77,256,000 and RMB9,075,000, respectively, representing an increase of 20.22% and 14.54% as compared with the corresponding period of 2015, respectively;

The sales revenue and net profit of Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co. Limited ("Nansanhuan Zhonglu Drugstore")³ were RMB50,132,000 and RMB3,189,000, respectively, representing an increase of 6.86% and 14.84% as compared with the corresponding period of 2015, respectively.

The sales revenue and net profit of Beijing Tong Ren Tang Xing An Meng Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Xing An Meng")⁴ were RMB17,125,000 and RMB662,000, respectively, representing a decrease of 27.62% and 33.60% as compared with the corresponding period of 2015, respectively;

1. Tong Ren Tang Chinese Medicine is principally engaged in the manufacturing, retail and wholesale of Chinese medicine products and healthcare products, as well as the provision of Chinese medical consultation and treatments.
2. Tong Ren Tang WM is principally engaged in research and development as well as sales of biological products, cosmetics products and other products.
3. Nansanhuan Zhonglu Drugstore is a retail drugstore invested and established by the Company in Mainland China, principally engaged in sales of medicine, Chinese and Western patent medicines, Shen Rong and medicinal materials, medical instruments and other products of almost 1000 varieties.
4. Tong Ren Tang Xing An Meng is principally engaged in cultivating, purchasing and selling of Chinese medicinal raw materials; production and selling of tea drinks product series and foot care product series.

Sales

In the first half of 2016, with the deepening reform of medical and health system in the PRC and the introduction of a series of new industry policies, pharmaceutical enterprises confronted with new challenges. For the long term, market order of the pharmaceutical industry will be further regulated, bringing new opportunities to the Company. During the Reporting Period, the Company focused on the development of Chinese medicinal products by taking advantage of the competitive edges of our products, targeting at niche market and further establishing the differentiated market positioning of the products. The Company enhanced the development of main products such as the Liuwei Dihuang Pills (六味地黄丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series and Ejiao (阿膠) series. By strengthening the strategic co-operation with major distributors and stepping up control of product price, distribution channels and end market activities, the Company can leverage driving force to the development of second-tier products from sales of main products. Meanwhile, with the help of premium channel resources from retail chain enterprises and its sound and large end sales channel, the Company strategically meets the end user's demand with our product resources so as to further realize the potential and influence of our products in the end market by way of product range strategies, marketing methods and channel establishment. Therefore, the Company can strengthen the connection and interaction of our products with end customers and raise the sales of end market to achieve long-term development of the Company's products.

In respect of Ejiao (阿膠), the Company continued to enrich the Ejiao (阿膠) product series, such as Ejiao powder (阿膠粉), Ejiao cake (阿膠糕), Ejiao honey (阿膠蜂蜜), on a market demand-driven basis, which in turn promoted overall development of the Ejiao (阿膠) series. For channel establishment, the Company continued to use the combined model of online and offline channels, with Ejiao Fang (阿膠坊) as priority development in which quality retail shops will be created for customers to better experience the quality Ejiao (阿膠) series by offering a great variety of products. On the other hand, through the support of internet including domestic well-know online shopping sites such as TMALL.com, JD.com and Amazon.com.cn, on which Ejiao (阿膠) series will be the main push, the Company can further explore the potential customer group and enhance our communication and interaction with customers. By putting more efforts in channel establishment and expansion of market coverage for greater sale of the Ejiao (阿膠) series, the Company can steadily upgrade the Ejiao (阿膠) series' market influence and competitiveness.

During the Reporting Period, the scale of the Group's product portfolio was further enlarged, of which twenty kinds of products achieved a sales amount of more than RMB10 million and twenty-two kinds of products recorded a sales amount in the range from RMB5 million to RMB10 million. Among the major products of the Group, the sales amount of Ejiao (阿膠) series products, Liuwei Dihuang Pills (六味地黄丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series, Niu Huang Jiedu Tablets (牛黃解毒片) series, Xihuang Pills (西黃丸) series and Ganmao Qingre Granules (感冒清熱顆粒) series increased by 11.65%, 13.56%, 43.12%, 23.81%, 22.39% and 19.49% as compared with the corresponding period of 2015, respectively. Other products with obvious increase in sales amounts include Jiawei Xiaoyao Pills (加味逍遙丸) series, Niu Huang Jiangya Pills (牛黃降壓丸) series and etc., each of which realised a year-on-year growth of more than 20%.



Tong Ren Tang WM always focuses on the inheritance and innovation of Chinese medicine while maintaining development of cosmetics and daily health products. During the Reporting Period, Tong Ren Tang WM had series products including facial and eye masks, lotion and cream, oral care product, shampoo and hair conditioner as main product lines, with selected products of removing acne and water replenishment, masks for skin firmness and vitality, gel for removing acne and skin moisture and vitality as the main new release in the first half of 2016. By integrating product characteristics with herbal principles, seasonality and market demand, the Group continued to upgrade our product structure. Meanwhile, the Group enhanced the development and establishment of the Dianorm exclusive counters, organised abundant nationwide promotional activities by capturing the opportunities of holidays to raise market influence of our brands and products and drive sales amount. In respect of new products, Tong Ren Tang WM launched shampoo and conditioner products including Hair Nourishing and Antidandruff Shampoo (根源淨養去屑調理洗髮露) and Hair Nourishing and Multi-function Shampoo (根源禦養多效修護洗髮露) in the first half of 2016.

Tong Ren Tang Xing An Meng continued the production and sales of foot pads, drinks, gel-patches series products as its main business, promoting the traditional Chinese health concepts of “integration of nursery and nourishment”. In the first half of 2016, addressing the market demand, Tong Ren Tang Xing An Meng leveraged on the combined advantages of wider customer coverage and deeper market influence by channels of retail outlets and supermarkets in order to develop Beijing dominated market and explore the development of channels of retail outlets and supermarkets. As of 30 June 2016, some of Tong Ren Tang Xing AnMeng’s drink products were available on the shelf of big supermarket chains in Beijing such as “Yonghui Superstores”, “WUMART” and “CSF Market”, helped raising the market awareness of our products.

Six subsidiaries producing Chinese medicinal raw materials strictly follow the planting and harvesting approach specific to places of origin and seasons, to provide the Company with various Chinese medicinal raw materials including cornel (山茱萸), Tuckahoe (茯苓), Cortex Moutan (牡丹皮) and therefore the quality of Chinese medicinal materials of origin place is ensured. During the Reporting Period, Tong Ren Tang Anhui continued to enhance its efforts in the development of deep processed products and by-products of Chinese medicinal raw materials of origin place. Its project of fat and oil products entered the stage of infrastructure construction, laying a solid foundation for subsequent development of fat and oil products. Other subsidiaries made full use of local medicinal raw materials and strictly adhered to the planting principle of the specific features of our local markets to commence the plantation of various additional new Chinese medicinal raw materials including corydalis tuber (元胡) and drying rehmannia root (地黃) so that the Group can further expand the types of plantation and optimise the layout and structure of plantation to meet part of our needs for medicinal raw materials.

Production

In the first half of 2016, the Company conducted reasonable production allocation based on the principle of “Guarantee Supply, Expand Scale, Improve Efficiency and Lower Cost” to ensure stable supply. The Company continuously organised production on a demand-driven basis. Production management department formulated production plan based on sales target of various products and seasonal delivery status determined by the operational department after taking into account the production capacity of various products. In accordance with production plans and progress requirements, each sub-plant deployed resources scientifically, accurately and flexibly to ensure smooth, efficient production process so as to meet market demand.

During the Reporting Period, the construction of Da Xing Production Base (“**Da Xing Base**”) of the Company located in Da Xing Bio-Pharm Industrial Base at Zhongguancun-Technology Park District, Beijing progressed steadily with the expected total investment of RMB795 million. As of 30 June 2016, the Company has made capital investment of RMB245 million in Da Xing Base. The construction of the R&D center, the honeyed pills workshop, solid dosage workshop of Da Xing Base was completed. The internal decoration will be started in the second half of 2016 and is expected to complete next year.

Tong Ren Tang Technologies (Tangshan) Co. Ltd. (“**Tong Ren Tang Technologies Tangshan**”) in Yutian County, Tangshan City, Hebei Province is mainly engaged in production of Chinese medicine products, including Chinese medicine extraction. It will be another production base of the Company for Chinese medicine products, in which Chinese medicine extraction workshop and liquid dosage workshop will be constructed. As of 30 June 2016, the Company has made capital investment of RMB88.32 million. Currently, the main structure of Chinese medicine extraction workshop has been capped.

Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. (“**Tong Ren Tang Tangshan**”) is principally engaged in production of glue product series. During the Reporting Period, Tong Ren Tang Tangshan strictly adhered to the production philosophy of Tong Ren Tang of “Quality is the mission to pursue excellence”. With this philosophy, the Company continued to promote risk prevention awareness during quality management process, fully identify and mitigate risk factors and enhance supervision in the production process, for raw material of donkey skin. The Company designed specific staff in a specific post to conduct examination and strict supervision to ensure the traceability of each donkey skin and its quality. During the Reporting Period, food production workshop of Tong Ren Tang Tangshan obtained QS certification (Quality Standard on Food Production) and commenced production. Currently, it is mainly engaged in production of edible Ejiao (阿膠) in form of piece, powder and cake. The operation of food workshop will further upgrade supply capacity of Ejiao series food.

Management and Research & Development

In the first half of 2016, the Company improved its scientific and effective assessment method for the selection, cultivation and encouragement of talents. In selecting and cultivating sales staff, the Company proactively implemented a localisation strategy by fully utilising the resource superiority in the target market as to effectively integrate into the target market, which in turn provided more room for market development. The Company also reallocated roles and positions of staff in accordance with their functions and departments to optimise the staff management system and reasonably allocate its human resources, hence enhanced the efficiency and level of management.

In the first half of 2016, the Company strictly followed the Good Manufacturing Practice (“**GMP**”) requirements on production to ensure the quality of its medicine products through the establishment of a complete production management system and operation procedure, while it also kept enhancing the level of scientific management of the production of its medicine products to further improve the standardisation of management. As at 30 June 2016, all production lines and forms of medicine of the Company had passed the GMP certification, among which three forms of medicine including pills, tablets and granules had passed the Therapeutic Goods Administration (“**TGA**”) in Australia.

In terms of research and development, in the first half of 2016, the Company continued to launch research on various aspects such as product development and follow-up scientific research. For the development of food, the Company stuck to the idea of “homology of medicine and food” and proactively developed new healthcare products to satisfy the market demand. Meanwhile, the Company carried out deep development on Moutan (牡丹) by-products, designed and developed a series of food products, taking advantage of its nutritional richness, to raise additional value to the products. For follow-up scientific research, the Company made full use of the benefit of Chinese medicine to address both the symptoms and root causes, together with the clinical demand to unearth the new clinical value of the existing species on common and frequently occurring diseases, aiming to create more room for the development of its products by expanding the therapeutic scope.

Tong Ren Tang Chinese Medicine

As an overseas development platform of the “Tong Ren Tang” brand, Tong Ren Tang Chinese Medicine has been focusing on promoting the culture of Chinese medical treatment and remedies globally since its establishment, in order to build a healthcare brand representing the outstanding traditional Chinese culture and covering the whole industry chain. During the Reporting Period, Tong Ren Tang Chinese Medicine continued to take Hong Kong as its hub and spread forth its local success to speed up the globalisation process. In the first half of 2016, Tong Ren Tang Chinese Medicine further extended its Chinese medical services in North America by opening its first healthcare center in Vancouver, Canada to provide local public with Chinese medicine healthcare services.

As at 30 June 2016, Tong Ren Tang Chinese Medicine and its subsidiaries (“**Tong Ren Tang Chinese Medicine Group**”) had expanded their business to Asia, Europe, Oceania and America, and had established 62 retail stores in 18 countries and regions outside Mainland China, hence further expanded the overseas sales network of the Group and gradually increased the market share.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of 3,904 employees (31 December 2015: 3,766 employees), of which 2,088 were employees of the Company (31 December 2015: 2,086 employees). The Company provides skill training, career planning and development opportunities to the staff as well as humanistic cares to each employee, seeking to create a platform for mutual growth and sharing of success between the Company and 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 of 2015, 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 were cash generated from daily operating activities and bank loans.

As at 30 June 2016, the Group's cash and cash equivalents amounted to RMB1,927,796,000 (31 December 2015: RMB1,548,130,000 (Restated)) in total; short-term bank borrowings of the Group amounted to RMB204,000,000 (31 December 2015: RMB181,500,000), of which RMB2,000,000 will be due on 31 July 2016, RMB50,000,000 will be due on 27 September 2016, RMB5,000,000 will be due on 25 October 2016, RMB32,000,000 will be due on 3 November 2016, RMB30,000,000 will be due on 17 March 2017, RMB50,000,000 will be due on 20 June 2017, RMB30,000,000 will be due on 26 June 2017 and RMB5,000,000 will be due on 27 June 2017, carrying an interest rate of 4.211% per annum (2015: 4.869% per annum); and long-term bank borrowings amounted to RMB492,000 (31 December 2015: RMB470,000), bearing interest at 1.5% plus the bank bill rate of the day in Australia (2015: at 1.5% plus the bank bill rate of the day in Australia).

As at 30 June 2016, total assets of the Group amounted to RMB7,054,348,000 (31 December 2015: RMB6,203,281,000 (Restated)). The funds comprised non-current liabilities of RMB94,853,000 (31 December 2015: RMB93,991,000), current liabilities of RMB1,441,622,000 (31 December 2015: RMB946,254,000 (Restated)); equity attributable to owners of the Company of RMB4,207,543,000 (31 December 2015: RMB3,969,302,000 (Restated)) and non-controlling interests of RMB1,310,330,000 (31 December 2015: RMB1,193,734,000).

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 2016, the Group's funds were mainly used for production and operating 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 2016, the Group's gearing ratio, defined as the ratio of total borrowings divided by equity attributable to the owners of the Company, was 0.05 (31 December 2015: 0.05 (Restated)); and the liquidity ratio of the Group, represented by a ratio of current assets divided by current liabilities, was 3.89 (31 December 2015: 5.13 (Restated)), which reflects the abundance of financial resources of the Group.

Charges over Assets of the Group

At 30 June 2016, the Group's net property value of RMB10,366,000 has been pledged as security for long-term bank borrowing (31 December 2015: the Group's assets, being RMB2,228,000 and RMB10,270,000, were pledged as security for short-term borrowing of RMB1,500,000 and as security for long-term borrowing of RMB470,000, respectively).

Contingent Liabilities

As at 30 June 2016, the Group had no contingent liabilities (31 December 2015: Nil).

Foreign Exchange Risk

The Group operates internationally and foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to HKD. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange 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 RMB931,740,000. 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 2016, the actual use of proceeds from the aforesaid placing of approximately RMB909,740,000 (31 December 2015: RMB909,740,000) 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 RMB123,650,000 were used for daily operating expenses; and
7. approximately RMB99,920,000 were used for distribution of H share dividends.

As at 30 June 2016, approximately RMB22,000,000 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, Associates and Joint Ventures

During the Reporting Period, the Group did not have any material acquisition/disposal of subsidiaries, associates and joint ventures.

Other Event

On 30 March 2016, the Company entered into the equity trading agreement with Tong Ren Tang Holdings, pursuant to which the Company has agreed to acquire and Tong Ren Tang Holdings has agreed to sell 100% equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a consideration of RMB13.50 million. The transaction has been approved by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. For detailed information, please refer to the announcements of the Company dated 30 March 2016 and 7 June 2016 published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tongrentangkj.com).

Prospects

In the second half of 2016, as both the consumption level of residents and consumers' acceptance of Chinese patent medicine and health products have gradually increased, the growth potential of the Chinese medicine industry will be even bigger. However, the reformation of the medical and health system and fluctuation of raw material prices will as well stir up competition in the industry. The Company will fully utilise its superiority in its brand and quality to increase the attractiveness of its products to consumers, lead and spur demand of consumers and hence increase the sales of products. In addition, the Company will continue to focus on its Chinese patent medicine business and take the development and potential development of the existing species and resources as growth points to create a ladder structure of the product group; implement an integrated plan in accordance with the structure of resources of the existing species to optimise and upgrade the structure of products; raise the awareness of products in the market and enhance the overall profitability.

In respect of the management of subsidiaries, the Company will combine cultivation and development with the strengthening supervision and continue to deepen its exploration in food and cosmetics based on the existing species and resources, as well as increase market acceptance of the brand and products by launching new products. By widening the variety and scale of products in the healthcare category, the Group will achieve external expansion and development and, subsequently, its sustainable and stable growth as a whole. Meanwhile, the Company will make use of the resources of Tong Ren Tang Second Traditional Chinese Medicine Hospital with the Chinese medicine culture and "Tong Ren Tang" features, leveraging on the combination of medical treatment and medical remedies to have complementary advantages with Nansanhuan Zhonglu Drugstore, uphold the principle of famous doctors, well-known brand and illustrious medicine, and hence achieve mutual development in both Chinese medical treatment and Chinese medical remedies.



OTHER INFORMATION

Corporate Governance Code

For the six months ended 30 June 2016, 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 the Corporate Governance 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 2016.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving its strategic goals, ensuring that the Company has established and maintained appropriate and effective risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Company has established its risk management and internal control system and issued the relevant reports with reference to certain documents, including the Basic Standard for Corporate Internal Control, the Guidelines for Corporate Internal Control Assessment, the Rules for the Preparation and Reporting of Information Disclosure by Listed Issuers of Securities No. 21 – General Provisions on the Annual Internal Control Assessment Report and the Internal Control Evaluation Manual.

Duties in respect of risk management of the Company are taken by the audit committee of the Company (“**Audit Committee**”), which is responsible for the supervision of relevant risk management system to make sure that the system conforms to the strategies and risk tolerance of the Company.

The Company has established its internal audit function. The dedicated internal audit department conducts regular and independent reviews on the operation of each of the department of the Group, thereby identifying any non-compliance activities and risks, and makes relevant recommendations to address the identified risks. In addition, it explains any material findings as well as the process and results of internal audit to the Audit Committee in separate reports. During the Reporting Period, the Company further defined the concept and particulars related to risk management in writing and formed the risk management and internal control team for division of labor and functions.

Audit Committee

The Audit Committee 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 2016 and discussed relevant internal audit, risk management and internal control matters.

Subsequent Events

On 1 August 2016, the Company completed the issuance of bonds on the Shanghai Stock Exchange. The final issue size is RMB800 million and the issue of the corporate bonds is free of guaranty. The coupon rate is 2.95% per annum and the maturity of the bonds is five years, with the options to adjust coupon rate of the bonds by the issuer and to sell back bonds by investors at the end of the third year. The proceeds from issuance will be used to adjust the Company's debt structure and replenish the Company's general working capital. For details of the issuance, please refer to the announcements of the Group dated 28 July 2016 and 2 August 2016 published on the websites of the Shanghai Stock Exchange (www.sse.com.cn), the Stock Exchange (www.hkexnews.hk) and the Company (www.tongrentangkj.com).

Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, 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

Tong Ren Tang Ltd.

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

Note 1: All represented A shares.

Save as disclosed above, as at 30 June 2016, 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 2016, 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	76,034,000(L) (Note 1)	-	12.094%	5.937%
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%
Aberdeen Asset Management Plc and its Associates on Behalf of Accounts Managed by them (Note 7)	Investment manager	41,482,000(L) (Note 1)	-	6.598%	3.239%
Citigroup Inc. (Note 8)	Interest of corporation controlled by the substantial shareholder, Person having a security interest in shares, Custodian corporation/ approved lending agent	34,043,933(L) (Note 1)	-	5.415%	2.658%
		16,556,933(P) (Note 1)	-	2.633%	1.293%

Notes:

- (1) (L) – Long position (S) – Short position (P) – Lending Pool
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd.. As at 30 June 2016, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 30 June 2016, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 30 June 2016, Tong Ren Tang Holdings also directly held 9,480,000 shares.
- (3) As was known to the Directors, on 23 June 2014, this shareholder held 18,360,000 H shares of the Company in long position. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 30 June 2016, this shareholder held 36,720,000 H shares of the Company in long position.
- (4) As at 30 June 2016, Commonwealth Bank of Australia indirectly held 76,034,000 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 2016, 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 in long position. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 30 June 2016, this shareholder held 46,182,000 H shares of the Company in long position.
- (7) As at 30 June 2016, Aberdeen Asset Management Plc and its associates on behalf of accounts managed by them, held 41,482,000 H shares of the Company in long position as investment manager. As was known to the Directors, on 12 July 2016, Aberdeen Asset Management Plc and its associates on behalf of accounts managed by them held 44,158,000 H shares of the Company in long position as investment manager.

- (8) As at 30 June 2016, Citigroup Inc. indirectly held 103,000 H shares of the Company in long position through a series of entities under its control, held 17,384,000 H shares of the Company in long position as a person holding security interest in shares, and held 16,556,933 H shares of the Company as custodian corporation/approved lending agent.

Save as disclosed above, as at 30 June 2016, 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 2016, 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 main 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 among 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 the 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 undertakings 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 undertakings 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 business;
- (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.