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)

2018
INTERIM REPORT

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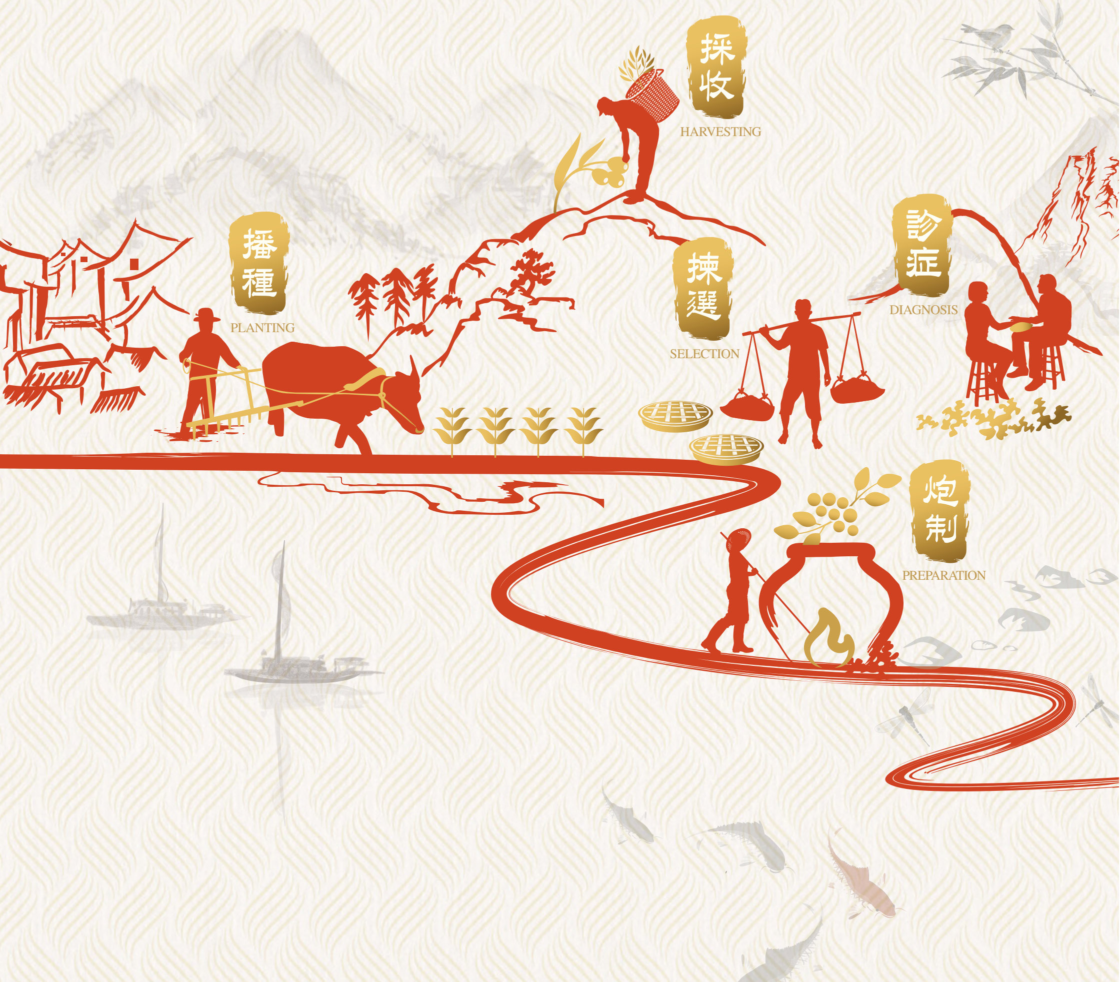

HIGHLIGHTS

- **For the six months ended 30 June 2018, the Group's revenue represents an increase of approximately 0.80% as compared with the corresponding period in 2017.**
- **For the six months ended 30 June 2018, profit attributable to the owners of the Company represents an increase of approximately 3.99% as compared with the corresponding period in 2017.**
- **For the six months ended 30 June 2018, 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 2018.**

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 2018 (the "**Reporting Period**") as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	**RMB'000**	RMB'000
Revenue	6	**2,803,420**	2,781,110
Cost of sales		**(1,335,125)**	(1,347,033)
Gross Profit		**1,468,295**	1,434,077
Distribution expenses		**(552,057)**	(556,767)
Administrative expenses		**(185,451)**	(180,514)
Net impairment losses on financial assets		**(1,489)**	(154)
Operating profit		**729,298**	696,642
Finance income	7	**14,299**	10,985
Finance costs	7	**(8,900)**	(11,541)
Finance income/(costs), net	7	**5,399**	(556)
Share of loss of investments accounted for using the equity method		**(892)**	(59)
Other gains		**88**	–
Profit before income tax		**733,893**	696,027
Income tax expense	9	**(122,220)**	(115,756)
Profit for the period		**611,673**	580,271
Profit attributable to:			
Owners of the Company		**432,453**	415,872
Non-controlling interests		**179,220**	164,399
		611,673	580,271
Earnings per share for profit attributable to owners of the Company during the period – Basic and diluted	10	**RMB0.34**	RMB0.32

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	**611,673**	580,271
Other comprehensive income/(loss)		
Items that may be reclassified to profit or loss		
Change in the fair value of available-for-sale financial assets	**–**	1,323
Foreign currency translation differences		
– Group	**15,692**	(54,001)
– Joint ventures and associates	**176**	(74)
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity instruments at fair value through other comprehensive income	**904**	–
Other comprehensive income/(loss) for the period, net of tax	**16,772**	(52,752)
Total comprehensive income for the period	**628,445**	527,519
Attributable to:		
Owners of the Company	**439,544**	395,638
Non-controlling interests	**188,901**	131,881
Total comprehensive income for the period	**628,445**	527,519

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	**150,062**	152,193
Property, plant and equipment	12	**1,828,903**	1,674,297
Intangible assets		**75,749**	75,469
Investments accounted for using the equity method		**27,113**	27,839
Financial assets at fair value through other comprehensive income		**13,850**	–
Available-for-sale financial assets		**–**	12,804
Prepayments for purchases of non-current assets		**33,512**	58,977
Deferred income tax assets		**28,453**	30,702
		2,157,642	2,032,281
Current assets			
Inventories		**2,412,122**	2,302,890
Trade and bills receivables	13	**928,888**	1,147,894
Amounts due from related parties	18(d)	**289,409**	203,329
Other financial assets at amortised cost		**48,554**	–
Prepayments and other current assets		**74,077**	117,274
Financial assets at fair value through other comprehensive income		**515,032**	–
Short-term bank deposits		**1,365,254**	1,048,428
Cash and cash equivalents		**1,793,176**	2,023,561
		7,426,512	6,843,376
Total assets		**9,584,154**	8,875,657
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	**1,280,784**	1,280,784
Reserves		**3,758,291**	3,535,836
		5,039,075	4,816,620
Non-controlling interests		**1,735,700**	1,642,922
Total equity		**6,774,775**	6,459,542

	Note	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**913,645**	915,480
Deferred income tax liabilities		**5,459**	5,302
Deferred income – government grants		**94,245**	93,787
		1,013,349	1,014,569
Current liabilities			
Trade and bills payables	15	**705,373**	698,415
Salary and welfare payables		**104,888**	89,900
Advances from customers		**75,056**	57,131
Amounts due to related parties	18(d)	**159,028**	69,150
Current income tax liabilities		**95,541**	49,509
Other payables		**486,074**	227,641
Borrowings		**170,070**	209,800
		1,796,030	1,401,546
Total liabilities		**2,809,379**	2,416,115
Total equity and liabilities		**9,584,154**	8,875,657

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	**478,216**	446,952
Interest paid	**(16,853)**	(11,541)
Income tax paid	**(73,684)**	(67,881)
Net cash generated from operating activities	**387,679**	367,530
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(176,858)**	(188,238)
Purchase of land use rights	**–**	(30)
Purchase of other long-term assets	**(2,494)**	(1,989)
Proceeds from government grants relating to property, plant and equipment	**5,724**	19,903
Proceeds from disposals of property, plant and equipment	**67**	98
Proceeds from disposals of land use right	**460**	–
Net increase in short-term bank deposits	**(354,926)**	(247,838)
Proceeds from wealth management products	**45,000**	–
Increase in wealth management products	**(45,000)**	–
Interest received	**10,890**	9,893
Others	**19,050**	(19,050)
Net cash used in investing activities	**(498,087)**	(427,251)
Cash flows from financing activities:		
Proceeds from borrowings	**130,982**	142,300
Repayments of borrowings	**(172,838)**	(146,000)
Capital injection from non-controlling interests	**2,310**	10,279
Dividends paid to non-controlling interests	**(94,928)**	(94,584)
Purchase of non-controlling interests of a subsidiary	**(1,948)**	–
Net cash used in financing activities	**(136,422)**	(88,005)
Net decrease in cash and cash equivalents	**(246,830)**	(147,726)
Cash and cash equivalents at beginning of the period	**2,023,561**	2,332,110
Exchange gains/(losses) on cash and cash equivalents	**16,445**	(49,272)
Cash and cash equivalents at end of the period	**1,793,176**	2,135,112

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	FVOCI reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as of 1 January 2018	1,280,784	411,601	440,904	45,455	102,043	(6,568)	498	156,851	2,385,052	4,816,620	1,642,922	6,459,542
Comprehensive income												
Profit for the period	–	–	–	–	–	–	–	–	432,453	432,453	179,220	611,673
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")	–	–	–	–	–	–	344	–	–	344	560	904
Foreign currency translation differences												
– Group	–	–	–	–	–	6,571	–	–	–	6,571	9,121	15,692
– Joint ventures and associates	–	–	–	–	–	176	–	–	–	176	–	176
Transactions with owners in their capacity as owners												
2017 dividends paid to shareholders of the Company	–	–	–	–	–	–	–	–	(217,733)	(217,733)	–	(217,733)
2017 dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(95,841)	(95,841)
Purchase of non-controlling interests of a subsidiary	–	644	–	–	–	–	–	–	–	644	(2,592)	(1,948)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	2,310	2,310
Balance as of 30 June 2018	1,280,784	412,245	440,904	45,455	102,043	179	842	156,851	2,599,772	5,039,075	1,735,700	6,774,775

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

	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 fair 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

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 23 August 2018.

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 2018 has been prepared in accordance with International Accounting Standard (IAS) 34, "Interim financial reporting". The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, 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 2017, 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.

3.1 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 2018:

Amendment to IAS 28	Investments in Associates and Joint Ventures
Amendments to IAS 40	Transfers of Investment Property
Amendment to IFRS 1	First Time Adoption of IFRS
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarification to IFRS 15
IFRIC 22	Foreign Currency Transactions and Advance Consideration

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.1 IFRS 9 Financial Instruments

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("**OCI**"), or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVPL**"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

3. ACCOUNTING POLICIES (CONT'D)

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.1 IFRS 9 Financial Instruments (Cont'd)

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Cont'd)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3. ACCOUNTING POLICIES (CONT'D)

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.1 IFRS 9 Financial Instruments (Cont'd)

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (Cont'd)

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(b) Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company adopted IFRS 9 to prepare the condensed consolidated interim financial information without restating comparative information. The impact of adoption including the reclassifications and the adjustments arising from the new impairment rules is not material to the Group. The impact is set as below:

(i) Reclassification

The Group elected to present in OCI changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB12,804,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RMB498,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

The Group reclassified part of the bills receivables to financial assets at FVOCI, because the Group endorses a portion of bank's acceptance bills according to its daily fund management needs. The Group's business model is achieved both by collecting contractual cash flows and selling of these assets. On 1 January 2018, assets of RMB228,135,000 were reclassified from trade and bills receivables to financial assets at FVOCI.

Besides, other receivables were previously presented together with prepayments and other current assets but are now presented as other financial assets at amortised cost in the balance sheet, to reflect their different nature with application of terminology of IFRS 9.

3. ACCOUNTING POLICIES (CONT'D)

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.1 IFRS 9 Financial Instruments (Cont'd)

(b) Impact of adoption (Cont'd)

(ii) Impairment of financial assets

The Group has the following types of financial assets at amortised cost that are subject to IFRS 9's new expected credit loss model:

- trade and bills receivables,
- amounts due from related parties,
- other financial assets at amortised cost, and
- bills receivables at FVOCI.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3.1.2 IFRS 15 Revenue from Contracts with Customers

(a) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

(i) Sale of goods – wholesale

The Group manufactures and sells a range of healthcare products and Chinese medicines to wholesalers. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

3. ACCOUNTING POLICIES (CONT'D)

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.2 IFRS 15 Revenue from Contracts with Customers (Cont'd)

(a) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (Cont'd)

(i) Sale of goods – wholesale (Cont'd)

The products is often sold with retrospective discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for expected discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) Sale of goods – retail

The Group also sells products to individual customers through its retail outlets. Revenue from the sale of goods is recognised when a group entity sells a product to the customer.

Payment of the transaction price is due immediately when the customer purchases the products. It is the Group's policy to sell its products to the end customer without a right of return and it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

(iii) Advertising service

Revenue from providing advertising services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the stage of completion of service according to contractual agreement or by the reference to the percentage of completion method. Under this method, the percentage of completion is identified with proportion of incurred contract costs to estimated total cost.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

3. ACCOUNTING POLICIES (CONT'D)

3.1 Adoption of new standards and amendments to standards (Cont'd)

3.1.2 IFRS 15 Revenue from Contracts with Customers (Cont'd)

(a) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (Cont'd)

(iv) Chinese medical consultation services

The Group provides Chinese medical consultation service in retail outlets. Chinese medical consultation income is recognised in the accounting period in which the service is provided to the customer and it is settled in cash or by credit card.

(v) Royalty fee

Royalty fee income is based on pre-determined rates on the total turnover of overseas entities for them to use the "Tong Ren Tang" brand name. Royalty fee is recognised on an accrual basis upon sales recognised by the overseas entities.

(vi) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Revenue recognition requires considerable judgment regarding the method to determine and allocate transaction price, the timing of satisfaction of performance obligations, and the pattern of revenue recognition.

(b) Impact of adoption

IFRS 15 replaces the provisions of IAS 18, IAS 11 and their related interpretations. The Group has chosen the modified retrospective approach to adopt the new standard and has not restated comparatives for the corresponding period of 2017. The adoption of IFRS 15 did not have a material impact on the Group, no adjustments to the amounts recognised in the financial statements as at 1 January 2018 are made.

The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

3. ACCOUNTING POLICIES (CONT'D)

3.2 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 2019 or later periods, but have not been early adopted by the Group.

Amendments to IFRS 9	Prepayment Features with Negative Compensation(1)
IFRS 16	Leases(1)
IFRIC 23	Uncertainty over Income Tax Treatments(1)
IFRS 17	Insurance Contracts(2)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(3)

(1) Effective for the accounting period beginning on 1 January 2019

(2) Effective for the accounting period beginning on 1 January 2021

(3) No mandatory effective date yet determined

– IFRS 16 was issued in January 2016. It 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 2018, the Group has non-cancellable operating lease commitments of RMB150,861,000 (Note 17(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

  Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

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 mostly same as those that applied to the consolidated financial statements for the year ended 31 December 2017, except estimate about impairment of financial assets.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The making of these assumptions and selecting the inputs to the impairment calculation by the Group is based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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 2017.

There have been no significant changes in any risk management policies since year end of 2017.

6. REVENUE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of Chinese medicine products		
– Mainland China	**2,310,368**	2,343,331
– Outside Mainland China	**449,432**	392,365
	2,759,800	2,735,696
Advertising services		
– Mainland China	**22,209**	25,950
Chinese medical consultation services		
– Outside Mainland China	**21,016**	19,126
Royalty fee		
– Outside Mainland China	**395**	338
	2,803,420	2,781,110

7. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Finance income		
Interest income	**12,445**	12,753
Exchange gains/(losses), net	**1,854**	(1,768)
	14,299	10,985
Finance costs		
Interest on bonds	**(12,011)**	(12,010)
Interest on bank borrowings	**(4,842)**	(5,200)
Less: amounts capitalised on qualifying assets	**7,953**	5,669
	(8,900)	(11,541)
Finance income/(costs), net	**5,399**	(556)

8. EXPENSES BY NATURE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**36,868**	38,037
Amortisation of prepaid operating lease payments	**1,809**	1,553
Amortisation of other long-term assets	**2,523**	2,276
Provision for impairment of inventories	**2,221**	7,044
Provision for impairment of receivables	**1,489**	154
Loss on disposal of property, plant and equipment	**819**	381
Gain on disposal of leasehold land and land use rights	**31**	–

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 2018 and 2017, 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 2018 is 15% (corresponding period in 2017: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (corresponding period in 2017: 16.5%) on the estimated assessable profit for the six months ended 30 June 2018.

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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax expense		
– Mainland China	**68,410**	68,621
– Hong Kong	**48,691**	42,957
– Overseas	**2,615**	2,500
	119,716	114,078
Deferred income tax charge	**2,504**	1,678
	122,220	115,756

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB432,453,000 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 2018 and 2017.

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to owners of the Company	**432,453**	415,872
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.34**	RMB0.32

11. DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

On 29 March 2018, the Board proposed a cash dividend in respect of the year ended 31 December 2017 of RMB0.17 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB217,733,280, which has been approved by the shareholders at the 2017 annual general meeting of the Company held on 12 June 2018 (the "**AGM**"). These dividends have been paid on 10 August 2018.

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

For the six months ended 30 June 2018, the additions to leasehold land and land use rights of the Group was Nil (corresponding period in 2017: RMB30,000).

For the six months ended 30 June 2018, the additions to property, plant and equipment of the Group was approximately RMB192,120,000 (corresponding period in 2017: RMB182,762,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	**705,421**	462,824
Bills receivables	**241,139**	702,951
	946,560	1,165,775
Less: provision for impairment	**(17,672)**	(17,881)
Trade and bills receivables, net	**928,888**	1,147,894

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 2018 and 31 December 2017, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 4 months	**667,006**	1,025,804
Over 4 months but within 1 year	**247,716**	114,950
Over 1 year but within 2 years	**19,024**	14,457
Over 2 years but within 3 years	**5,296**	3,310
Over 3 years	**7,518**	7,254
	946,560	1,165,775

14. SHARE CAPITAL

	30 June 2018 (Unaudited)		31 December 2017 (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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 4 months	**531,371**	442,072
Over 4 months but within 1 year	**148,954**	244,678
Over 1 year but within 2 years	**23,438**	10,572
Over 2 years but within 3 years	**740**	402
Over 3 years	**870**	691
	705,373	698,415

16. SEGMENT INFORMATION

The Directors of the Company in the Board (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) 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, medical services 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 2018 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,928,603	620,310	523,153	3,072,066
Inter-segment revenue	(9,471)	–	(259,175)	(268,646)
Revenue from external customers	1,919,132	620,310	263,978	2,803,420
Timing of revenue recognition				
At a point in time	1,919,132	598,332	241,769	2,759,233
Over time	–	21,978	22,209	44,187
	1,919,132	620,310	263,978	2,803,420
Profit for the period	294,815	260,026	56,832	611,673
Interest income	5,579	6,317	549	12,445
Interest expense	(6,420)	(10)	(2,470)	(8,900)
Depreciation of property, plant and equipment	(16,627)	(8,976)	(11,265)	(36,868)
Amortisation of prepaid operating lease payments	(952)	(221)	(636)	(1,809)
Amortisation of other long-term assets	(487)	(1,043)	(993)	(2,523)
Provision for impairment of inventories	(2,221)	–	–	(2,221)
(Provision for)/Reversal of impairment of receivables	(1,855)	–	366	(1,489)
Share of loss of investments accounted for using the equity method	(337)	(555)	–	(892)
Income tax expense	(59,076)	(53,206)	(9,938)	(122,220)
Segment assets and liabilities				
Total assets	5,375,542	2,500,024	1,708,588	9,584,154
Investments accounted for using the equity method	10,143	16,970	–	27,113
Additions to non-current assets[1]	66,241	36,594	92,664	195,499
Total liabilities	1,863,497	177,552	768,330	2,809,379

[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 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
Timing of revenue recognition				
At a point in time	2,011,242	530,769	193,210	2,735,221
Over time	–	19,939	25,950	45,889
	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)

The segment assets and liabilities as at 31 December 2017 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	4,913,102	2,307,988	1,654,567	8,875,657
Investments accounted for using the equity method	10,480	17,359	–	27,839
Additions to non-current assets[1]	165,788	29,647	241,348	436,783
Total liabilities	1,731,427	123,269	561,419	2,416,115

[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 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 financial instruments and deferred income tax assets located in Mainland China is RMB1,770,754,000 (31 December 2017: RMB1,671,368,000), and the total of these non-current assets located in other countries and regions is RMB344,585,000 (31 December 2017: RMB317,407,000).

During the six months ended 30 June 2018 and 2017, 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	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Entities under control of ultimate holding company	**678,084**	524,169
Customer A group	**345,035**	510,654
	1,023,119	1,034,823

17. COMMITMENTS

(a) Capital commitments

As of 30 June 2018, the Group had capital commitments of RMB327,358,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2017: RMB395,855,000).

(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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
No later than 1 year	**70,660**	59,498
Later than 1 year and not later than 5 years	**73,234**	75,698
Later than 5 years	**6,967**	11,275
	150,861	146,471

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.

(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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Trademark license fee (Note (i))	**1,500**	425
Rental expense (Note (ii))	**1,182**	1,182
Property leasing expense (Note (iii))	**1,750**	1,854

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

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.

A licence agreement was entered on 28 February 2018 between the Company and the ultimate holding company whereby the Company is allowed to use Trademarks of the ultimate holding company. The licence agreement is effective from 1 March 2018 to 31 March 2021. In case of the extension of the agreement, the Company can apply three months prior to the expiration of the licence and renew the licence agreement with the ultimate holding company. The annual licence fee is RMB3,000,000 with an annual increase of RMB300,000 thereafter.

(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) 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.

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	**656,004**	501,752
Purchases of Chinese medicine related products (Note (ii))	**74,213**	66,295
Sole overseas exclusive distributorship (Note (iii))	**39,691**	34,382
Advertising services income (Note (iv))	**22,080**	22,417
Property leasing expense (Note (a)(iii))	**1,794**	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) On 29 September 2016, the Company renewed a 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 29 September 2016. 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 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.

(iii) Tong Ren Tang Chinese Medicine renewed an exclusive distributorship frame-work agreement with Beijing Tong Ren Tang Company Limited ("**Parent Company**") 28 October 2014, with an effective period from 1 January 2015 to 31 December 2017, 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. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 27 November 2014.

Tong Ren Tang Chinese Medicine renewed the agreement with Parent Company with similar pricing policies on 8 November 2017, with an effective period from 1 January 2018 to 31 December 2020. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 1 December 2017.

18. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (Cont'd)

(iv) 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.

(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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Amounts due from related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company	**186,225**	115,862
Other state-owned enterprises	**103,184**	87,467
	289,409	203,329
Amounts due to related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company	**152,085**	46,699
Other state-owned enterprises	**6,943**	22,451
	159,028	69,150
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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 4 months	**214,893**	158,830
Over 4 months but within 1 year	**52,601**	24,495
Over 1 year	**21,915**	20,004
	289,409	203,329

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 4 months	**156,776**	62,442
Over 4 months but within 1 year	**1,021**	6,052
Over 1 year	**1,231**	656
	159,028	69,150

(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 2018 (corresponding period in 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of the year, the competition in the pharmaceutical industry further intensified. Medical policies and the intensity of environmental regulation became increasingly stringent. In addition, the Company adjusted its industrial layout. These factors put much pressure on the Company's production and operation. Facing these challenges and changes, the Company continued to adjust the marketing system and the industrial layout centering on the three main themes of "Reform, Deepening and Adjustment". It strengthened communication and reallocated the production activities to maintain steady business development trend. For the six months ended 30 June 2018, the Group's sales revenue amounted to RMB2,803,420,000, representing an increase of 0.80% as compared with RMB2,781,110,000 for the corresponding period last year; net profit attributable to the owners of the Company amounted to RMB432,453,000, representing an increase of 3.99% as compared with RMB415,872,000 for the corresponding period last year.

In the first half of the year, the Company continued to boost the quality of its operations amid the severe ordeal in the market. The Company focused on strengthening its marketing capabilities, consolidated high-quality resources, and optimized business processes. The Company has established the commercial department, OTC (**"Over the Counter"**) department and medical science department under the marketing subsidiary, thereby strengthening the functions of the marketing platform and laying a foundation for the systemization, professionalization and precision of marketing practices. In the first half of the year, the Company continued to strengthen and solidify the advantages of its large-scale distributor platform, refined the business channel planning, and developed its OTC channel steadily by implementing the strategic cooperation with pharmacy chains within its own system, the top one hundred pharmacy chains and third-party terminal platforms. In addition, the Company matched the effects of the products with varying geographies and climates in North and South China. It timely launched various promotional activities to cater to customers' needs in the cold weather in North China and hot weather in South China. These activities effectively boosted the sales at retail terminals and ensured benign development of related product segments.

In the first half of 2018, there are 6 kinds of products, each of which achieved a sales amount of more than RMB100 million; there are 24 kinds of products, each of which achieved a sales amount in the range from RMB10 million to RMB100 million; there are 18 kinds of products, each of which achieved a sales amount in the range from RMB5 million to RMB10 million. Among the major products, as compared with the corresponding period last year, the sales amount of Jinkui Shenqi Pills (金匱腎氣丸) series and Ganmao Qingre Granules (感冒清熱顆粒) series increased by 4.47% and 54.91%, respectively, while the sales amount of Liuwei Dihuang Pills (六味地黄丸) series, Niuhuang Jiedu Tablets (牛黄解毒片) series, Xihuang Pills (西黄丸) series, and Jiawei Xiaoyao Pills (加味逍遙丸) series declined by 6.28%, 11.35%, 35.89% and 1.28%, respectively. As compared to the corresponding period last year, the sales amount of Ejiao (阿膠) series fell by over 50% as the retail terminal flow rate slowed down and the marketing capacity was insufficient amid intensified competition and high inventory level. The Company will take active countermeasures to handle such challenges in the second half of the year. It will enrich the Ejiao product portfolio and in the meantime reduce the inventory level at retail terminals during the peak season for Ejiao. In the first half of the year, some products with good potentials, such as Danggui Kushen Pills (當歸苦參丸) series, Huoxiang Zhengqi (藿香正氣) series and Rendan (仁丹) series all recorded over 30% sales amount growth as compared to the corresponding period last year.

During the reporting period, some raw material extracts and dosage forms were undersupplied. Industrial units under the Company fully utilized the existing production capacities. Industrial units dedicated themselves to the tasks of "Ensuring Supply and Cutting Costs", and strived to guarantee the supply of raw materials and net materials. Industrial units have enhanced the connection between different production processes. Industrial units strengthened production planning and management by analyzing production capacities of each dosage form in a scientific manner, and adjusted production rhythm and organized production in an orderly manner according to the level of urgency in market demand. Meanwhile, cost control in production was given priority. The Company analyzed the cost profile of each product and formulated different cost reduction measures based on characteristics of each product. The Company implemented a full-process monitoring, and managed to enhance product quality and operation efficiency.

The Daxing Production Base (**"Daxing Base"**) of the Company located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District in Beijing primarily consists of three standalone buildings, namely the research and development centre, solid dosage production workshop, and pills production workshop. Upon its completion, the Daxing Base will become comprehensive production base which focuses on the manufacture and research of water-honeyed pills, condensed pills, big honeyed pills and other pills. As of 30 June 2018, the Company has made capital investment of RMB560 million in Da Xing Base. As of now, the solid dosage production workshop and honey pills production workshop have completed the equipment instalment and commissioning. The research and development building is undergoing supporting infrastructure constructions such as electric power and fire protection construction.

Tong Ren Tang Technologies (Tangshan) Co. Ltd. (**"Tong Ren Tang Technologies Tangshan"**) in Yutian County in Tangshan City of the Hebei Province primarily engages in the core businesses of storage of basic materials and net materials, processing and extraction of certain raw materials, and manufacturing of liquid dosage. An extraction production workshop and liquid dosage workshop is being built in local area and it will be another production base of the Company for Chinese medicine products upon completion. As of 30 June 2018, Tong Ren Tang Technologies Tangshan has made capital investment of RMB495 million in the base. As of now, the extraction production workshop has completed the equipment instalment and commissioning. The liquid dosage workshop is conducting equipment instalment and commissioning in an orderly manner.

The Company has a large product portfolio and is mainly committed to conducting secondary scientific research on existing products as well as exploring deeply into the clinical indications of existing products and improvement and enhancement of existing processing techniques. In the first half of the year, according to its product marketing strategy and production and operational requirements, the Company leveraged its scientific research capabilities to deepen the products development for cancer and gynecological drugs. We have studied the curative effect, mechanism and clinical effect of Xihuang Pills in treating breast cancer and Xiaoyao Pills in treating functional dyspepsia and premenstrual syndrome. Such studies provided scientific guarantee for the clinical positioning of our products and boosted product value.

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 respect of market expansion, Tong Ren Tang Chinese Medicine continued to strengthen the existing market foundation and opened two retail outlets in the United States and Hong Kong. The business of Tong Ren Tang Chinese Medicine has expanded to 21 countries and regions outside of Mainland China. The number of retail terminals has increased to 82. As of 30 June 2018, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB620,310,000, representing an increase of 12.64% as compared with the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB250,648,000, representing an increase of 10.41% as compared with the corresponding period of last year.

Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (**"Tong Ren Tang WM"**) has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the reporting period, Tong Ren Tang WM adhered to the principle of selecting high-quality raw materials, implemented strict production management and quality control, and consistently enhanced the formulas and production techniques of masks, which made the mask liquid finer and smoother, strengthened product quality and enhanced user experience. As of 30 June 2018, Tong Ren Tang WM recorded sales revenue of RMB60,065,000, representing an increase of 0.39% as compared to the corresponding period last year, and net profit of RMB7,614,000, representing an increase of 3.49% as compared to the corresponding period last year.

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd (**"Tong Ren Tang Second Traditional Chinese Medicine Hospital"**) and Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited are wholly-owned medical institution and retail pharmacy of the Company. The two companies adhere to Tong Ren Tang's service principle of "Benefiting the Mankind", and serve customers with kindness. Tong Ren Tang Second Traditional Chinese Medicine Hospital has persisted with the particular treatment principle of using traditional Chinese medicine as the primary cure while combing it with western medicine. It managed to enhance medical service quality and placed emphasis on medical safety. It has strengthened the management and oversight of its medical operation, medical service quality and medical technologies, thereby enhancing the quality control system and service quality. As at 30 June 2018, the two companies jointly achieved sales revenue of RMB115,389,000, representing a decrease of 2.52% as compared with the corresponding period last year. Net profit reached RMB5,689,000, representing an increase of 30.28% as compared with the corresponding period last year.

Six subsidiaries producing Chinese medicinal raw materials strictly follow the principle of "planting and harvesting specific to places of origin and seasons", to provide the Company with various Chinese medicinal raw materials including Cornel, Tuckahoe, Cortex Moutan. In the first half of the year, the Company's subsidiaries have focused on local Chinese medicinal materials, and attempted to build a Chinese medicinal material tracing system, so as to control and enhance the product quality and ensure product safety from the source. In addition, the Company has leveraged its resources in native producing areas, and adopted the partnership planting model. While gradually expanding the planting scale of existing species, it started the trial planting of new strains, including saposhnikoviae radix, semen plantaginis and radix paeoniae alba, which widened the planted strains of the Company and enriched the Company's experience in planting. As of 30 June 2018, six subsidiaries engaging in production of Chinese medicinal raw materials recorded an aggregate sales revenue of RMB116,546,000, representing an increase of 16.36% as compared to the corresponding period last year, and net profit of RMB12,048,000, representing an increase of 23.71% as compare to the corresponding period last year.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had a total of 3,834 employees (31 December 2017: 3,873 employees), of which 1,989 were employees of the Company (31 December 2017: 2,005 employees). The Company continually updates and improves its employee remuneration policy and system to ensure an equal access to value and sharing of result 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 annual performance is paid to the employees 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 2018, the Group's cash and cash equivalents amounted to RMB1,793,176,000 (31 December 2017: RMB2,023,561,000) in total.

As at 30 June 2018, the Group's short-term borrowings amounted to RMB165,000,000 (31 December 2017: RMB207,300,000), carrying an interest rate of 4.380% (2017: 4.354%) per annum, and current portion of non-current unsecured bank borrowing amounted to RMB5,070,000 (31 December 2017: 2,500,000), total accounting for 6.05% (31 December 2017: 8.68%) of the total liabilities. Long-term borrowings amounted to RMB913,645,000 (31 December 2017: RMB915,480,000), bearing annual interest rate of long-term bank borrowings at 1.210% (2017:1.216%), and the actual annual interest rate of bonds was 3.008% (2017: 3.008%), representing 32.52% (31 December 2017: 37.89%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2018, RMB170,070,000 will mature within one year and RMB913,645,000 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 2018, total assets of the Group amounted to RMB9,584,154,000 (31 December 2017: RMB8,875,657,000). The funds comprised non-current liabilities of the Group amounted to RMB1,013,349,000 (31 December 2017: RMB1,014,569,000), current liabilities amounted to RMB1,796,030,000 (31 December 2017: RMB1,401,546,000), equity attributable to owners of the Company amounted to RMB5,039,075,000 (31 December 2017: RMB4,816,620,000) and non-controlling interests amounted to RMB1,735,700,000 (31 December 2017: RMB1,642,922,000).

During the Reporting Period, the Group's funds were mainly used for production and operation activities, construction of engineering projects, purchase of non-current assets, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 30 June 2018, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.13 (31 December 2017: 4.88), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.74 (31 December 2017: 3.17), reflecting that the Group remained liquid. The Group's trade receivables turnover ratio (the ratio of revenue to the average of trade receivables balance) was 9.90 (31 December 2017: 13.74), reflecting that the Group's trade receivables were liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 3.88 (31 December 2017: 4.08), reflecting that the Group had a relatively strong ability to use funding from suppliers at nil consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 2.38 (31 December 2017: 2.23), reflecting that the inventory had a high turnover rate.

Gearing Ratio

The Group monitors its capital on the basis of the gearing ratio. As at 30 June 2018, the Group's gearing ratio (the ratio of total borrowings to equity attributable to the owners of the Company) was 0.22 (31 December 2017: 0.23).

Expenses and Expense Ratio

As at 30 June 2018, the Group's distribution expenses amounted to RMB552,057,000 (30 June 2017: RMB556,767,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.20 (30 June 2017: 0.20). The distribution expenses has no significant changes compared with the corresponding period of last year and the revenue margin is reasonable.

As at 30 June 2018, the Group's administrative expenses amounted to RMB185,451,000 (30 June 2017: RMB180,514,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.07 (30 June 2017: 0.06). The administrative expenses has no significant changes compared with the corresponding period of last year and the revenue margin is reasonable.

As at 30 June 2018, the Group's finance income amounted to RMB5,399,000 (30 June 2017: finance costs RMB556,000) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.0019 (30 June 2017: the ratio of financial costs to revenue, 0.0002). The increase in financial income was mainly due to the increase in exchange gains.

Gross Margin and Net Profit Margin

As at 30 June 2018, the gross margin of the Group was 52.38% (30 June 2017: 51.56%), while the net profit margin was 21.82% (30 June 2017: 20.86%).

Research and Development Expenses

As at 30 June 2018, the research and development expenses of the Group were RMB7,788,000 (30 June 2017: RMB10,709,000), accounting for 0.11% of net assets (30 June 2017: 0.17%) and 0.28% of revenue (30 June 2017: 0.39%), respectively.

Capital Expenditure

As at 30 June 2018, the Group's capital expenditure incurred amounted to RMB179 million (30 June 2017: RMB190 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at June 2018, RMB9,733,000 (31 December 2017: RMB10,318,000) of the Group's assets was pledged as security for long-term borrowing of RMB48,000 (31 December 2017: RMB506,000).

Contingent Liabilities

As at 30 June 2018, the Group had no contingent liabilities (31 December 2017: 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 or joint ventures.

FUTURE PROSPECTS

In the second half of the year, the Company will promote its development through reforming and further implement the marketing system reform and industry layout adjustment. The Company will place emphasis on both operational and production quality, and make sound planning to ensure all annual tasks can be completed.

On the one hand, the Company will continue to prioritize the marketing system reform by further refining and improving the reform plan. It will clarify the functions and duties of each department and position, streamline and optimize management and business processes, and steadily implement the marketing organizational structure under the unified sales management platform. In the meantime, the Company will refine and decompose the product planning, elaborate on channel operation, focus on the product presentation in the OTC channel and strengthen the Company's ties and communication with pharmacy chains within its own system and the top one hundred pharmacy chains. It will actively explore new operational models at terminals, improve product planning at the medical channels and step up efforts in promoting products. The Company will also focus on exploring the non-medicine sales channels, and accelerate the development and nurturing of products for such channels. The Company will strengthen its promotions and further enhance its distribution and marketing capabilities.

On the other hand, the Company will strive to ensure product supply and focus on production capacity adjustment, dosage form transformation, quality assurance and cost control. It will allocate and plan its existing production capacities in a scientific manner and enhance coordination between the new and old production units so as to facilitate industrial layout adjustment. While guaranteeing product supply, the Company will timely and properly expand product pipeline and enhance production and quality stability through ensuring raw material supply, researching in processing techniques, strengthening production management and optimizing production arrangement. By doing this, the Company will ensure a smooth and orderly operation of its industrial system during the transition period.

OTHER INFORMATION

Tong Ren Tang Chinese Medicine's Transfer to the Main Board

Tong Ren Tang Chinese Medicine transferred from the GEM to the Main Board (Stock Code on Main Board: 3613) on 29 May 2018, which did not involve the issue of any new shares of the Company and Tong Ren Tang Chinese Medicine. Please refer to the announcement of the Company dated 1 February 2018 and 11 May 2018 for details of the transfer.

Corporate Governance Code

During the Reporting Period, 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 during Reporting Period.

Changes in Directors and Supervisors

At the date of the AGM, Mr. Gu Hai Ou, Mr.Rao Zu Hai, Mr. Li Bin retired as the executive Directors of the Board, Miss Tam Wai Chu, Maria, and Mr. Jin Shi Yuan retired as independent non-executive Directors, Ms. Mao Bao Jian retired as the Supervisor and Ms. Ding Guo Ping retired as the employee representative Supervisor, each with effect from the conclusion of the AGM.

At the AGM, Mr. Gao Zhen Kun, Mr. Wang Yu Wei and Ms. Fang Jia Zhi were re-elected as the executive Directors of the Seventh Session of the Board; Mr. Huang Ning, Mr. Wu Le Jun, and Ms. Wu Qian were appointed as the executive Directors of the Seventh Session of the Board; Mr. Ting Leung Huel, Stephen was re-elected as the independent non-executive Director of the Seventh Session of the Board; Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing were appointed as the independent non-executive Directors of the Seventh Session of the Board; Mr. Wu Yi Gang was re-elected as a Supervisors of the Seventh Session of the supervisory committee of the Company (the **"Supervisory Committee"**); Ms. Su Li was appointed as a Supervisors of the Seventh Session of the Supervisory Committee; following the approval of the employee representatives' leaders' joint general meeting of the Company held on 12 March 2018, Mr. Dong Ke Man was elected as an employee representative Supervisor of the Seventh Session of the Supervisory Committee; each with a term commencing from the conclusion of the AGM to the date of the annual general meeting to be held in 2021.

The Board resolved on 12 June 2018 to elect Mr. Gao Zhen Kun as the Chairman of the Board and the Supervisory Committee also resolved on the same day to elect Ms. Su Li as the Chief Supervisor, each with immediate effect.

For details of the aforesaid changes, please refer to the circular of the Company dated 26 April 2018 and the announcement of the Company dated 12 June 2018.

Changes in Director's Information

The following Directors' information changed during the Reporting Period:

Mr. Ting Leung Huel, Stephen, aged 64, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is a non-executive director of Chow Sang Sang Holdings International Limited and an independent nonexecutive director of other six listed companies namely Tongda Group Holdings Limited, New Silkroad Culturaltainment Limited Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Group Holdings Limited, respectively. Mr. Ting is an accountant in public practice and a partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting has been appointed as an independent non-executive Director since 11 October 2000.

Ms. Chan Ching Har, Eliza, aged 61, JP, BBS, LL.D. (Hon), holds the qualifications of Barrister & Solicitor of British Columbia Supreme Court, Canada, Solicitor of the Supreme Court of England and Wales and Solicitor of the High Court of Hong Kong. Ms. Chan previously served as a member of the Selection Committee for the selection of the First Chief Executive of Hong Kong SAR, and member of the Election Committee for the selections of the Chief Executive of Hong Kong SAR and the Hong Kong SAR delegates to the National People's Congress. She was the Chairman of the Hong Kong CPPCC (Provincial) Members Association and the Chairman of the Hong Kong CPPCC (Provincial) Members Association Foundation. She also served at a number of Hong Kong Government appointed positions, notably as a member of the Hong Kong Hospital Authority, member of Hong Kong Public Service Commission, member of the Hong Kong Board of Education, member of Hong Kong Examinations and Assessment Authority, member of the Medical Council of Hong Kong, Chairman of Pensions Appeal Panel and member of Administration Appeals Board. She was a Council Member of The Hong Kong University of Science and Technology and Board member of the Hong Kong Science and Technology Park Corporation. Ms. Chan is a member of the National Committee of the Chinese People's Political Consultative Conference (**"CPPCC"**), a standing member of the CPPCC Tianjin Committee, Foreign Economic Affairs Legal Counsel to the Tianjin Municipal People's Government, an arbitrator of China International Economic and Trade Arbitration Commission (CIETAC), China-Appointed Attesting Officer appointed by the Ministry of Justice, Honorary President of Hong Kong China Chamber of Commerce and Senior Consultant of Zhong Lun Law Firm. Ms. Chan currently serves as an independent non-executive director of Cathay International Holdings Ltd and a non-executive director of Tianjin Development Holdings Limited. Ms. Chan has been appointed as an independent non-executive Director since 12 June 2018.

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

Remuneration of Directors and Supervisors

Mr. Gao Zhen Kun, Mr. Huang Ning, Mr. Wu Le Jun, Ms. Wu Qian, Mr. Wang Yu Wei and Ms. Fang Jia Zhi, each in their capacity as an executive director of the Company, will not receive any Director's remuneration from the Company. Ms. Su Li and Mr. Dong Ke Man, each in their capacity as a Supervisor of the Company, will not receive any Supervisor's remuneration from the Company. Mr. Wang Yu Wei and Ms. Fang Jia Zhi, each as an executive Director of the Company, and Mr. Dong Ke Man as an employee representative Supervisor of the Company will receive a remuneration from the Company corresponding to their respective management positions in the Company, the amount of which will be determined with reference to the market condition, responsibilities, performance assessment and completion status of the annual economic indicators. Relevant amounts for the year of 2018 will be disclosed in the 2018 annual report of the Company. Ms. Chan Ching Har, Eliza, Mr. Ting Leung Huel, Stephen and Mr. Zhan Yuan Jing, each as an independent non-executive Director of the Company, and Mr. Wu Yi Gang as a Supervisor of the Company will receive a Director or Supervisor remuneration from the Company, at the amount of HKD240,000 (tax inclusive), HKD240,000 (tax inclusive), RMB100,000 (tax inclusive) and RMB100,000 (tax inclusive), respectively.

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 (the **"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 deepened its work effort regarding risk management, internal control and self-inspection, timely proposed improvement suggestions and countermeasures to minimize operational risks.

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 2018 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 2018, 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 2018, 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	75,274,000 (L) (Note 1)	–	11.97%	5.877%
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%
Aggregate of Standard Life Aberdeen plc affiliated investment management (Note 7)	Investment manager	37,174,000 (L) (Note 1)	–	5.91%	2.902%
Citigroup Inc. (Note 8)	Interest of corporation controlled by the substantial shareholder, Person having a security interest in shares, Custodian corporation/approved lending agent	39,143,906 (L) (Note 1)	–	6.22%	3.056%
		4,000 (S) (Note 1)	–	0.00%	0.00%
		21,685,906 (P) (Note 1)	–	3.44%	1.693%

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 2018, 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 2018, 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 2018, Tong Ren Tang Holdings also directly held 9,480,000 shares.

(3) As was known to the Directors, as at 30 June 2018, 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 2018, Commonwealth Bank of Australia indirectly held 75,274,000 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 2018, 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 2018, 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 2018, aggregate of Standard Life Aberdeen plc affiliated investment management, held 37,174,000 H shares of the Company in long position as investment manager.

(8) As was known to the Directors, as at 30 June 2018, Citigroup Inc. indirectly held 490,000 H shares of the Company in long position and 4,000 H shares of the Company in short 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 21,685,906 H shares in long position of the Company as custodian corporation/approved lending agent.

Save as disclosed above, 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 as at 30 June 2018.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, 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), etc. 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), 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.

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.

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.