INTERIM REPORT 2017

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

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

同修仁德
濟世養生

趙樸初書

HIGHLIGHTS

- **For the six months ended 30 June 2017, the Group's revenue represents an increase of approximately 2.71% as compared with the corresponding period in 2016.**

- **For the six months ended 30 June 2017, profit attributable to the owners of the Company represents a decrease of approximately 3.25% as compared with the corresponding period in 2016.**

- **For the six months ended 30 June 2017, earnings per share attributable to the owners of the Company amounted to RMB0.32.**

- **The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2017.**

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 2017 (the "**Reporting Period**") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	For the six months ended 30 June **2017** **(Unaudited)** **RMB'000**	 2016 (Unaudited) RMB'000
Revenue	6	**2,781,110**	2,707,676
Cost of sales		**(1,347,033)**	(1,313,088)
Gross Profit		**1,434,077**	1,394,588
Distribution expenses		**(556,767)**	(551,122)
Administrative expenses		**(180,668)**	(169,509)
Operating profit		**696,642**	673,957
Finance income	7	**10,985**	17,414
Finance costs	7	**(11,541)**	(3,781)
Finance (costs)/income, net	7	**(556)**	13,633
Share of loss of investments accounted for using the equity method		**(59)**	(1,388)
Profit before income tax		**696,027**	686,202
Income tax expense	9	**(115,756)**	(114,905)
Profit for the period		**580,271**	571,297
Profit attributable to:			
Owners of the Company		**415,872**	429,850
Non-controlling interests		**164,399**	141,447
		580,271	571,297
Earnings per share for profit attributable to owners of the Company during the period – Basic and diluted	10	**RMB0.32**	RMB0.34

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	**580,271**	571,297
Other comprehensive income/(loss)		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets	**1,323**	–
Foreign currency translation differences		
– Group	**(54,001)**	38,026
– Joint ventures and associates	**(74)**	900
Other comprehensive (loss)/income for the period, net of tax	**(52,752)**	38,926
Total comprehensive income for the period	**527,519**	610,223
Attributable to:		
Owners of the Company	**395,638**	443,806
Non-controlling interests	**131,881**	166,417
Total comprehensive income for the period	**527,519**	610,223

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	**141,143**	143,102
Property, plant and equipment	12	**1,514,948**	1,374,169
Intangible assets		**78,977**	82,785
Investments accounted for using the equity method		**27,922**	28,068
Available-for-sale financial assets		**12,856**	11,908
Prepayments for purchases of non-current assets		**58,002**	33,805
Deferred income tax assets		**35,775**	38,199
		1,869,623	1,712,036
Current assets			
Inventories		**2,267,083**	2,206,330
Trade and bills receivables	13	**1,193,825**	792,498
Amounts due from related parties	18(d)	**232,280**	158,243
Prepayments and other current assets		**160,750**	127,151
Short-term bank deposits		**1,074,039**	855,798
Cash and cash equivalents		**2,135,112**	2,332,110
		7,063,089	6,472,130
Total assets		**8,932,712**	8,184,166
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	**1,280,784**	1,280,784
Reserves		**3,313,113**	3,122,400
		4,593,897	4,403,184
Non-controlling interests		**1,529,500**	1,481,924
Total equity		**6,123,397**	5,885,108

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

	Note	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**917,780**	917,549
Deferred income tax liabilities		**4,718**	5,321
Deferred income – government grants		**95,914**	75,932
		1,018,412	998,802
Current liabilities			
Trade and bills payables	15	**751,672**	597,129
Salary and welfare payables		**111,383**	30,214
Advances from customers		**42,609**	69,737
Amounts due to related parties	18(d)	**78,996**	57,813
Current income tax liabilities		**89,314**	43,118
Other payables		**509,629**	291,245
Borrowings		**207,300**	211,000
		1,790,903	1,300,256
Total liabilities		**2,809,315**	2,299,058
Total equity and liabilities		**8,932,712**	8,184,166

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	**446,952**	388,295
Interest paid	**(11,541)**	(3,781)
Income tax paid	**(67,881)**	(65,507)
Net cash generated from operating activities	**367,530**	319,007
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(188,238)**	(116,022)
Purchase of land use rights	**(30)**	(914)
Purchase of other long-term assets	**(1,989)**	(252)
Proceeds from government grants relating to property, plant and equipment	**19,903**	3,860
Proceeds from disposals of property, plant and equipment	**98**	688
Proceeds from short-term bank deposits	**813,643**	724,261
Increase in short-term bank deposits	**(1,061,481)**	(560,854)
Proceeds from wealth management products	**–**	15,000
Increase in wealth management products	**–**	(5,000)
Payment for business combination under common control	**–**	(13,500)
Investments in associates	**–**	(8,700)
Interest received	**9,893**	16,146
Others	**(19,050)**	–
Net cash (used in)/generated from investing activities	**(427,251)**	54,713
Cash flows from financing activities:		
Proceeds from borrowings	**142,300**	115,000
Repayments of borrowings	**(146,000)**	(92,500)
Capital injection from non-controlling interests	**10,279**	23,000
Dividends paid to non-controlling interests	**(94,584)**	(72,821)
Net cash used in financing activities	**(88,005)**	(27,321)
Net (decrease)/increase in cash and cash equivalents	**(147,726)**	346,399
Cash and cash equivalents at beginning of the period	**2,332,110**	1,548,130
Exchange (losses)/gains on cash and cash equivalents	**(49,272)**	33,267
Cash and cash equivalents at end of the period	**2,135,112**	1,927,796

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Unaudited											
	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Foreign currency translation differences RMB'000	Available-for-sale financial assets reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as of 1 January 2017	1,280,784	411,601	387,703	45,455	102,043	42,397	(162)	156,851	1,976,512	4,403,184	1,481,924	5,885,108
Comprehensive income												
Profit for the period	–	–	–	–	–	–	–	–	415,872	415,872	164,399	580,271
Change in value of available-for-sale financial assets	–	–	–	–	–	–	503	–	–	503	820	1,323
Foreign currency translation differences												
-Group	–	–	–	–	–	(20,663)	–	–	–	(20,663)	(33,338)	(54,001)
-Joint ventures and associates	–	–	–	–	–	(74)	–	–	–	(74)	–	(74)
Transactions with owners in their capacity as owners												
2016 dividends paid to shareholders of the Company	–	–	–	–	–	–	–	–	(204,925)	(204,925)	–	(204,925)
2016 dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(94,584)	(94,584)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	10,279	10,279
Balance as of 30 June 2017	1,280,784	411,601	387,703	45,455	102,043	21,660	341	156,851	2,187,459	4,593,897	1,529,500	6,123,397

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

	Unaudited										
	Attributable to owners of the Company									Non-controlling interests	Total equity
	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	RMB'000	RMB'000
Balance as of 1 January 2016	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	–	–	–	–	–	900	–	–	900	–	900
Transactions with owners in their capacity as owners											
2015 dividends paid to shareholders of the Company	–	–	–	–	–	–	–	(192,118)	(192,118)	–	(192,118)
2015 dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(72,821)	(72,821)
Capitalisation of earnings upon reform of Tong Ren Tang Second Traditional Chinese Medicine Hospital	–	10,371	–	–	–	–	–	(10,371)	–	–	–
Payment for business combination under common control	–	(13,500)	–	–	–	–	–	–	(13,500)	–	(13,500)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	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

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 25 August 2017.

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 2017 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 2016, 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 2016, 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 2017:

Amendments to IAS 7	Statement of cash flows
Amendments to IAS 12	Income taxes
Amendments to IFRS 12	Disclosure of interest in other entities

The adoption of above amendments to standards does not have any significant financial effect on these condensed consolidated interim financial information.

3. ACCOUNTING POLICIES (CONT'D)

(b) Standards and amendments which are not yet effective

The following are new standards, amendments to existing standards and interpretations that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, but have not been early adopted by the Group.

Amendment to IFRS 1	First time adoption of IFRS [1]
Amendments to IFRS 2	Classification and measurement of share-based payment transactions [1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts [1]
IFRS 9	Financial Instruments [1]
IFRS 15	Revenue from Contracts with Customers [1]
Amendment to IAS 28	Investments in associates and joint ventures [1]
Amendments to IAS 40	Transfers of investment property [1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration [1]
IFRS 16	Leases [2]
IFRIC 23	Uncertainty over income tax treatments [2]
IFRS 17	Insurance Contracts [3]
Amendments to 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 2018
(2) Effective for the accounting period beginning on 1 January 2019
(3) Effective for the accounting period beginning on 1 January 2021
(4) No mandatory effective date yet determined

– IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

  Management is currently assessing the related impact to the Group.

– IFRS 15 is a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  Management is currently assessing the related impact to the Group.

– IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

  The accounting for lessors will not significantly change.

  The standard will affect primarily the accounting for Group's operating leases. As at 30 June 2017, the Group has non-cancellable operating lease commitments of RMB153,806,000 (Note 17(b)).

There are no other new standards or amendments to existing standards that are not yet effective and would be expected to have a material impact on these consolidated financial statements.

4. ESTIMATES

The preparation of interim financial information 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 this 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 2016.

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 condensed consolidated interim financial information does 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 2016.

There have been no significant changes in any risk management policies since year end of 2016.

6. REVENUE

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of Chinese medicine products		
– Mainland China	**2,343,331**	2,320,681
– Outside Mainland China	**392,365**	347,700
	2,735,696	2,668,381
Advertising services		
– Mainland China	**25,950**	23,653
Chinese medical consultation services		
– Outside Mainland China	**19,126**	15,286
Royalty fee		
– Outside Mainland China	**338**	356
	2,781,110	2,707,676

7. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Finance income		
Interest income	**12,753**	16,146
Exchange (losses)/gains, net	**(1,768)**	1,268
	10,985	17,414
Finance costs		
Interest on bonds	**(12,010)**	–
Interest on bank borrowings	**(5,200)**	(3,781)
Less: amounts capitalised on qualifying assets	**5,669**	–
	(11,541)	(3,781)
Finance (costs)/income, net	**(556)**	13,633

8. EXPENSES BY NATURE

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**38,037**	36,438
Amortisation of prepaid operating lease payments	**1,553**	1,625
Amortisation of other long-term assets	**2,276**	1,368
Provision for impairment of inventories	**7,044**	4,811
Provision for impairment of receivables	**154**	115
Loss on disposal of property, plant and equipment	**381**	90

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 2017 and 2016, the Company and certain of its subsidiaries have obtained or expect to continue to obtain the HNTE certificate. Consequently, their applicable income tax rate used as of 30 June 2017 is 15% (corresponding period in 2016: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (corresponding period in 2016: 16.5%) on the estimated assessable profit for the six months ended 30 June 2017.

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.

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax expense		
– Mainland China	**68,621**	78,272
– Hong Kong	**42,957**	37,735
– Overseas	**2,500**	2,281
	114,078	118,288
Deferred income tax charge/(credit)	**1,678**	(3,383)
	115,756	114,905

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB415,872,000 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 2017 and 2016.

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to owners of the Company	**415,872**	429,850
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.32**	RMB0.34

11. DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2017 (for the six months ended 30 June 2016: Nil).

On 24 March 2017, the Board proposed a cash dividend in respect of the year ended 31 December 2016 of RMB0.16 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB204,925,440, which has been approved by the shareholders at the 2016 annual general meeting of the Company held on 12 June 2017. These dividends have been paid on 11 August 2017.

12. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT AND ADDITIONS TO LEASEHOLD LAND AND LAND USE RIGHTS

For the six months ended 30 June 2017, the additions to leasehold land and land use rights of the Group was approximately RMB30,000 (corresponding period in 2016: RMB625,000).

For the six months ended 30 June 2017, the additions to property, plant and equipment of the Group was approximately RMB182,762,000 (corresponding period in 2016: RMB125,911,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Trade receivables	**447,515**	307,597
Bills receivables	**767,347**	506,120
	1,214,862	813,717
Less: provision for impairment	**(21,037)**	(21,219)
Trade and bills receivables, net	**1,193,825**	792,498

The carrying amounts of trade and bills receivables approximate their fair values.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As at 30 June 2017 and 31 December 2016, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 4 months	**1,063,310**	445,021
Over 4 months but within 1 year	**132,149**	355,465
Over 1 year but within 2 years	**10,996**	5,289
Over 2 years but within 3 years	**722**	2,473
Over 3 years	**7,685**	5,469
	1,214,862	813,717

14. SHARE CAPITAL

	30 June 2017 (Unaudited)		31 December 2016 (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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 4 months	**663,266**	479,001
Over 4 months but within 1 year	**83,941**	116,245
Over 1 year but within 2 years	**3,648**	1,145
Over 2 years but within 3 years	**212**	738
Over 3 years	**605**	–
	751,672	597,129

16. SEGMENT INFORMATION

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

The Directors in the Board consider the business from an operational entity perspective. Generally, the Directors in the Board 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) Tong Ren Tang Chinese Medicine Company (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, hospital management and advertising, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Directors in the Board 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 in the Board for the reportable segments for the six months ended 30 June 2017 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	2,045,867	550,708	557,071	3,153,646
Inter-segment revenue	(34,625)	–	(337,911)	(372,536)
Revenue from external customers	2,011,242	550,708	219,160	2,781,110
Profit for the period	285,100	234,660	60,511	580,271
Interest income	7,153	4,972	628	12,753
Interest expense	(8,584)	(33)	(2,924)	(11,541)
Depreciation of property, plant and equipment	(16,936)	(10,034)	(11,067)	(38,037)
Amortisation of prepaid operating lease payments	(954)	(239)	(360)	(1,553)
Amortisation of other long-term assets	(416)	(1,015)	(845)	(2,276)
Provision for impairment of inventories	(7,044)	–	–	(7,044)
Provision for impairment of receivables	(154)	–	–	(154)
Share of income/(loss) of investments accounted for using the equity method	292	(351)	–	(59)
Income tax expense	(55,709)	(48,531)	(11,516)	(115,756)
Segment assets and liabilities				
Total assets	5,239,631	2,232,691	1,460,390	8,932,712
Investments accounted for using the equity method	10,640	17,282	–	27,922
Additions to non-current assets[1]	69,613	17,255	120,628	207,496
Total liabilities	2,100,066	149,589	559,660	2,809,315

[1] Excluding investments accounted for using the equity method, financial instruments and deferred tax assets.

16. SEGMENT INFORMATION (CONT'D)

The segment information 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 for the period	326,969	201,209	43,119	571,297
Interest income	12,418	3,126	602	16,146
Interest expense	(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)
Amortisation of other long-term assets	(441)	(547)	(380)	(1,368)
Provision for impairment of inventories	(4,811)	–	–	(4,811)
Provision for impairment of receivables	(115)	–	–	(115)
Share of loss of investments accounted for using the equity method	(134)	(1,254)	–	(1,388)
Income tax expense	(56,488)	(41,786)	(16,631)	(114,905)

The segment assets and liabilities as at 31 December 2016 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	4,895,324	2,106,391	1,182,451	8,184,166
Investments accounted for using the equity method	10,348	17,720	–	28,068
Additions to non-current assets[1]	358,949	34,161	200,821	593,931
Total liabilities	1,564,212	111,474	623,372	2,299,058

[1] Excluding investments accounted for using the equity method, financial instruments and deferred tax assets.

16. SEGMENT INFORMATION (CONT'D)

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

The amounts provided to the Directors in the Board with respect to total assets and liabilities are measured in a manner consistent with that of the financial information. 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 financial instruments and deferred income tax assets located in Mainland China is RMB1,486,157,000 (31 December 2016: RMB1,326,604,000), and the total of these non-current assets located in other countries and regions is RMB334,835,000 (31 December 2016: RMB335,325,000).

During the six months ended 30 June 2017 and 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	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Entities under control of ultimate holding company	**524,169**	392,094
Customer A group	**510,654**	551,849
	1,034,823	943,943

17. COMMITMENTS

(a) *Capital commitments*

As of 30 June 2017, the Group had capital commitments of RMB495,233,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2016: RMB267,456,000).

(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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
No later than 1 year	**64,790**	64,890
Later than 1 year and not later than 5 years	**80,947**	74,415
Later than 5 years	**8,069**	7,543
	153,806	146,848

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. 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	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Trademark license fee (Note (i))	**425**	425
Rental expense (Note (ii))	**1,182**	1,182
Storage fee (Note (iii))	**–**	1,458
Property leasing expense (Note (iv))	**1,854**	–

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 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 1 January 2014 to 31 December 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. The above contract for storage and custody expired on 31 December 2016.

18. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (Cont'd)

(iv) On 25 January 2017, the Company and the ultimate holding company entered into a property leasing framework agreement, pursuant to which, the ultimate holding company has agreed to lease and procure its other members to lease certain premises to the Group for its productions and operations, including but not limited to office premises, warehouses and staff quarter, for a term of three years commencing from 1 January 2017 to 31 December 2019. The agreement was entered into in accordance with the pricing policies below: (1) the relevant market price; (2) where the market price is not available, then the contracted price, which shall be determined after arm's length negotiation based by both parties of the agreement based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical rentals; and (3) the terms of all leases under the property leasing framework agreement shall be negotiated on an arm's length basis and shall be fair and reasonable.

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of Chinese medicine related products (Note (i))	**501,752**	412,615
Purchases of Chinese medicine related products (Note (ii))	**66,295**	57,459
Sole overseas exclusive distributorship (Note (iii))	**34,382**	17,151
Advertising services income (Note (iv))	**22,417**	23,640
Leasing expense	**–**	758
Property leasing expense (Note (a)(iv))	**1,940**	–

18. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes:

(i) The Company renewed a distribution framework agreement with the ultimate holding company on 10 October 2013. In accordance with this agreement, the Group can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties. The agreement has been approved at the Company's extraordinary general meeting of 2013 and is effective from 1 January 2014 to 31 December 2016.

On 29 September 2016, the Company renewed the distribution framework agreement with the ultimate holding company. Pursuant to the renewed agreement, the price of the products to be sold by the Group to the ultimate holding company or its subsidiaries and joint ventures shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (1) 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 (2) 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 renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

(ii) The Company renewed a master 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 1 January 2014 to 31 December 2016.

On 29 September 2016, the Company renewed the master procurement agreement with the ultimate holding company with similar pricing policies. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

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 entered into an exclusive distributorship frame-work agreement with Beijing Tong Ren Tang Company Limited ("**Parent Company**") on 29 October 2012, with a term from 1 November 2012 to 31 December 2014, pursuant to which, Tong Ren Tang International Natural-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 shall not be higher than the wholesale price of the Relevant Products sold to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price.

Tong Ren Tang Chinese Medicine renewed the agreement with Parent Company on 28 October 2014, with an effective period from 1 January 2015 to 31 December 2017. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 27 November 2014.

(iv) On 20 March 2014, 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 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 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.

On 29 September 2016, Tong Ren Tang Century Advertising renewed the advertising agency framework agreement with the ultimate holding company for a term of three years from 1 January 2017 to 31 December 2019. Accordingly, the fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company or its subsidiaries and joint ventures under individual implementation agreement shall be negotiated and determined by the parties with reference to the actual quotation offered by the advertiser, which is at discount on the basis of its published price list, plus a reasonable fee for the advertising agency service of Tong Ren Tang Century Advertising, which is generally not higher than 15% of the quotation offered by the advertiser.

18. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Transactions with other state-owned enterprises

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

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

(d) Balances with related parties

Balances with related parties consisted of:

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Amounts due from related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	**156,815**	115,900
Other state-owned enterprises	**75,465**	42,343
	232,280	158,243
Amounts due to related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	**60,428**	45,124
Other state-owned enterprises	**18,568**	12,689
	78,996	57,813
Borrowings from a related party (Note(ii)):		
Ultimate holding company	**32,000**	32,000

18. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes:

(i) 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 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 4 months	**169,066**	121,805
Over 4 months but within 1 year	**34,594**	15,149
Over 1 year	**28,620**	21,289
	232,280	158,243

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

	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
Within 4 months	**76,396**	52,330
Over 4 months but within 1 year	**2,081**	4,746
Over 1 year	**519**	737
	78,996	57,813

(ii) Borrowings from a related party are in the form of entrusted loans which are unsecured, bear interest by reference to benchmark lending interest rate published by the People's Bank of China with moderate decrease and repayable within one year.

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2017 (corresponding period in 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2017, the pharmaceutical industry entered a policy-intensive period. The new version of National Reimbursement Drug List, "two-invoice system" and other policies were promulgated for structural adjustment. As the pharmaceutical industry is on the fast way for standardized development, the industry concentration is also further improved. However, under the effects of rising costs, intensified competition in OTC ("**Over the Counter**") market and other market factors, the Company faces multiple resistance and certain products are confronted with problems such as large inventory. Facing such challenges, the Company made reasonable arrangements for the production and operation plan. It has successfully accomplished the task indicators for the half year. For the six months ended 30 June 2017, the Group's sales revenue amounted to RMB2,781,110,000, representing an increase of 2.71% as compared with RMB2,707,676,000 for the corresponding period of 2016; net profit attributable to the owners of the Company amounted to RMB415,872,000, representing a decrease of 3.25% as compared with RMB429,850,000 for the corresponding period of 2016.

The Group's products cover traditional Chinese medicine, food, and cosmetics, with dosage forms involving pills, gums, tablets, granules and oral liquid. In the first half of 2017, there are seven kinds of products, each of which achieved a sales amount of more than RMB100 million; there are twenty-one kinds of products, each of which achieved a sales amount in the range from RMB10 million to RMB100 million; there are seventeen kinds of products, each of which achieved a sales amount in the range from RMB5 million to RMB10 million. Among them, the number of products with sales of more than RMB10 million was increased by eight in the same period last year, and the scale of varieties was further expanded. Some products were affected by channel adjustment, price hike and seasonal variation, resulting in the growth of the sales decreased over the same period of last year.

Product Name	Functions and Indication	Increase in Sales
Liuwei Dihuang Pills	Nourishing Yin and invigorating kidney. Patterns of kidney Yin deficiency manifested as dizziness, tinnitus, soreness and weakness of waist and knees, osteopyrexia and fever, night sweating, spermatorrhea.	Sales of this series of products increased by 32% over the same period of last year.
Ejiao	Nourishing Yin and supplementing blood, moistening dryness and hemostasis, manifested as blood deficiency and etiolate, qualm and palpitation, irritability and insomnia, and lung dryness cough.	Sales of this series of products decreased by 36% over the same period of last year.

Product Name	Functions and Indication	Increase in Sales
Jinkui Shenqi Pills	Warmly invigorating kidney Yang, promoting qi circulation to induce diuresis, manifested as asthenia renal edema, soreness and weakness of waist and knees, dysuria, chilly sensation and the cold limbs.	Sales of this series of products decreased by 7% over the same period of last year.
Niuhuang Jiedu Tablets	Heat-clearing and detoxifying. Patterns of excessive heat manifested as swollen sore throat, swelling painful gum, ulcers in the mouth and on the tongue, redness swelling and pain of the eye.	Sales of this series of products decreased by 14% over the same period of last year.
Xihuang Pills	Heat-clearing, detoxifying, reducing swelling and eliminating stagnation, manifested as carbuncle, furunculosis, scrofula, deep multiple abscess and malignant lump caused by heat and toxic accumulation.	Sales of this series of products increased by 8% over the same period of last year.
Ganmao Qingre Granules	Expelling wind and cold pathogens, reducing sweat and clearing heat, manifested as anemofrigid cold, headache and fever, aversion to wind and general pain, thin or watery nasal discharge, cough and dry throat.	Sales of this series of products decreased by 30% over the same period of last year.

Looking back on the Reporting Period, in the face of the grim market conditions, the Company made proactive adjustments, dealt with the situation calmly and conducted continuous attempts to optimise the existing marketing system. In the first half of the year, the Company conducted the adjustment on the marketing organization structure and set up the human resources office marketing company with a focus on the management, training, assessment and incentives for marketing personnel for the purpose of improving the sales team and constantly enhancing its marketing capability; the Company established KA ("**Key Account**") Division and Medical Division and attached importance to the connection and development of China top 100 chain drugstores ("**Top 100 Chain**") and medical channels to further expand the terminal market.

Meanwhile, the Company continued to deepen and stress variety and cultivation of market positioning of variety and strengthen mutually beneficial cooperation with large distributors. With Liuwei Dihuang Pills (六味地黄丸) and other varieties as the carriers, the Company attempted to comprehensively and thoroughly promote the Company's products by means of provincial authorised agencies, strategic cooperation agreement, etc. In addition, with the emphasis laid on adjustment to the way of channel development and clarification of the direction of channel development, the Company streamlined the existing marketing channels, selected high quality distributors and Key Account, further integrated sales channels to ensure channel stability and standardized development.

In the first half of the year, the standardized reorganization of circulation of products and the increasingly fierce competition in the pharmaceutical industry resulted in greater difficulty in collection of payments. During the Reporting Period, accounts receivable increased to a certain degree. In the second half of the year, the Company will continue to tap potentials in improving operation quality and take active measures to continuously increase the collection efforts to reduce accounts receivable, which will reduce the Company's operational risk.

During the Reporting Period, given the pressure from inadequate production of marketable products and industrial layout adjustment, the Company took active measures, made an overall plan on coordination of resources and arranged production reasonably to ensure market supply. Meanwhile, the Company continued to consolidate the normalized results of GMP ("**Good Manufacturing Practice**"), strengthened production site management, and constantly improved the standardization management through improvement of operational standards, quality assessment, etc., to build a comprehensive and effective production management system. In addition, the Company further intensified risk prevention and control, and increase quality control efforts at the source. Furthermore, the Company conducted on-site assessment, quality management training, etc. for suppliers to strengthen supplier management, strengthen their awareness of quality risk and ensure the Company's product quality.

In terms of research and development, the Company is focusing on the secondary development of existing products. As for Liuwei Dihuang Pills as the representative of the leading products, the Company conducted comprehensive standardized research from a number of perspectives including raw materials, auxiliary materials and finished products to achieve standardized and systematic production procedures. In the meantime, for some potential varieties, the Company conducted in-depth research on pharmacodynamics, mechanism and clinical application based on the market positioning and variety characteristics to further tap the new indications and expand the scope of clinical application of products, which will enhance the clinical value of products and give full play to the product market competitive advantage.

Tong Ren Tang Chinese Medicine, a key subsidiary of the Group, serving as the overseas development platform of Tong Ren Tang, continued to regard spreading the culture of Chinese medicine as its mission, with Hong Kong as its hub where Tong Ren Tang Chinese Medicine spread forth its local success to proactively promote the global inheritance and exchange of culture of Chinese medical treatment and improve the international influence of Chinese medicine. In the first half of the year, Tong Ren Tang Chinese Medicine assisted to hold the 3rd Maritime Silk Road International Forum on Traditional Chinese Medicine and the 1st "One Belt and One Road" (Dubai) Chinese Women's Elite Forum in Dubai. At the same time, Tong Ren Tang Chinese Medicine also cooperated with the "Time Together Across the Strait" program team of Beijing TV for an interview of Tong Ren Tang in Cambodia to give a full picture of the process and achievements of "Tong Ren Tang" brand and culture of Chinese medicine in local development to foreigners and further expand the popularity and influence of "Tong Ren Tang" abroad. Meanwhile, during the Reporting Period, the Tong Ren Tang Chinese Medicine won the seventeenth "Outstanding Capital Corporation Achievements – Outstanding Chinese Medicine Group" awarded by the Hong Kong Capital Magazine.

In respect of market expansion, Tong Ren Tang Chinese Medicine continued to strengthen the existing market foundation and opened three retail outlets in the United States, Singapore and Australia. The business of Tong Ren Tang Chinese Medicine has expanded to 19 countries and regions outside of Mainland China. The number of retail terminals has increased to 70. As of 30 June 2017, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB550,708,000, representing an increase of 20.73% as compared with the corresponding period of 2016; net profit attributable to the owners of the Company amounted to RMB227,008,000, representing an increase of 18.00% as compared with the corresponding period of 2016.

Daily medical chemical products remained an important development field in the Group's business. During the Reporting Period, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("**Tong Ren Tang WM**") continued to focus on its principal business of cosmetics and sold its products through sales promotion on holidays and in supermarkets, themed promotion, rich market activities and other methods. However, under the combined effects of large channel inventory, slow circulation in market, adjustment to the marketing channel and other factors, as at 30 June 2017, Tong Ren Tang WM recorded sales revenue of RMB59,834,000, representing a year-on-year decrease of 22.55%, and net profit of RMB7,357,000, representing a year-on-year decrease of 18.93%.

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, Tuckahoe, Cortex Moutan. During the Reporting Period, on the basis of guaranteed supply of Chinese medicinal raw materials with the specified quality and quantity by each subsidiary to the Company, all the subsidiaries continue to tap the advantages of local medicinal materials, resulting in a number of new Chinese medicinal raw materials including Bulbus Fritillariae Thunbergii and Herba Leonuri. Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited, relying on the development foundation of grease series products, conducted in-depth research on linseed oil and other series products to further enrich the Company's oil product reserves. As at 30 June 2017, six subsidiaries engaged in production of Chinese medicinal raw materials recorded an aggregate sales revenue of RMB100,159,000, representing an increase of 41.10% year on year, and net profit of RMB9,739,000, representing an increase of 36.17% year on year.

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 was steadily underway. As of 30 June 2017, the Company has made capital investment of RMB406 million in Da Xing Base. Internal decoration is in progress for the R&D center and solid dosage workshop.

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 after its establishment with Chinese medicine extraction workshop and liquid dosage workshop under construction. As of 30 June 2017, the Company has made capital investment of RMB303 million in the base. Currently, the Chinese medicine extraction workshop is in the stage of equipment installation and debugging and the liquid dosage workshop is under internal decoration.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 3,874 employees (31 December 2016: 3,865 employees), of which 2,046 were employees of the Company (31 December 2016: 2,090 employees). The Company continually updates and improves its employee remuneration policy and system to ensure an equal access to and sharing of value according to employees' contribution. In the meantime, the Company attaches great importance to development and growth of talents and provides employees with skill training, career planning and development opportunities, 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 competency, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as recognition of and as rewards for their contributions to the Company. Other statutory benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing fund.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the Reporting Period, the Group's primary sources of funds were cash generated from daily operating activities and borrowings.

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

As at 30 June 2017, the Group's cash and cash equivalents amounted to RMB2,135,112,000 (31 December 2016: RMB2,332,110,000) in total.

As at 30 June 2017, Short-term bank borrowings of the Group amounted to RMB207,300,000 (31 December 2016: RMB211,000,000), carrying an interest rate of 4.305% (2016: 3.966%) per annum and accounting for 7.38% (31 December 2016: 9.18%) of the total liabilities. Long-term borrowings amounted to RMB917,780,000 (31 December 2016: RMB917,549,000), bearing annual interest rate of long-term bank borrowings at 1.244% (2016: 1.247%), and the actual annual interest rate of bonds was 3.008% (2016: 3.008%), representing 32.67% (31 December 2016: 39.91%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2017, RMB207,300,000 will mature within one year and RMB119,517,000 will mature beyond one year.

Capital Structure

The Group's capital management policy is to ensure the continuous operation of the Group with aim to provide returns for the shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

As at 30 June 2017, total assets of the Group amounted to RMB8,932,712,000 (31 December 2016: RMB8,184,166,000). The funds comprised non-current liabilities of the Group amounted to RMB1,018,412,000 (31 December 2016: RMB998,802,000), current liabilities amounted to RMB1,790,903,000 (31 December 2016: RMB1,300,256,000), equity attributable to owners of the Company amounted to RMB4,593,897,000 (31 December 2016: RMB4,403,184,000) and non-controlling interests amounted to RMB1,529,500,000 (31 December 2016: RMB1,481,924,000).

During the Reporting Period, 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.

Liquidity

As at 30 June 2017, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 3.94 (31 December 2016: 4.98), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.61 (31 December 2016: 3.21), reflecting that the Group remained liquid.

Gearing Ratio

The Group monitors its capital on the basis of the gearing ratio. As at 30 June 2017, the Group's gearing ratio (the ratio of total borrowings to equity attributable to the owners of the Company) was 0.24 (31 December 2016: 0.26).

Charges over Assets of the Group

At 30 June 2017, the Group's property, with a net value of RMB10,667,000 (31 December 2016: RMB10,363,000), has been pledged as security for long-term bank borrowing of RMB517,000 (31 December 2016: RMB497,000).

Contingent Liabilities

As at 30 June 2017, the Group had no contingent liabilities (31 December 2016: 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.

Significant Investment Held

During the Reporting Period, the Group did not have any significant investment. As at the date of this report, the Group does not have any plan for material investments or purchase of capital assets.

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.

Use of Proceeds

Use of Proceeds from Placement

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 2017, the actual use of proceeds from the aforesaid placing of approximately RMB931,740,000 (31 December 2016: RMB909,860,000) was as follows:

1. approximately RMB82,660,000 were used for the acquisition of 68% equity interest in Tangshan Healthcare Company (31 December 2016: RMB82,660,000);

2. RMB15,000,000 were used for liquidity repayment of bank loans (31 December 2016: RMB15,000,000);

3. approximately RMB544,180,000 were used for purchase of Chinese medicinal raw materials, auxiliary ingredients and packaging materials (31 December 2016: RMB522,300,000);

4. approximately RMB52,560,000 were used for construction projects at Daxing and Bozhou (31 December 2016: RMB52,560,000);

5. approximately RMB13,650,000 were used for replacement of production equipment and infrastructure maintenance, etc. (31 December 2016: RMB13,650,000);

6. approximately RMB123,770,000 were used for daily operating expenses (31 December 2016: RMB123,770,000); and

7. approximately RMB99,920,000 were used for distribution of H share dividends (31 December 2016: RMB99,920,000).

As at 30 June 2017, all the proceeds were used.

Use of Proceeds from Issuance of Corporate Bonds

On 1 August 2016, the Company completed the first issuance of bonds on the Shanghai Stock Exchange. The final issue size is RMB800 million, and the net proceeds (net of all related costs and expenses) amounted to approximately RMB798,560,000. The maturity of the bonds is five years and the coupon rate is 2.95% per annum. The proceeds from issuance would be used to adjust the Company's debt structure and replenish the Company's general working capital. RMB100,000,000 were used for liquidity repayment of bank loans and RMB696,560,000 were used to replenish the general working capital, which was in line with the purposes under the prospectus. As of 30 June 2017, approximately RMB2,000,000 of the proceeds net of the issuance expenses were not yet used.

FUTURE PROSPECTS

In the second half of the year, further adjustment to the pattern of industry, sluggish market consumption and other external pressure may sustain. The Company will continue to promote the marketing system reform and tap potentials in terms of channel planning, variety planning and management planning.

On the one hand, the Company will continue to improve and implement the channel planning, variety planning, promotion planning and team planning, focus on integration of the existing distribution system, expansion of channel coverage and enhancement of terminal shelf sales ratio. It will combine channel design, assessment and supervision, and take a number of measures to ensure controllable sales channels and clear flow of products. To this end, the Company will give full play to the allocation of high-quality resources and speed up the marketing system reform and the construction of a market-oriented new marketing organisation system to ensure the realisation of Company's marketing strategic objectives. In addition, the Company will pay continued attention to the changes in medical policies in different places and constantly strengthen the development of medical channels to make up for shortcomings of the medical channel.

On the other hand, in the face of large market inventory of certain varieties and other problems, the Company will continue to be oriented at market demand and variety positioning and refine the marketing program aiming at giving full play to the brand characteristics of "Tong Ren Tang" and variety advantages. It will practically enhance the cooperation effects with chain drugstores through "product customization", "packaging upgrade" and other ways, thereby expanding its potential in driving the terminal sales.

The Company will also continue to proactively promote the adjustment to industrial layout and strengthen the organization and coordination of project transfer. Precautions will be taken to ensure stable and orderly work handover, and the Company will further reinforce the construction of internal control system and the management of accounts receivable, increase collection efforts, improve the quality of operations and ensure the controllability of risks.

OTHER INFORMATION

Corporate Governance Code

For the six months ended 30 June 2017, 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 2017.

Update on Director's Information

With effect from 23 June 2017, Miss Tam Wai Chu, Maria was appointed as the independent non-executive director of China Shenhua Energy Company Limited.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that 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 2017 and discussed relevant internal audit, risk management and internal control matters.

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

As at 30 June 2017, none of the Directors, Supervisors and the chief executive of the Company had any interest or short position 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**")) which were required to be recorded in the register kept under Section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the requirements in the Model Code as set out in Appendix 10 to the Listing Rules.

Substantial Shareholders

As at 30 June 2017, 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	35,732,000 (L) (Note 1)	–	5.68%	2.790%
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	88,031,000 (L) (Note 1)	–	14.00%	6.873%
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	37,753,000 (L) (Note 1)	–	6.00%	2.948%
Citigroup Inc. (Note 8)	Interest of corporation controlled by the substantial shareholder, Person having a security interest in shares, Custodian corporation/approved lending agent	33,299,520 (L) (Note 1)	–	5.30%	2.600%
		16,212,520 (P) (Note 1)	–	2.58%	1.266%

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 2017, 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 2017, 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 2017, Tong Ren Tang Holdings also directly held 9,480,000 shares.

(3) As was known to the Directors, as at 30 June 2017, Yuan Sai Nan held 35,732,000 H shares of the Company in long position.

(4) As was known to the Directors, as at 30 June 2017, Commonwealth Bank of Australia indirectly held 88,031,000 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 2017, 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 2017, this shareholder held 46,182,000 H shares of the Company in long position.

(7) As was known to the Directors, as at 30 June 2017, Aberdeen Asset Management Plc and its associates on behalf of accounts managed by them, held 37,753,000 H shares of the Company in long position as investment manager.

(8) As was known to the Directors, as at 30 June 2017, Citigroup Inc. indirectly held 119,000 H shares of the Company in long position through a series of entities under its control, held 16,968,000 H shares of the Company in long position as a person holding security interest in shares, and held 16,212,520 H shares of the Company as custodian corporation/approved lending agent.

Save as disclosed above, as at 30 June 2017, 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 2017, 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 Niuhuang 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), Niuhuang 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 Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names 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 Niuhuang 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 Niuhuang 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 re-consider 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.